SUSTAINABLE INVESTMENT

Full policy.

March 2023.

Contents

Our Sustainable Investment Policy in a nutshell

This is the Sustainable Investment (SI) Policy for BT Funds Management (NZ) Limited (BTNZ, we, us, our). We are the investment arm of Westpac in New Zealand. This policy can also be called a Responsible Investment Policy.

What is sustainable investing?

Sustainable investing refers to managing assets by integrating environmental, social and governance (ESG) factors and contributing to sustainable themes such as climate action. We build this into our investment analysis and decision making as we believe investing sustainably will contribute towards a more sustainable economy.

Why does sustainable investing matter?

As one of NZ's largest fund managers, we recognise the immense capacity and responsibility we have to drive sustainable value for our customers, people, communities and environment. We believe investing sustainably helps us achieve this vision and manage investment risk and opportunities.

What are we committed to?

BTNZ is a signatory to the United Nations Principles for Responsible Investment (UN PRI). This means we are publicly committed to integrating ESG factors into our investment decisions.

We are a member of the Responsible Investment Association Australasia (RIAA), the Investor Group on Climate Change and Climate Action 100+. Our open funds (excluding cash funds[1]) have been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence

We are committed to the Net Zero Asset Managers initiative and are a recognised public supporter of the Task Force on Climate-related Financial Disclosures (TCFD).

We are committed to supporting the goal of net-zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels. We are committed to aligning our investments to a 1.5°C pathway.

BTNZ has fully factored the integration of the Sustainable Investment Policy into our disclosed fees.

How we invest sustainably.

Our approach to sustainable investment has four key pillars. We use these pillars to guide our investment decisions, either directly through our domestic cash and fixed interest team or through our third-party underlying investment managers[2].

Each pillar aims to protect or enhance value. For us, value includes financial, environmental, and social value.

EXCLUSIONS	ESG INTEGRATION
STEWARDSHIP	SUSTAINABLE THEMES

More information on each of our pillars can be found from section 3 onwards.

How we're currently implementing this SI Policy.

Please see **Appendix 2** for an update on the current implementation of this SI Policy.

[1] RIAA does not currently assess cash funds as part of the Certification Program.
[2] Refers to investment firms investing on our behalf. Find more about our underlying investment managers **here**.

1. Introduction.

1.1 Purpose.

BT Funds Management (NZ) Limited's purpose is to help our people, our communities, and our customers financially, to grow a better New Zealand. For this reason, we have established this SI Policy.

1.2 Scope.

This SI Policy is applicable to BTNZ, the investment arm of Westpac in New Zealand.

BTNZ is a member of the Westpac Group of companies and a licensed managed investment scheme manager regulated by the Financial Markets Authority.

This SI Policy applies to the investment management services provided by BTNZ. These include our management of the Westpac KiwiSaver Scheme, Westpac Active Series, Westpac Retirement Plan, Westpac Premium Investment Funds, and the Westpac Wholesale Trust investments utilised by third party institutions or schemes. This document sets out the general approach to incorporating SI into BTNZ's investment decision making; it does not provide in-depth details of the processes applied to implementation. Please see **Appendix 2** for an update on the current implementation of this SI Policy.

1.3 Responsibility and accountability.

Ultimate oversight of our SI commitments rests with the BTNZ Board (Board), BTNZ Investment Committee (BTIC) and the Chief Executive Officer for BTNZ.

The Board, BTIC and the Chief Executive Officer for BTNZ are responsible for approving BTNZ's Sustainable Investment Strategy, setting key performance indicators (KPIs) and monitoring of performance against the SI Policy. The BTNZ Head of Investment Solutions and the Investment Solutions team are responsible for implementation of this SI Policy and for reporting progress on KPIs and alignment with this policy to the Board, BTIC and the Chief Executive Officer for BTNZ.

1.4 Policy statement review.

We believe that approaches to sustainable investment are constantly evolving and maturing. As such, our sustainable investment commitments and processes are not 'set and forget'. Rather, we strive to continually improve.

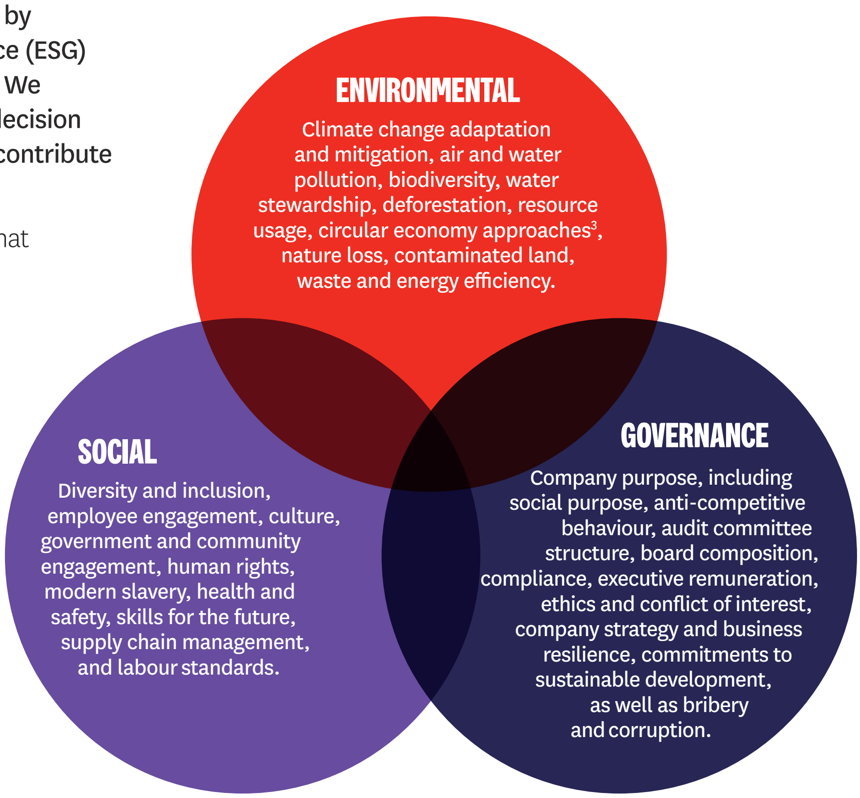
We aim to review this SI Policy annually, or more frequently as required, to ensure it remains current and fit-for-purpose.

2. What is Sustainable Investing (SI)?

Sustainable investing refers to managing assets by integrating environmental, social and governance (ESG) factors and contributing to sustainable themes. We integrate this into our investment analysis and decision making as we believe investing sustainably will contribute towards a more sustainable economy.

This diagram shows some of the key ESG factors that can be considered:

We assess different ESG factors in different contexts, as appropriate. For example, some factors may be important to a particular company or other issuer, others may impact a certain country or industry and others will be globally relevant.



[3] A circular (as opposed to linear) economy is one in which resources are built to be returned into new products and by-products are used to generate other products.

3. Why is SI Important?

As one of NZ's largest fund managers, we recognise the immense capacity and responsibility we have to drive sustainable value for our customers, people, communities and environment. We believe investing sustainably helps us achieve this vision and manage investment risk and opportunities.

3.1 Our sustainable investment beliefs.

At BTNZ we have integrated sustainability into our investment beliefs. We believe:

- **ESG Integration** – that investing sustainably helps us better manage investment risks and opportunities and helps us deliver positive environmental, social, and economic value.
- **Climate change** – that climate change presents materially significant systemic and financial risks and opportunities.
- **Fiduciary duty** – that investing sustainably is in the best interests of our investors.
- **Stewardship** – that stewardship (or active ownership) adds a positive dimension and reduces risks by supporting the realisation of long-term value.
- **Ambition** – that it is important to continuously improve by setting ourselves ambitious targets and collectively working with our people and underlying investment managers to achieve them.
- **Discipline and accountability** – that it is important to back our SI commitments with discipline and accountability and to expect the same from our underlying investment managers.
- **Disclosure** – it is important to objectively measure and disclose the difference we are making to our society and our environment, and we are working with this goal in mind.

3.2 How will SI affect my investment returns?

As we believe sustainable investment is important, we do not invest in companies and other issuers that fall outside of our sustainable investment criteria[4]. We recognise this means there are less investments that we can choose from, which may impact financial performance. However, we believe that investing sustainably helps us better manage investment risks and opportunities, which supports financial performance.

4. BTNZ's SI industry commitments and collaborations.

BTNZ takes its responsibilities for the integration of ESG factors seriously and actively supports a number of industry collaborations.

4.1 United Nations Principles for Responsible Investment (UN PRI).

BTNZ is a signatory to the UN PRI[5]. This means we are publicly committed to integrating ESG factors into our investment decisions.

The UN PRI initiative comprises a global network of investors and financial industry participants who are committed to integrating ESG factors, including climate change, into their investment processes and ownership policies. The initiative also promotes transparency by signatories as to their engagement activities and the integration of ESG factors within our investment decision-making process.

The UN PRI is a set of six aspirational principles: ESG integration, stewardship, disclosure, promotion, collaboration, and communication. BTNZ believes the UN PRI provides an important universal framework for signatories to structure their approach to ESG integration. BTNZ has therefore integrated the principles into its beliefs and investment approach.

Being a signatory reflects the growing awareness and expectation by investors to have their savings invested responsibly, and to have their money make a positive difference to the environment and society[6].

As a signatory, BTNZ reports and is assessed on our ESG integration performance against other signatories on an annual (or as otherwise required by the UNPRI) basis and provides performance transparency reports for signatories to share. The requirements are ongoing, and the membership is renewed on an annual basis.

4.2 Our other SI commitments and industry collaborations.

We recognise we have a responsibility to support the industry in its efforts to address global ESG factors, most notably climate change. We have a duty as investors to work towards delivering a fair and equitable low-emission climate-resilient future, and to support collaborative corporate, industry and government actions.

These collaborative actions support wider systemic change, long-term value creation and protection, and are aligned with our SI Policy commitments – especially around climate change.

In addition to being a signatory to the UN PRI, BTNZ is an active member of the following:

- **Responsible Investment Association of Australasia**, which champions responsible investing and a sustainable financial system in Australia and New Zealand, and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. BTNZ actively contributes to RIAA-led industry collaborations.

[4] For more information on how we manage our exclusion, including how we divest if any any investment are inadvertently made, please see 6.4 below
[5] https://www.unpri.org
[6] https://responsibleinvestment.org/wp-content/uploads/2022/04/From-Values-to-Riches-2022-Charting-consumer-demand-for-responsible-investing-in-Aotearoa-NZ.pdf

- **Investor Group on Climate Change**, which is a collaboration between Australian and New Zealand institutional investors focusing on the impact of climate change on investments and encouraging investment practices that address relevant risks and opportunities.
- **Net Zero Asset Manager initiative**, which includes a commitment to net-zero GHG emissions by 2050 or sooner and alignment of our assets under management to a 1.5°C temperature rise pathway compared to pre-industrial levels. We are developing a climate change action plan in line with the Net Zero Asset Manager initiative.
- **Climate Action 100+**, which is an investor-led initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change.
- **Toitū Tahua Centre for Sustainable Finance**, which means we are committed to supporting the implementation of the Sustainable Finance Forum's Roadmap for New Zealand.
- **Aotearoa New Zealand Investor Coalition for Net Zero**, which is an initiative aiming to accelerate climate action through pledges by asset owners and asset managers.
- **Stewardship Code for Aotearoa New Zealand**, which provides a clear framework to steer companies on critical issues, including climate and sustainability. BTNZ contributed to the development of the Code, and is a Founding Signatory.
- **Task Force on Climate-related Financial Disclosures (TCFD)**, which BTNZ is a registered public supporter of. The TCFD is a recommended climate-related reporting framework to inform investment decisions based on the company's reported climate performance..

We have a strong preference to work with underlying investment managers who are signatories to the UN PRI and have similar commitments to industry collaboration.

4.3 Third-party certification.

The Westpac KiwiSaver Scheme, Westpac Active Series and Premium Investment Funds that are open to further investment as at the date of this Policy[7] have been certified by the Responsible Investment Association Australasia (RIAA) according to strict practices required under the Responsible Certification Program, with the exception of cash funds (as cash funds have been excluded from the Certification Program for new certification since 2020).

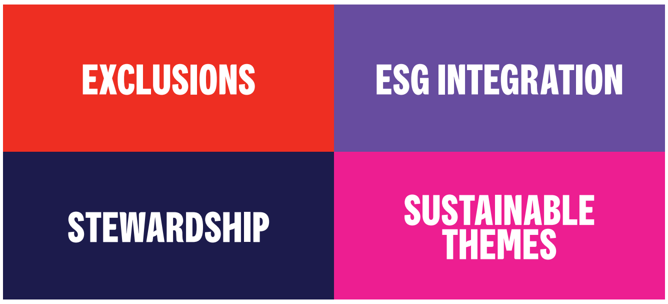
RIAA's Program is the leading initiative for distinguishing quality responsible investment products in the region and is the longest running independent responsible investment product certification program in the world.

RIAA's RI Certification Symbol (Certification Symbol) signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Certification Symbol also signifies that Westpac KiwiSaver Scheme, Westpac Active Series and Premium Investment Funds adhere to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product.

The Certification Symbol is a Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Certification Symbol and Westpac KiwiSaver Scheme, Westpac Active Series and Premium Investment Funds' methodology, performance and stock holdings can be found at **www.responsiblereturns.co.nz**, together with details about other responsible investment products certified by RIAA[8].

5. An overview of our approaches to SI.

Our approach to SI focuses on four key pillars. We rely on these pillars to guide our investment analysis and decisions, both directly and through our external underlying investment managers.



Each pillar aims to protect or enhance value. For us, value includes financial, environmental, and social value.

This results in a broader, more comprehensive approach to investment analysis and decision-making which covers external underlying investment manager selection, security selection and stewardship.

In some asset classes, such as cash and cash equivalents, there may be limited opportunities to take into account our sustainable themes. We however use stewardship and integrate new opportunities where possible to drive sustainable outcomes.

[7] The following funds closed for new investments have been excluded from certification: all Westpac Retirement Plan Funds, Westpac Active Series Income Strategies Trust.
[8] The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence.

6. Pillar I: Exclusions.

We do not invest in companies and other issuers that operate outside of our sustainable investment criteria.

For more information on how we manage our exclusion, including how we divest if any any investment are inadvertently made, please see 6.4 below[9].

6.1 What companies[10] do we exclude?

How we decide what to exclude.

Our rationale for excluding companies is based upon the series of factors, including whether the:

- Company contravenes our climate commitments such as through the fossil fuel and coal exclusion listed below.
- Company is breaching minimum social safeguards and/or significant harm standards defined by RIAA.

Our current asset exclusions are outlined below. We rely on advice from our third-party ESG research provider(s) for screening criteria, standards, and assessments.

We exclude:

Minimum social safeguards.

- Companies and other issuers in breach of international human rights, labour protection and/or environmental standards as enshrined in the ten principles of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights and their underlying conventions and treaties as assessed by our third-party research providers. The UN Global Compact is a voluntary initiative aimed at implementing universal sustainability principles. It comprises ten principles that define the minimum fundamental responsibilities that companies are expected to meet in relation to human, labour, environmental and anti-corruption rights.
- When determining not to invest in a company breaching these principles, we assess the data from our ESG research providers, the underlying investment manager's views and the effectiveness of their stewardship strategies with the company. We may choose to take additional time to divest while we review these factors.

Controversial and other weapons.

- Companies deriving any revenue from the manufacturing of controversial weapons or components or services of the core weapons systems.
- Companies deriving any revenue from the manufacturing of nuclear, biological or chemical weapons.
- Companies deriving any revenue from their involvement in depleted uranium or white phosphorus mining.
- Companies involved in the manufacture of cluster munitions or anti-personnel mines.
- Companies deriving any revenue from both manufacturing and selling assault weapons to civilians.

Tobacco products.

- Companies deriving any revenue from the manufacture of tobacco products.

Oil and gas fossil fuels.

- Companies that have their primary business activity in the oil and gas drilling, oil and gas equipment and services, integrated oil and gas, oil and gas exploration and production defined by Global Industry Classification Standards.
- Companies deriving more than 10% of their revenue from oil or gas exploration, production or refining.
- Companies deriving more than 10% of their revenue from oil or gas exploration in Arctic regions.
- Companies deriving more than 10% of their revenue from the extraction of oil sands.
- Companies deriving more than 10% of their revenue from shale energy exploration, extraction and/or production.

Thermal coal extraction and substantial power generation from coal[11].

- Companies that have their primary business activity in the coal and consumable fuels subindustries as defined by Global Industry Classification Standards.
- Companies deriving more than 10% of their revenue from the extraction of thermal coal.
- Companies deriving more than 50% of their revenue from the generation of electricity from thermal coal.

Predatory lending.

- Companies deriving any revenue from "predatory lending" practices.

Whale meat processing.

- Companies deriving any revenue from the processing of whale meat.

6.2 What countries do we exclude?

Our rationale for excluding countries is based upon those countries being subject to New Zealand, Australia, United Kingdom, United States, European Union or United Nations Security Council sanctions.

[9] If we use derivative based instruments or if in the rare instance third-party or exchange traded funds, we aim to align to our exclusions as closely as possible.For third-party or exchange traded funds this alignment would at a minimum include our fossil fuel and weapons exclusion required by our default KiwiSaver status.
[10] Where we refer to companies within this pillar, we refer to both shares and debt issued by companies, including corporate-like issuers (e.g. development banks) and government entities. This excludes asset-backed securities and the coverage of government related entities is limited (e.g. municipalities).
[11] For the avoidance of doubt, this exclusion does not apply to the extraction of coking coal, which is used in steel production.

On an annual basis, we also assess and exclude countries based upon their political stability, corruption levels, and civil liberties. For these, internal thresholds are used. For this component, exclusion commitments apply to government, state, municipal and currency investments.

When determining not to invest in a country, we also assess the likely long-term impact the exclusion will have on potential investment returns and overall portfolio risk.

6.3 Other exclusions we may apply.

Occasionally, we may exclude other companies or issuers that do not align with our Sustainable Investment values, approaches, or beliefs.

We may also choose to no longer invest in a company or issuer where they are not responding adequately and positively to stewardship activities, and/or holding an exposure to the company is expected to negatively impact investment performance.

When determining to no longer invest in a particular company or issuer, we assess these factors together with the likely long-term impact of the exclusion on investment performance and portfolio risk.

These criteria may change over time with amendments reflected in subsequent versions of this Policy.

6.4 Managing our exclusions.

Where investments are delegated to underlying investment managers our strong preference is to appoint any external underlying investment managers under an investment management agreement where the underlying assets are held directly by our custodian(s). This enables us to have more control over investment guidelines including exclusions.

We manage our exclusions through a series of controls. Exclusion constraints are hard coded into compliance management systems pre-trade, with the aim of preventing a trade into an excluded company or other excluded issuer – either by BTNZ or our underlying investment managers. Post-trade monitoring is undertaken by our underlying investment managers. In addition, our custodian undertakes compliance monitoring.

In partnership with our third-party ESG research providers, we review excluded companies and other issuers on a quarterly basis. Additionally, we may take into account our underlying investment managers' views or the effectiveness of their stewardship strategies for the social safeguards, country exclusions and other exclusion categories and, will regularly review our position. Our country exclusion framework relies on publicly available reports and data sources. The exclusion list and notice letter are then provided to our underlying investment managers, domestic cash and fixed interest team, compliance team and custodian.

Where an investment is inadvertently made into an excluded company or issuer, divestments are required by the underlying investment manager normally within seven business days, and no later than ten business days. In the event of a breach of the exclusion requirements, the underlying investment managers are required to notify us immediately. For the social safeguards category, we may take additional time to divest.

The majority of breaches in these Policy commitments are minor and remediated within ten business days, and accordingly are not considered to have a material consequence on portfolio performance.

In the rare instances where a third-party fund or exchange traded fund is held, we will aim to align the fund closely to our Policy, and at a minimum will incorporate fossil fuel and weapon exclusions required as a default KiwiSaver provider.

The exclusions criteria are applied where we hold direct securities, but do not currently apply to the same extent for derivative based investments (e.g. futures). Where derivative based investments are used, the reference index for the derivatives contract may include exposure to excluded securities. Where possible, we will seek to choose contracts which incorporate our exclusions.

For some exclusions, we apply a revenue threshold. This threshold is the percentage of estimated or reported revenue earned by the company from a particular excluded activity, based on the latest year of data from ESG data provider(s). This means that when the company's estimated or actual annual revenue from the activity is less than the revenue threshold, the exclusion of that company is not triggered.

Implementation of the exclusion criteria can be affected by the accessibility and accuracy of data, and depends on accurate information, interpretations or assessments from our third-party service providers or by our underlying investment managers. This may result in inadvertent holdings in investments we, and or our underlying investment managers, are seeking to exclude. In this event, as soon as this has been identified, the relevant underlying investment manager is required to divest within the defined timeframes.

Certain securities may potentially not be included in our country exclusions category where the country of use or origin cannot be determined due to location data constraints. Furthermore, as the benefitting country is not always able to be correctly and confidently identified, singular events of non-compliance are not considered to constitute a material breach of the country exclusion commitment.

7. Pillar II: ESG Integration.

We integrate important ESG factors into our investment decisions and expect our underlying investment managers to do the same. By doing so, we aim to create long-term value, and/or avoid undue risks.

7.1 External underlying investment managers.

Where investment mandates are delegated to underlying investment managers, we integrate ESG through:

- **Appointed underlying investment managers:** Our underlying investment managers are required to be aware of, and observe, our SI Policy. We communicate our SI requirements in advance and include SI-related clauses in investment management agreements.
- **Underlying investment manager monitoring and review:** Through ongoing engagement, we regularly keep our underlying investment managers aware of our SI Policy and commitments. We also undertake regular performance reviews of our underlying investment managers to assess their efforts to implement our SI Policy commitments.
- **Underlying investment manager reporting:** We require ongoing disclosure from our underlying investment managers in line with our SI Policy commitments.
- **Underlying investment manager selection:** Prior to appointment of a new underlying investment manager, we undertake a formal assessment of their competency and approach to integrating important ESG factors. This includes an assessment of whether the underlying investment manager is a leader in ESG integration, whether they are a signatory to the UN PRI, reviewing of third-party assessments, certification, ratings of their ESG performance, and, assessing evidence of their approach to ESG integration into investment decisions. We also review their stewardship practices and their ability to meet our SI Policy commitments.

7.2 Internal underlying investment manager.

Our domestic cash and fixed interest team (internal team or internal underlying investment manager) are developing a process to integrate ESG factors throughout the investment lifecycle. This includes:

- **Research:** We undertake research for key ESG factors as part of our initial issuer analysis. We cross-check our investments against our negative screening requirements (exclusions) and apply a broad-based ESG rating.
- **Portfolio construction and security selection:** Our goal is to improve sustainable outcomes, including climate change and/ or our other sustainable themes, through security selection and engagement.
- **Portfolio monitoring:** Once an investment has been made, our goal is to internally monitor the ESG performance of the issuer.

8. Pillar III: Stewardship.

We define stewardship as the responsible management of our customers' long-term investments.

8.1 What is stewardship?

Stewardship is about using our influence over current or potential underlying investment managers, companies and other issuers, policy makers, service providers and other stakeholders – often collaboratively – to create and protect long-term value. For us, value includes financial, environmental and social value.

8.2 Why is stewardship important?

BTNZ recognises the importance of active stewardship. BTNZ engages in active stewardship to encourage sustainable business practices, address climate change, improve corporate governance and transparency.

We implement active stewardship by exercising of voting rights, engaging with companies and other issuers either directly through our internal team or via our underlying investment managers, and collaborating with the industry.

We believe stewardship helps promote higher standards of corporate governance, which contributes to long-term value creation and protection, thereby reducing risk and increasing the long- term return to our customers. For this reason, stewardship is considered a core component of how we and our underlying investment managers integrate important ESG matters into our investment decision-making processes.

8.3 Voting.

Voting is an integral part of the suite of stewardship tools we and our underlying investment managers use to bring a voice to a company on ESG factors that matter. Our voting seeks to improve companies' financial, environmental, social and governance outcomes by addressing business risks and supporting our key sustainable themes.

Votes are cast by our underlying investment managers, who vote on our behalf. We require our underlying investment managers to abstain from voting where a conflict of interest exists.

We maintain a set of voting principles (as provided in Appendix 1) as guidance for our underlying investment managers. These voting principles are guidelines and our underlying investment managers may apply their own voting policy and use their discretion to deviate from any voting principle, where appropriate.

In addition, our underlying investment managers may, on our behalf, file a shareholder resolution or proposal. Their participation in the voting process helps to ensure we are working to protect our customers' interests.

8.4 Engagement.

Our underlying investment managers conduct regular analysis, monitoring, and engagement with companies and other issuers. A primary objective of this engagement is to positively influence companies and other issuers to improve their ESG-related performance, accountability, and disclosure.

We require our underlying investment managers to take an active engagement approach, emphasising direct dialogue with companies and other issuers on ESG matters that have the potential to impact on long-term value. The breadth, depth and frequency of engagement will vary significantly based on a variety of factors including the nature of the risks and opportunities, the openness and willingness to engage by the issuer, and the size or nature of the investment.

Our engagement aims to focus on the following areas for companies (and other issuers, as appropriate). We encourage our underlying investment managers to do the same.

- **Long-term business plan:** The company's business model, purpose (including social purpose), strategy, and ongoing performance, as well as developments both within and external to the company that might affect its long- term value and the risks it faces.
- **Approach to key ESG factors:** The company's approach to identifying and managing the key environmental, social and governance factors that may influence their sustainable long-term success. We assess how they are strengthening their ability to positively contribute to our targeted sustainable themes if applicable.
- **Governance:** The effectiveness of the company's governance structures. This includes developing an understanding of the quality of company governance and disclosures against relevant national or international corporate governance codes, including the explanations given for any deviations.
- **Climate change mitigation:** We encourage companies and other issuers to set science-based targets, aligned with a 1.5°C pathway, for Scope 1, 2 and 3 GHG emissions[12].
- **Climate change adaptation:** We encourage companies and other issuers to direct revenue to addressing climate change adaptation. This includes ensuring companies are increasing their revenue, capital expenditure and operational expenditure towards green objectives as per the EU Sustainable Investment Taxonomy (EU 2020/852).
- **Improve the environment:** We encourage companies and other issuers to measure, report on, and reduce negative impacts on biodiversity, ecosystems and water quality through application of circular economy or similar approaches. We encourage investment to address the environmental objectives in the EU Sustainable Investment Taxonomy (EU 2020/852).
- **Quality of disclosures:** The quality of the company's financial and non-financial disclosures. We encourage companies to use recognised frameworks and standards for integrated reporting. These may include, but are not limited to, the Global Reporting Initiative Standards, the International Sustainability Standards Board Standards, the EU Sustainable Finance Disclosure Regulation, and the TCFD Framework.

8.5 Engagement Escalation.

We recognise that, in some circumstances, escalation through enhanced engagement may be necessary.

Enhanced engagement means advising the company of the decision to put it on a watchlist and an enhanced engagement programme. Our underlying investment managers are responsible for undertaking engagement escalation at their discretion.

If enhanced engagement does not lead to the desired change, BTNZ, through our underlying investment managers, may decide to exclude the company from its investment portfolio. BTNZ considers this exclusionary approach to be an action of last resort, to be taken only if enhanced engagement does not succeed.

8.6 Industry Collaboration.

We see stewardship through collaboration with other stakeholders as a positive, effective, and efficient mechanism for enacting change and to help us achieve our sustainable investment goals.

We collaborate with our underlying investment managers, advisers, investment consultants, auditors, third-party data providers, other asset managers and fund managers, governments, standard setters, and industry bodies.

While we do collaborate with others, we also respect that in some cases they may have differing views.

For an overview of the collaborations see section 4.2.

[12] Refers to different Greenhouse gas emissions from owned, controlled, indirect sources and value-chains.

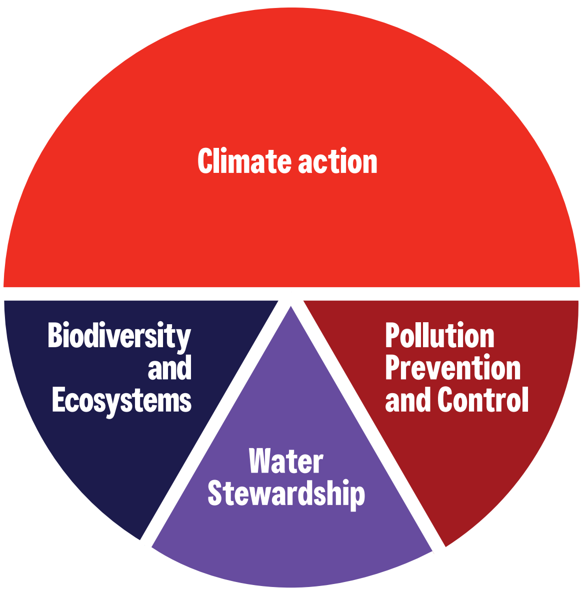
9. Pillar IV: Sustainable themes.

Our highest priority currently is to invest more in our climate action theme. We are also growing our investment in other themes such as biodiversity and ecosystems, water stewardship, and pollution prevention and control. These sustainable themes will help support positive outcomes, and our aspiration to be a sustainable investment leader.

We have previously referred to sustainable themes as positive outcomes. Where we refer to positive outcomes in or outside of this Sustainable Investment Policy, for example on the website or in the short summary SI policy, we are generally referring to sustainable themes content in this section.

We recognise that everyone needs to make significant changes to limit global temperature rises. We believe we have a role to support a climate-resilient, low-emissions economy. We also believe climate change is not to be viewed in isolation, as it has profound impacts on ecosystems and biodiversity.

Through our sustainable themes pillar, we are working to establish and then increase the level of investment we hold in companies and other issuers across five of the environmental objectives outlined in the European Union's Sustainable Investment Taxonomy on the establishment of a framework to facilitate sustainable (EU Regulation 2020/852)[13] as the standards are further defined by the EU. In the absence of a global sustainable standard, the EU Regulation is widely recognised as the most comprehensively defined and respected regulated approach.



9.1 The sustainable themes.

In line with our goal of delivering targeted positive environmental outcomes, we are working towards investing more in the key themes identified in Articles 10, 11, 12, 14 and 15 of the EU Sustainable Investment Taxonomy EU 2020/852 into our process[14]. The current key sustainable themes are listed below. However we are not limited to these themes, and may choose to invest in other themes from time to time. Our underlying investment managers are working towards implementation of these sustainable themes. Depending on the maturity of the asset class and/or the approach of our underlying investment managers, progress towards these commitments will occur at different times[15].

9.2 Climate action.

Climate action is our highest priority and is currently the most evolved of our sustainable themes. The principles of sustainable contribution to climate change mitigation and adaptation are set out in Articles 10 and 11 of the EU Sustainable Investment Taxonomy. For us, this means working towards investing more in companies and other issuers that provide or adopt renewable energy, energy efficiency, climate mitigation or adaptation solutions in order to substantially reduce the extent of climate impacts on the environment, people and assets.

At BTNZ, we are committed to supporting the goal of net-zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels. We are committed to aligning our investments to a 1.5°C pathway.

We are working towards integrating climate change risk and opportunity into investment decisions. We intend to develop a climate action plan and report on our progress annually.

We are committed to identifying, assessing, and managing our climate-related risks and opportunities in line with the recommendations of the New Zealand Climate-related Disclosure standards.

Please see **Appendix 2** for an update on the current implementation of this Sustainable Investment Policy.

[13] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852
[14] Deciding to invest in a company in line with these themes forms only one investment factor in our overall assessment of the issuer.
[15] We monitor our underlying investment managers biannually on their compliance with these commitments and balance these outcomes with portfolio performance. Please see **Appendix 2** for an update on the current implementation of this Sustainable Investment Policy.

9.3 Other sustainable themes being established.

There are three other sustainable themes that we are working to further identify opportunities and grow our investments in:

- **Biodiversity and Ecosystems**. For us, this means working towards investing more in companies and other issuers that are contributing substantially to nature and biodiversity conservation, sustainable land use and management, sustainable agriculture practices or sustainable forest management practices, as set out in Article 15 of the EU Sustainable Investment Taxonomy.
- **Water Stewardship**. For us, this means working to invest more in companies and other issuers that are contributing substantially to water stewardship (such as reducing water contamination, improving water management, reducing water usage, increasing efficiency or security of supply), as set out in Article 12 of the EU Sustainable Investment Taxonomy.
- **Pollution Prevention and Control**. For us, this means working towards investing more in companies and other issuers whose activities are contributing substantially to pollution prevention and control (such as by improving air, water, and soil quality) or who are working to minimise adverse human health and environmental impacts from the production, use or disposal of chemicals, as set out in Article 14 of the EU Sustainable Investment Taxonomy.

9.4 Alignment with the EU Sustainable Investment Taxonomy.

As the EU Sustainable Investment Taxonomy (2020/852) standard is not yet fully implemented, access to reliable and accurate third-party data is limited. We expect data availability (aligned with the EU Taxonomy) to improve over the next 12 to 24 months. In the interim, because our systems to capture the data have not been developed, we are not yet able to reliably capture and report against four of the five selected criteria. We are relying on our underlying investment managers to target, measure and report on their estimated contributions to these sustainable themes using their own frameworks or their third party data in the meantime.

We also expect to be able to include commitments to socially themed investments, in addition to our selected environmental themes, once a globally recognised sustainable investment standard (taxonomy) for social investments has been developed and implemented. In the interim, we encourage our underlying investment managers to select, target, measure and report on their estimated contributions to their nominated social investment themes.

10. Conflicts of Interest.

BTNZ maintains an internal Conflicts Management Policy which (a) prescribes the mechanisms by which conflicts must be managed; and (b) describes the process for assessing conflicts and determining the approved conflicts management arrangements. BTNZ also requires each of its underlying investment managers to have a Conflicts Management Policy in place and to share with BTNZ any conflicts of interest that have occurred, such as through stewardship activities.

11. Approved by:

Nigel Jackson
CEO, BTNZ

March 2023

Appendix 1: BTNZ's Voting Principles

The key principles that guide our and our investment manager's voting decisions for listed companies are[16]:

General.

- We expect the identification and integration of key ESG factors, including within business strategy, board responsibilities, and risk management.
- We expect a company to have a clearly defined social purpose.
- We expect a commitment to transparency and public disclosure of key ESG factors, including against our sustainable theme objectives, through recognised frameworks and standards.

Alignment of company actions with our sustainable theme objectives on climate change, biodiversity, pollution prevention and water stewardship.

We aim to:

- Vote in support of the adoption of a robust climate action plan with adequate budget and personnel.
- Vote in support of the adoption of science-based targets aligned with a 1.5°C pathway covering scope 1, 2 and 3 Greenhouse gas emissions.
- Vote in support of assessment and disclosure of climate-related risks and opportunities in line with TCFD.
- Vote in support of investments to reduce or adapt to physical and transitional climate risk.
- Vote in support of increases in budget for climate mitigation.
- Vote in support of investments to improve sustainable land and marine use, supply chains and natural capital outcomes.
- Vote in support of actions to improve water stewardship, including water use, water quality, wastewater quality and quantity.
- Vote in support of actions to reduce, reuse and adopt circular economy approaches to product stewardship.
- Vote against deforestation, land or marine degradation, unsustainable agricultural or marine practices, harm to threatened species, or the use of non-certified sustainable palm oil.

Social.

- We expect companies to actively embrace the UN Global Compact principles and discontinue actions that contravene these principles.
- We expect the promotion of a diverse and inclusive workforce including meaningful policies demonstrating tangible outcomes.
- We expect proactive human capital management, attention to cultural rights, payment of a living wage and reducing pay gaps, and encouragement of employee participation.
- We expect disclosures of modern slavery assessments and actions to minimise impacts.
- We expect companies to have an effective whistleblowing program and anti-corruption process.
- We will vote in support of actions positively and actively supporting local communities.

Governance.

- We expect well-structured governance including responsibility to manage social and environmental impacts.
- We expect boards and management with diverse skills, experiences, backgrounds, age, nationality, ethnicity, gender and sexuality.
- We expect at least one female on boards; in well-governed markets at least 30% of board members shall be female and/or identify as LGBTQIA+.
- We expect 30% of board directors to be independent (this means no working, material business, representative, family or other close ties).
- We expect the roles of Chairman and Chief Executive to be held separately.
- We expect and support the appointment of an independent external financial auditor.
- We expect membership of an audit committee to be non-executive. Members of both audit and remuneration committees should be listed in annual reports. It is preferred that only non-executive directors sit as members of remuneration committees.

Remuneration and Board tenure.

- We expect remuneration structures to be simple, long- term oriented and aligned with shareholder value, and to encourage responsible risk taking.
- We expect board tenure to be limited to 12 years with regular independent board effectiveness reviews.
- We expect board and executive compensation and incentive payments to be fully and transparently disclosed and linked to long-term value creation and long-term company performance, climate action, and social purpose.
- We expect termination payments should not be excessive and we expect disclosure of any contingent liabilities to be made.

Ownership and Shareholder Rights.

- We do not support actions that curtail or dilute the voting or economic rights of shareholders.
- We expect companies to seek approval from shareholders before making political donations.
- We expect transparency of political lobbying activities (in AGMs or annual reports) and alignment of those with the company's social purpose.

[16] Our underlying investment managers have discretion to cast a vote in a manner which seeks to achieve improved long-term value. Any divergence from these principles, for example by using and applying their own policies, is therefore not expected to have a material consequence to the financial performance of the investment. Accordingly, divergence from these principles is not considered to be a material breach of our SI Policy commitments

Appendix 2: BTNZ's current implementation status of the Sustainable Investment Policy

Annual Customer Report.

We will report on the progress we've made on our sustainable investment journey. Our annual customer report will provide a full description of our current progress on sustainable investing. Our first customer report is scheduled to be published in 2023.

The four Sustainable Investment pillars of this Policy vary in their complexity, and our ability to implement and measure. As a result, we are at different stages of implementation for each pillar. For example, exclusions are relatively simple to implement, control for and check compliance against. In contrast, sustainable themes are more difficult to implement and measure. As a result, we are in the early stages of establishing our sustainable themes.

Westpac Sustainability Report.

BTNZ also publishes its results relating to sustainable investment each year through the Westpac Sustainability Report. A few key highlights from the 2022 Sustainability report for BTNZ are:

- Named a Responsible Investment Leader in RIAA's 2022 Benchmark Report and was named a finalist in the Mindful Money Best Net Zero and Climate Action Investor.
- Continued engagement with policy makers, industry groups, companies and governments we invest in on climate and sustainability actions.
- Actively supported the introduction and became a founding signatory of the New Zealand Investment Stewardship Code.

You can find the most recent report at **westpac.co.nz/sustainable**

Disclaimer.

The information provided in this Appendix 2 is for information purposes only and is not intended to provide a recommendation or opinion in relation to any managed investment scheme offered by BTNZ. The content on this page does not form part of our Sustainable Investment Policy (Policy) and is only intended to provide a general idea of the current implementation of the Policy.

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Westpac New Zealand Limited.