# RESPONSIBLE INVESTMENT FRAMEWORK

13 MARCH 2024

ANZ Investments' approach to responsible investment is a core component in the way we research, select and manage investments. We believe that these factors are some of the drivers of long-term investment risks and returns.

This framework sets out our approach to responsible investment and how we apply it to our investment activities. It also sets out how we monitor and report on our approach.

**What is responsible investment?** It is a broad-based approach to investing which factors in people, society and the environment, along with financial performance, when making investment decisions.

## OUR APPROACH TO RESPONSIBLE INVESTING

We believe that environmental, social and governance (ESG) factors are important drivers of long-term investment risks and returns.

The three core components of this approach are exclusions, ESG integration, and stewardship:

We exclude some companies* and industries based on their involvement in areas of harm, or for breaching global norms.

For the companies we invest in or are looking to invest in, we integrate ESG considerations into our evaluation of a company*.

For the companies we invest in, we demonstrate our stewardship through engagement and proxy voting.

Details on these three core components are outlined further in this framework.

* The term 'companies' or 'company' is used broadly in this framework to refer to companies and other issuers, including government entities.

ANZ INVESTMENTS

## EXCLUSIONS

We currently exclude companies involved in the following harmful activities:

**Controversial weapons**
Companies that have revenue or ownership ties to the manufacture of (including components or support systems) controversial weapons, including cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments or nuclear weapons.

**Civilian firearms**
Companies that manufacture firearms and small arms ammunitions for civilian markets.

**Tobacco**
Companies that manufacture tobacco products and/or alternatives to traditional smoking products.

**Whaling**
Companies involved in whaling and whale meat processing.

We also exclude companies that earn material revenues from the following activities:

**Conventional weapons**
Companies that generate more than 5% of their revenue from weapons systems, components, and support systems and services.

**Thermal coal**
Companies that generate more than 10% of their revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties.

**Unconventional oil and gas**
Companies that generate more than 10% of their revenue from the extraction or production of unconventional oil and gas.

**Adult entertainment**
Companies that generate more than 5% of their revenue from adult entertainment.

For a more comprehensive definition of the exclusions, see the Appendix.* We may change the list of exclusions from time to time.

We use MSCI ESG data in conjunction with our own internal research to determine a company's involvement in the above business activities.

Company revenue is identified using revenue data from MSCI ESG Research (UK). Where the revenue for a covered business activity is not disclosed by a company and is not available through other publicly available sources, a revenue estimate is supplied by MSCI ESG Research.

We regularly review our investments and prospective investments against our financial and ESG criteria. Companies or industries that have any ESG issues are subject to further review. These reviews cover both existing and prospective investments and consider some or all of the following:

- global best practice
- our view on the expectations of our investors or clients
- the impact of an exclusion on returns
- the severity of any ESG related breaches or actions
- or the likely success of an alternative course of action (for example, engagement).

Depending on the results of our review, we might continue to hold, review on a periodic basis, divest, or exclude the company or industry as an investment.

We have also excluded some entities, across a range of industries that have breached global norms or standards to a severe degree.

### Monitoring, reporting and compliance

Neither our internal investment management team nor our external fund managers may invest in excluded securities. See the list of entities that we exclude on our Responsible investment page.

We monitor all portfolio holdings to ensure there are no breaches of our exclusions framework. If an excluded security is identified in the portfolio holdings, the security will be divested within 90 days if liquidity allows.

In addition to our exclusions list, our products are prohibited from dealing with, or investing directly or indirectly in, any jurisdiction, sector or person subject to ANZ's sanction policy. See more information about the Group Sanctions Approach.

* The implementation of the exclusions 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 external managers.

## ESG INTEGRATION

Our approach to responsible investment is based on integrating both financial and non-financial factors in the way we research, select and manage investments.

Traditional investment approaches focus mainly on financial criteria such as balance sheet strength and future earnings forecasts. ANZ Investments has a wider perspective which also takes ESG factors into account.

These may include:

**Environmental** factors like climate change, greenhouse gas emissions, pollution and renewable technologies.

**Social** factors such as human rights, impact on local communities and employee health, safety and diversity.

**Governance** factors including ethical standards, transparency, compensation and voting.

As part of our investment management approach, we believe it is important to consider these factors and the risks and opportunities they present. If a company fails to meet customer, stakeholder and community expectations on any of these factors, they may lose their 'social license to operate'. This may have an impact on the long term success of the company, and may affect their investment returns.

### Climate change

We believe that climate change is a systemic challenge. Climate-related risks and opportunities can materially impact investments so we've developed a climate-related goal, a set of interim targets, and a specific climate approach as part of our investment framework.

### Our Net Zero 2050 goal

Our goal is to reach net zero greenhouse gas emissions by 2050 across all of our funds under management (FUM), although not on a fund by fund basis. This is our 'Net Zero 2050' goal. 'Net zero' means cutting greenhouse gas emissions to as close to zero as possible, with any remaining emissions re-absorbed from the atmosphere.

In order to reach our goal, we will use a stewardship-based approach to decarbonisation. Stewardship involves using our influence as a manager with a view to shaping the behaviour and climate impact of a number of the companies we invest in. We will monitor the effectiveness of our stewardship activities and we may take steps such as divestment or exclusion.

To measure our progress in achieving our 'Net Zero 2050' goal, we have set interim targets based on the Paris Aligned Investment Initiative's (PAII) Net Zero Investment Framework. The PAII framework has 5 categories: Achieving net zero, Aligned to a net zero pathway, Aligning towards a net zero pathway, Committed to aligning, and Not aligned. Our interim targets are:

- 50% of **in-scope* FUM** considered Achieving, Aligned or Aligning by 2030
- 100% of **in-scope* FUM** considered Achieving, Aligned or Aligning by 2040.

We use MSCI's data to classify the companies we invest in under the PAII framework. For more information on the PAII framework, please visit their website here.

To measure the effectiveness of our engagement with the companies we invest in, we have set a secondary target to reduce our in-scope* FUM weighted average carbon intensity (WACI) by 50% by 2030. This is from a baseline year ending 31 December 2022. This target is across all funds we manage, not on a fund by fund basis.

We use WACI to measure the funds' exposure to carbon intensive companies. It is a calculation of the tonnes of carbon dioxide ($CO_2$) emitted per NZ$1 million of company sales. This is then weighted based on the size of the holding. It allows for comparison between different sized funds.

We review the interim targets, including the assets they apply to, annually and we will review our overall climate strategy every three years.

We do not guarantee that the Net Zero 2050 goal or the interim targets will be met, as they rely on a number of factors including changes in the global and domestic economies, the pace and change of global temperature rise, supportive regulatory and policy settings addressing climate change, and companies' stakeholder sentiment.

We will report our Net Zero 2050 goal, our interim targets and progress towards the goal and interim targets in accordance with requirements under New Zealand's climate-related disclosures regime. We will issue our first climate statement under that regime starting in 2024.

* Our interim climate targets apply to our "in-scope FUM", which covers the scope 1 and 2 emissions of the companies we invest in within the listed equity, listed property and corporate fixed interest asset classes. Cash and derivative assets are not included in our targets because there is currently no globally recognised methodology to calculate these emissions. In addition, due to the nature of sovereign debt and the difficulty in demonstrating alignment to the PAII framework, sovereign debt is also excluded from our targets. We will review the assets that are in scope at least once a year. We expect to increase the number of in-scope assets over time. For more information including 'emissions' definitions, please see the relevant scheme's Statement of Investment Policy and Objectives.

### Climate Risks and Opportunities

Climate change can be a material risk to investment returns, but while considering the risks, we also look for the opportunities that the transition to a low carbon world will create.

The risks around climate change are usually classified as either physical or transition:

- **Physical risks:** are risks related to the physical impacts of climate change. These can arise from the greater regularity and severity of weather-related events (for example, inland flooding events, heatwaves and bushfires) and longer-term shifts in climate patterns (such as rainfall and rising temperatures).
- **Transition risks:** are risks related to the transition to a low-emissions, climate-resilient global and domestic economy. They include higher carbon pricing, regulation of emissions, pricing of assets and development of new technologies.

We consider climate risks and opportunities throughout our investment decision making process from our strategic asset allocation process, external manager selection, through to when we select securities and construct our portfolios. Once we have invested, working on behalf of investors, the aim is to encourage the companies we invest in to align their business with the transition to net zero greenhouse gas emissions by 2050.

We use a variety of tools to identify, assess and manage climate risks and opportunities as part of our ESG integration. We may measure exposure to key risk factors, such as carbon footprint and fossil fuel reserves, or a company's strategy and competence in addressing any material risks.

An important part of our climate approach is to actively reduce exposure to companies and/or industries with high carbon footprints and business models that are not viable in the long-term. We exclude companies that generate more than 10% of their revenue from the extraction or production of unconventional oil and gas or the mining of thermal coal. See the exclusions section of this framework for more detail.

## STEWARDSHIP

The two key components of our stewardship approach are engagement and proxy voting.

### Engagement

We actively engage with a number of companies we invest in on ESG and other issues. This improves our understanding of risks and opportunities a company faces, and allows us to factor this into our investment rationale which will better inform decision making over the long- term. The benefits of engagement can include:

- input into company direction with a view to improving performance over the long-term
- increasing our awareness of ESG issues a company may face
- providing feedback and guidance on ESG initiatives that a company may be undertaking.

We believe the risk/reward profile of our investments can be enhanced through engagement in the first instance, but where this is ineffective, divestment and exclusions are appropriate tools.

Engagement with companies is undertaken by ANZ Investments personnel who manage our domestic equity and fixed income portfolios and by external managers we have appointed to manage our international equity, property, listed infrastructure and fixed income portfolios.

Engagement can include, but is not limited to;

- meetings with the company board
- meetings with senior management
- meetings with other key stakeholders.

We are also involved with industry organisations to give feedback and engage on policy and other initiatives that may impact the investment industry (see Our Memberships and Certifications section below).

#### Identification and prioritisation of engagement

Companies are identified as targets for engagement based on ESG factors that may represent a material risk or opportunity for the company and are not being addressed.

Resources dedicated to engagement efforts are prioritised based on the ESG issue's materiality and the level of exposure within portfolios. We prioritise our engagement on climate-related issues based on the status of a company under the PAII framework, based on their emissions intensity.

### Proxy voting

Voting on company and shareholder resolutions is another way to demonstrate our active approach to investing and have an input into ESG and other strategies. We vote on company matters in line with our investment beliefs, and our responsible investment framework. This provides us another way to influence decisions that impact the companies that we invest in.

#### Internally managed

For investments managed internally, voting is undertaken by the domestic equities team with support from Institutional Shareholder Services (ISS) as a proxy voting service provider.

#### Externally managed

For investments managed externally, the voting is conducted by the external managers who are given discretion to vote on our behalf. They may also utilise proxy voting services such as ISS and Glass Lewis to support their voting activities.

## OUR MEMBERSHIPS AND CERTIFICATIONS

ANZ Investments is proud to be a member of, or affiliated with, the following organisations. Working alongside these organisations gives us the opportunity to gain a different perspective and develop a better understanding of the issues confronting the funds management industry.

*Signatory of:*

PRI Principles for Responsible Investment

Principles for Responsible Investment (PRI) is a United Nations-supported international network of investors working together to implement its six aspirational principles.

We have been a signatory to the PRI since early 2018 and part of being a signatory is the need to meet the requirements of the PRI Reporting Framework. This includes a report prepared annually on our processes related to responsible investment.

The principles include:

1. Incorporating ESG issues into investment analysis and decision making processes
2. Being active owners and incorporating ESG issues into our ownership policies and practices
3. Seeking appropriate disclosure on ESG issues by the entities in which we invest
4. Promoting acceptance and implementation of the principles within the investment industry
5. Working together with other signatories to enhance our effectiveness in implementing the principles
6. Reporting on our activities and progress towards implementing the principles

You can view the ANZ Investments Public Transparency Report from PRI on our [Responsible investment page].

IFRS Sustainability Alliance

The IFRS Sustainability Alliance is a global membership programme for sustainability standards, integrated reporting and integrated thinking. The Alliance offers curated insights and educational programming, as well as peer-to-peer networking. The Sustainability Accounting Standards Board (SASB) forms part of IFRS and sets frameworks for the identification and management of ESG risks including Climate Change which we use.

NZ CORPORATE GOVERNANCE FORUM

The New Zealand Corporate Governance Forum (NZCGF) is committed to promoting good corporate governance in New Zealand companies for the long-term health of the capital market. As a member, we share the belief that good governance improves company performance and increases shareholder value.

riaa Responsible Investment Association Australasia

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand.

RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

As a RIAA member, we participate in the thematic working groups that RIAA manage, which are focused on specific market issues and developments. For example, the Aotearoa Collaborative Working Group serves as a platform for collaboration, knowledge exchange, and collective action; and the Human Rights Working Group is an initiative to support members in their stewardship responsibilities respecting human rights in their business operations and their portfolio of companies.

### Financial Services Council NZ

As the voice of the New Zealand financial sector, the Financial Services Council (FSC) is a non-profit member organisation with a vision to grow the financial confidence and wellbeing of New Zealanders. FSC members commit to delivering strong consumer outcomes from a professional and sustainable financial services sector.

As members of the FSC Climate and ESG Committee, we provide input into industry initiatives and legislative developments in New Zealand.

STEWARDSHIP CODE
AOTEAROA NEW ZEALAND

The Stewardship Code for Aotearoa New Zealand is an industry-led code aiming to bring transparency and accountability to active ownership. We became a Founding Signatory in 2022. This inaugural Aotearoa New Zealand Stewardship Code provides a principles-based framework for achieving the three interconnected goals of effective stewardship:

- to create and preserve long-term value for current and future generations
- to ensure the efficient management of capital whilst considering the best interests of clients and beneficiaries, and
- to contribute towards achieving sustainable outcomes for our environment, society, and economy.

## DISCLOSURE AND TRANSPARENCY

The following information is available for all our stakeholders to assess how our responsible investment approach is working in practice. These can be found on the ANZ website:

- ANZ Investments Responsible Investment Framework
- List of portfolio holdings
- Exclusions list of companies and the rationale for excluding them
- Bi-annual stewardship update
- Proxy voting dashboard.

### Scope

This responsible investment framework applies to ANZ Investments' managed investment schemes, wholesale mandates, superannuation schemes and wholesale schemes, the ANZ Private Wholesale Investment Service and ANZ Bank New Zealand Limited's Discretionary Investment Management Service (DIMS). The Net Zero 2050 goal is not directly applied or monitored in relation to DIMS portfolios held by individual investors. However, the underlying investments in DIMS portfolios are themselves subject to the Net Zero 2050 goal.

Where our funds are managed by external fund managers, we have a contractual relationship with those managers that enables us to set the investment mandate and work with them in the implementation of our responsible investment framework. We also consider the responsible investment capability and resources of external fund managers in our appointment and ongoing review of those managers.

We may buy units in collective investment vehicles (such as exchange traded funds (ETF) or unit trusts) that invest in a number of companies. Because we would not be able to apply our responsible investment framework (including exclusions, ESG integration or stewardship) across these companies, we would factor this into any decision to buy or sell this type of investment. This would include assessing the extent to which the vehicle invested in companies that are on our exclusions list.

Derivative based instruments (such as a futures contract) give efficient exposure to companies through long or short positions, and our funds may have economic exposure to entities that are on our exclusions list. Because the funds do not own the underlying companies in a derivative, we are unable to apply our responsible investment approach (including exclusions, ESG integration or stewardship) across derivative based instruments.

### Amendments to this framework

This framework may be amended, updated, or replaced from time to time without notice to reflect changes in ANZ Investments' business operations, investment strategy or any other relevant matters. The latest version of this framework can be found on the ANZ website.

# APPENDIX

| Exclusion | Definition |
|---|---|
| Adult entertainment | Companies that generate more than 5% of their revenue from adult entertainment. For the avoidance of confusion this applies to companies that are involved in the production, distribution or retailing of products in which the material or dominant theme is "sexually explicit" conduct. |
| Civilian firearms | Companies that manufacture firearms and small arms ammunitions for civilian markets. This does not apply to companies that cater to the military, government, and law enforcement markets. |
| Controversial weapons | Companies that have revenue or ownership ties* to the manufacture of (including components or support systems) controversial weapons, including cluster munitions, landmines, biological/chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments, or nuclear weapons.<br>* as defined by MSCI ESG Research (UK). Includes direct (e.g. producer, operator), semi-direct (e.g. retailer, distributor) and indirect involvement (e.g. through ownership). |
| Conventional weapons | Companies that generate more than 5% of their revenue from weapons systems, components, and support systems and services. |
| Thermal coal | Companies that generate more than 10% of their revenue from the mining of thermal coal (including lignite, bituminous, anthracite and steam coal) and its sale to external parties. This does not apply to companies that generate revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading. |
| Tobacco & alternative smoking products | Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also applies to companies that grow or process raw tobacco leaves, and that are exclusively manufacturing (and marketing) products that are alternatives to traditional smoking products. |
| Unconventional oil & gas | Companies that generate more than 10% of their revenue from the extraction or production of unconventional oil and gas. This applies to revenues from oil sands, oil shale (kerogen-rich deposits), shale gas, shale oil, coal seam gas, and coal bed methane. This does not apply to all types of conventional oil and gas production, such as Arctic onshore/offshore, deepwater, shallow water and other onshore/offshore. |
| Whaling | Companies involved in whaling and whale meat processing. |