

Bank of New Zealand

Responsible Investment Policy

Prepared: October 2021



1. Overview

1.1 Purpose and Scope

This policy applies to BNZ Investment Services Limited (BNZISL) Managed Investment Schemes (MIS) and BNZ's Discretionary Investment Management Service (DIMS). In this document, references to BNZ refer (as appropriate) to BNZ and BNZISL. This document has been prepared taking into consideration Group policies including ESG (Environmental, Social and Governance) Risk Principles, Sensitive Sector Risk Appetite and BNZ's Credit Policy. Specific procedures in this document may deviate from Group policy where such deviation makes sense from an investment perspective.

This document sets out BNZ's approach to Responsible Investing (RI). RI considerations fall into three distinct but complementary areas:

1. Active ownership;
2. ESG integration; and
3. Legal/social responsibility.

As a result of one or more of these RI considerations, the primary actions taken are: selecting managers that have a clear approach to considering ESG factors in their investment process; company engagement; or portfolio under or overweighting securities relative to a benchmark. In certain cases, a sector or security may be excluded from investment consideration.

This policy is reviewed on an ongoing basis by the BNZ Investment Solutions Team, with a formal BNZ Investment Review Committee review annually.

1.2 Responsible Investment Philosophy

BNZ believes that integrating environmental, social and governance factors (ESG) into its investment process is important as these factors are drivers of sustainable long-term returns. In general, BNZ RI activities are expected to support positive long-term outcomes for investors. In rare circumstances, it may exclude companies or sectors from consideration for investment based on non-investment-related factors. BNZ prefers to utilise active ownership levers such as engagement and proxy voting to effect change, and will only utilise divestment and exclusions as a last resort.

BNZISL is a signatory to the Principles for Responsible Investment (PRI) and these Principles help to guide its approach to RI.

1.3 Context

As a provider of investment products to its customers, BNZ is responsible for the construction of these investment products (ie the asset allocations and selection of investment managers). For each asset class, BNZ appoints one or more investment managers. In turn, the investment managers are responsible for the selection of individual securities. Therefore, the primary role of this document is to provide direction in the selection of managers and in setting expectations, boundaries and reporting commitments for those managers. BNZ expects its managers to work collaboratively with BNZ in the implementation of its policy and will consider the RI capability, flexibility, and resources of managers in its appointment and ongoing review of these managers.

1.4 Sustainability/ESG Strategy

BNZ formalised its sustainability strategy in August 2020. The Strategy outlines a number of bank wide commitments under two core objectives:

- Kaitiakitanga – Accelerate the transition to a low-emissions economy, one that supports the regeneration of the natural environment.
- Manaakitanga – To grow the long-term social and financial wellbeing of all New Zealanders.

This Responsible Investment Policy applies ESG principles to align with BNZ's sustainability strategy, which includes active decarbonisation of the portfolio to support the transition to a low-emissions economy and exclusions to minimise exposure to industries or sectors that have high environmental, social and governance risks.

1.5 Climate Action Statement

Climate change is one of the most significant and pressing issues of our time, with the potential to disrupt the domestic and global economy, and have increasingly severe impacts for future generations.

BNZ is a signatory to the Climate Leaders Coalition (CLC). The goal of the CLC is to help New Zealand transition to a low-emissions economy. BNZ also has a 'Climate Action Statement' (the Statement), which outlines how it will deliver on its strategic ambition to:

"Accelerate the transition to a low-emissions economy, one that supports the regeneration of the natural environment."

As part of the Statement, BNZ has committed to the Zero Carbon Act goal of keeping global warming at 1.5 degrees and accelerating the transition to a net zero emissions economy by 2050.

The policy support BNZ’s goal of mitigating the impact of climate change risk on its customers. This includes consideration of climate and carbon-related risks for all investment portfolios, with a view to positioning for the long-term transition to a low-emissions economy. In addition to this, the active managers that are utilised are expected to take climate change risk into account as part of their investment decision-making process.

1.6 Portfolio carbon exposure

BNZ monitors and reports on carbon exposure at the portfolio level. Portfolio level exposure to carbon will fluctuate over the short-term due to manager choices, market movements, and regulatory action. BNZ’s expectation is that, over the medium to long term, all its investment portfolios will exhibit:

- lower exposure to potential ‘stranded assets’ than a comparable benchmark portfolio;
- lower carbon intensity than a comparable benchmark portfolio which doesn’t apply ESG principles;
- a declining trend in exposure to potential ‘stranded assets’ and portfolio carbon intensity; and
- increased exposure to investments that may benefit from the transition to a low-emissions economy.

2. RI areas

2.1 Active ownership and industry engagement

BNZ engages with each of its managers on their active ownership and stewardship practices. In general, BNZ has a preference for engagement (including proxy voting) to be undertaken by the investment managers it has appointed. Investment managers are generally best placed to make a judgement on resolutions as they are closest to the companies in which they invest and the specific issues, including those related to ESG, on which engagement is necessary and appropriate. Managers’ ability and resource in this area are an important consideration in appointment decisions and they are required to provide regular reports on their engagement activities.

From time-to-time, BNZ may engage directly with investee companies, either alongside or independent of its investment managers. BNZ recognises the benefits of collaborative action and will actively consider opportunities to participate in investor-led joint engagement activities, with due consideration to customer benefit, impact and likelihood of success.

Stranded assets are defined as “fossil fuel energy and generation resources, which at some time prior to the end of their economic life (as assumed at the investment decision point), are no longer able to earn an economic return (ie meet the company’s internal rate of return), as a result of changes in the market and regulatory environment associated with the transition to a low-carbon economy.” (Source: Carbon Tracker Initiative)

Risks to stranded assets include regulatory risks such as changes in policy or legislation; economic risks such as changes in relative costs/process; and physical risks such as floods or drought.

1.7 Modern slavery

Modern slavery is defined as the exploitation and serious violation of an individual’s dignity and human rights for personal or commercial gain – ie forcing someone to do something against their will with the threat of punishment. Increasingly, human rights risks associated with modern slavery are being codified into international conventions, legislation, and best practice principles for businesses. With this in mind, BNZ is committed to ensuring that its appointed active managers are considering modern slavery risk in their investment decision-making processes, and that sufficient engagement is undertaken by all its managers with investee companies on this issue.

BNZ engages in an ongoing process of review of its RI practices relative to emerging best practice. To facilitate this, BNZ actively reviews opportunities to build knowledge and broader industry engagement. Currently, this includes the use of Sustainalytics for independent research, and membership of the PRI.

2.2 ESG integration

BNZ believes that as part of a robust investment framework, ESG factors should be considered by the active managers it appoints for the following reasons:

1. Consideration of ESG factors should lead to a more complete fundamental analysis, including the early detection of risks that could otherwise be overlooked, thereby resulting in better investment decisions being made. Over the long term, this should contribute to higher returns and less risk.
2. Good management of ESG factors (including governance, employee relations, safety, and environmental risks) is material to the long-term successful performance of any business. By not

managing these factors effectively, there is a greater likelihood of poor returns.

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

Note that where BNZ uses passive investment strategies, it currently does not require fundamental analysis or portfolio management decisions based on ESG factors.

BNZ expects all its managers to have RI policies as part of the investment due diligence process.

BNZ will assess (through its asset consultant¹) the extent to which an investment manager incorporates ESG factors into its investment process. The insights from this

assessment are considered when a decision is made to appoint a new investment manager or retain an existing investment manager.

2.3 Legal and social responsibility

BNZ strives to be a responsible corporate citizen. BNZ considers New Zealand law, the broader regulatory environment, and BNZ's Corporate Mission in the composition of its investment opportunity set. These factors form an important part of BNZ's exclusions framework noted below.

3. Sensitive Sectors

BNZ regards excluding industry sectors or securities from consideration for investment as a last resort. Sensitive Sectors are not excluded from consideration. However, on rare occasions specific firms within a Sensitive Sector

may be excluded due to laggard behaviour or lack of engagement on ESG issues relevant to that Sector. The current list of Sensitive Sectors is outlined in Appendix 1.

4. Exclusions

4.1 Exclusions framework

It is BNZ's preference for its funds to invest via mandates with its investment managers wherever possible. Where mandates are in place with investment managers, BNZ expects to be able to exclude certain sectors and securities, in accordance with the policy.

However, from time to time, our funds may hold investments indirectly through an index fund or other third-party managed fund, rather than via a segregated mandate. Where BNZ's funds invest via commingled funds, it is unable to apply its exclusions due to the commingled nature of the investment, and therefore may invest in sectors or securities that would otherwise be excluded under the policy. The foregoing is not applicable to the BNZ KiwiSaver Scheme. For the avoidance of doubt, no BNZ KiwiSaver Scheme Fund will invest, directly or indirectly (including through investment in index funds or other third-party managed funds), in any sectors or

securities excluded by the policy.

The 'exclusions framework' does not apply to derivative-based investments held by the funds.

The decision to exclude particular sectors takes the following considerations into account, to the extent that they are applicable:

1. The regulatory environment.
2. The materiality of the issue.
3. The impact on the risk and return of BNZ's investment products.
4. The effectiveness of engagement.
5. Alignment with BNZ's brand, values, and policies.

With respect to the Excluded Sectors, depending on the sector, a materiality threshold may apply. The current list of Excluded Sectors, and primary reason for exclusion, is outlined in Appendix 2.

¹JANA Investment Advisers Pty Limited

4.2 Security exclusions

In addition to the current list of Sensitive or Excluded Sectors, BNZ may, in its sole discretion, remove from consideration, or exclude, a security or securities which are not already part of a Sensitive or Excluded sector. Such exclusion could be for exceptional reasons, including significant and/or repeated violations of international norms, or singular actions of an objectionable nature relating to RI considerations (including, but not limited to, reasons relating to modern slavery, broader human rights, corruption, financial crime, and animal welfare), or because such removal or exclusion is otherwise considered necessary or desirable by BNZ in the context of its responsible investment practices.

4.3 Limitations

In addition to internal resources, BNZ employs an asset consultant and a specialist ESG research provider in support of its RI activities. However, the policy recognises that, like many areas of investing, measuring ESG risk, product involvement, and company behaviour, remains an inherently inexact science.

From time to time, BNZ may inadvertently hold a security which, according to the policy, it should not hold. The BNZ process acknowledges the possibility for error, and the expectation is that any error in the application of the policy is corrected in a positive and timely manner, as and when identified to the BNZ Investment Solutions Team.

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

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

5. Implementation

BNZ will communicate any changes to the policy in a timely way to its relevant investment managers. BNZ will work proactively with the relevant investment managers to implement any changes to the policy as required by this paragraph, and in a way that seeks to limit any potential adverse impact on investment returns. Except as provided for in this paragraph, changes to the policy will be implemented as soon as reasonably practical, and not later than 3 months after the effective date of such change

(being the effective date of the policy). If, as a result of any change to the policy, BNZ is permitted to hold a security or securities which were part of the immediate preceding list of Sensitive or Excluded Sectors, BNZ will give prior notice of the nature of such change to affected investors, before commencing to hold such security or securities. Any delay to implementing a change due to the requirement to prior notify affected investors under this paragraph, will not constitute a breach of the policy.

Appendix 1 – Sensitive Sectors

- Providers of short-term, high-interest loans to individuals – where lending could be considered predatory.
- Alcoholic beverages.
- Palm oil production and/or processing companies

Appendix 2 – Excluded Sectors

Product	Description	Materiality	Primary reason for exclusion
Cluster munitions	Companies which are actively involved in the development or production of cluster munitions.	Any exposure	Regulatory environment Cluster Munitions Prohibition Act 2009. The Convention on Cluster Munitions 2008.
Landmines	Companies which are actively involved in the development or production of landmines.	Any exposure	Regulatory environment United Nations Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines 1997.
Nuclear weapons systems	Companies which are actively involved in: <ol style="list-style-type: none"> 1. the manufacture or testing of nuclear weapons systems; and/or 2. management of facilities used to assemble or refurbish them; and/or 3. manufacture of the delivery systems for nuclear weapons. 	Any exposure	Regulatory environment Treaty on Non-Proliferation of Nuclear Weapons and the Nuclear Free Zone, and the Disarmament and Arms Control Act 1987.
Tobacco	Companies which are actively involved in: <ol style="list-style-type: none"> 1. the manufacture of tobacco or tobacco products and vaping products; and/or 2. specialised tobacco and tobacco products wholesaling and retailing; and/or 3. specialised vaping products wholesaling and retailing; and/or 4. specialised packaging of tobacco and tobacco products. 	Any exposure >10% Revenue >10% Revenue >10% Revenue	Alignment with BNZ’s brand, values and policies , because tobacco and vaping can cause significant harm and contribute to social ills.
Assault weapons	Companies which are actively involved in the manufacture of assault weapons for civilian use.	Any exposure	Regulatory environment Arms (Prohibited Firearms, Magazines and Parts) Amendment Act 2019.
Whaling	Companies which are actively involved in hunting whales for commercial purposes, or the processing of whale meat.	Any exposure	Regulatory environment International Whaling Commission moratorium on commercial whaling.
Gambling	Companies which are actively involved in: <ol style="list-style-type: none"> 1. owning and/or operating gambling establishments (including online gambling); and/or 2. manufacturing or importing specialised equipment used exclusively for gambling; and/or supporting products and services supplied to gambling operations. 	>10% Revenue >10% Revenue	Alignment with BNZ’s brand, values and policies , because gambling can cause significant harm and contribute to social ills.

Product	Description	Materiality	Primary reason for exclusion
Adult Entertainment	Companies that are actively involved in the production and/or distribution of adult entertainment material, products and services.	>10% Revenue	Alignment with BNZ’s brand, values and policies , because adult entertainment can cause significant harm and contribute to social ills.
Oil & Gas	Companies that own proved or probable reserves in oil & gas including reserves related to tar sands or shale.	Any exposure	Regulatory environment New Zealand government fossil fuel exclusions for Default KiwiSaver Providers; and Expected impact on the risk and return of BNZ’s investment products due to changes associated with the transition to a low-emissions economy.
	Companies which are actively involved in exploration and extraction of oil & gas, including shale oil and tar sands exploration and extraction and oil & gas projects within the Arctic or Antarctic.	>10% Revenue	
	Companies that have their primary business activity in the following subsectors as defined by either the Global Industry Classification Standards (GICS) or Industry Classification Benchmark (ICB) classification system: GICS • Oil & Gas Drilling • Oil & Gas Equipment & Services • Integrated Oil & Gas • Oil & Gas Exploration & Production ICB • Integrated Oil & Gas • Oil: Crude Producers • Offshore Drilling and Other Services • Oil Equipment and Services	Any exposure	
	Companies that have their primary business activity in one of the named subsectors above and are not classified under either GICS or ICB.	>50% or more Revenue	
Coal	Companies which are actively involved in the exploration and extraction or burning of thermal coal.	>10% Revenue	Regulatory environment New Zealand government fossil fuel exclusions for Default KiwiSaver Providers; and Expected impact on the risk and return of BNZ’s investment products due to changes associated with the transition to a low-emissions economy.
	Companies that own proved or probable reserves in thermal coal.	Any exposure	
	Companies that have their primary business activity in the following subsectors as defined by GICS or ICB. GICS • Coal & Consumable Fuels ICB • Coal	Any exposure	
	Companies that have their primary business activity in one of the named subsectors above and are not classified under GICS or ICB.	>50% or more Revenue	

For avoidance of doubt, no BNZ KiwiSaver Scheme Fund will invest, directly or indirectly (including through investment in index funds or other third-party managed funds), in any sectors or securities excluded by the policy.

