

Response - Foreign Affairs, Defence and Trade Committee re. ethical investing

What engagements, if any, did the NZ Super Fund have with the five Israeli banks prior to their divestment (other than informing them it was happening)?

While the Guardians prefers to engage with companies in the first instance, we only do so if we believe there is a realistic opportunity the company in question will modify the activity in question.

There is credible evidence that the excluded companies provide project finance for the construction of Israeli settlements in the Occupied Palestinian Territories, which is an integral aspect of settlement construction. We believe that without the banks' involvement, settlement activity would not be proceeding at the scale seen in recent times.

The banks have stated they believe their activity is legal and have continued financing settlement activity over a long period of time in the Occupied Palestinian Territories, in the face of international criticism. For instance, in 2016 the New Zealand Government co-sponsored a UN Security Council resolution demanding the cessation of Israeli settlement activities in the Occupied Palestinian Territories and in December 2020 the United Nations called for an immediate cessation of settlement activity.

Given the companies have been clear about their position, our judgement was that engagement would be ineffective. Engaging where we don't believe there is a prospect of change in corporate behaviour is a waste of taxpayer resources.

The Guardians did advise the banks of our divestment decision before making it public and invited them to advise if they have ceased providing funding for settlement expansion in the Occupied Palestinian Territories. To date we have received no response from the respective banks to that communication.

Should we receive information that shows the activity has ceased, then we would readmit the banks to the portfolio.

How many investments does the fund have with companies that are wholly or part owned by entities linked to Chinese government (local, state, national) security services? If so, what are these investments and what is the value of such investments?

Like many global investors, we use a global benchmark to gain our exposure to a diversified portfolio of global equities. In our case we use the MSCI All Country World Index, Investable Market Index (ACWI IMI). This index constitutes some 7,000+ companies.

In terms of companies that are wholly owned by entities linked to Chinese government security services or the PLA, we have no holdings by definition, as they are wholly owned. In terms of partially owned or subsidiary companies, we are not aware of any investment data services providers with the capability to systematically query share registries for exposure to the Chinese security services or the PLA at a portfolio level. We are also unaware of any investment data services that track company contractual linkages to these entities. In order to fulfil the Committee's specific

request, we would need to individually research the ownership and business linkages for each of the ~7,000 companies we are exposed to. For example, we cannot know whether any such entities linked with Chinese Security Services or the PLA own any shares in NZX-listed entities in which we own shares and we are not confident that the companies themselves would be able to provide that information.

The State-owned Assets Supervision and Administration Commission of the State Council (SASAC) is a special commission of the People's Republic of China responsible for managing state-owned enterprises (SOEs). SASAC provides a general list of SOEs (although it does not publicly list subsidiary entities).¹ Whilst it is likely that a number of companies from around the world are linked to the Chinese security services and/or People's Liberation Army in one way or another - through shared listed ownership by the Chinese state, or by supply and/or contractual arrangements – comprehensive information on the nature of that linkage is not available.

The Guardians discloses its full portfolio list (including country of origin) on an annual basis [here](#).

Periodically, lists of companies are produced by various entities for reasons such as focusing attention on their actions or (if done by states) restricting engagement with the company. For example, the US Commerce Department produces a list of Chinese companies it considers are involved in human rights abuses, as well as companies it sees as military competitors and wishes to restrict technology transfers with. Companies on the list are required to apply for licenses from the Commerce Department to trade in the US and face extra scrutiny when seeking permission to receive items from US suppliers. These lists help inform research focus areas, engagement and exclusion activities for investors.

As discussed during our appearance, the Guardians has processes and information services agreements in place to help investigate the conduct of individual companies in the portfolio. When considering a specific company/holding, we focus on the proximity and importance of the company's actions to any illegal or unethical activity. When potential issues with specific companies or areas of concern arise, part of our diligence process may include examining ownership arrangements or contractual relationships of individual entities we are exposed to, based on best available information.

Where breaches (e.g. human rights, environmental standards, corrupt practice, etc.) are directly caused by the company, the course of action is typically clearer than where the breach is committed by a customer, supplier or ownership entity. With trade sanctions being relatively rare, companies can find it a challenge to avoid becoming linked to these activities if they are operating in, supplying to or buying from that country or state.

How many investments does the fund have with companies that are wholly or part owned by entities linked to the Chinese People's Liberation Army? If so, what are these investments and what is the value of such investments?

As above.

If the committee has additional questions or we can clarify any specifics or provide additional information, we are happy to do so.

¹ http://en.sasac.gov.cn/n_688_5.htm