Sustainable Investment Procedures

Ngā Tikanga Haumi Toitū

These Sustainable Investment Procedures set out the specific procedures used to implement the Sustainable Investment Policy.

Procedures Owner: Co-Chief Investment Officers

CEO Approval Date: 13 August 2026

Contents

1 Background

1.1 These Procedures set out the specific procedures used to implement the *Sustainable Investment Policy* (the **Policy**).

2 Definitions

2.1 In these Procedures:

CEO means the Guardians' Chief Executive Officer.

Co-CIOs means the Guardians' Co-Chief Investment Officers.

Direct and material involvement means where we consider that:

- the investee company is causing (i.e. a direct connection between the actions or failure to act of the company and the impact) or contributing to (i.e. a substantial contribution, meaning an activity that causes, facilitates or incentivises another entity to cause the impact); and
- the investee company's involvement is ongoing (rather than historic).

ESG means environmental, social and governance considerations. ESG is an expansive concept, and covers matters including climate change, environmental damage, human rights, health and safety, labour standards, bribery and corruption, business ethics and corporate governance. Some matters, including climate change and human rights, may be relevant across more than one ESG category.

ESG priority issues means the thematic ESG focus issues determined by the Head of SI to help prioritise monitoring, research, engagement and escalation. ESG priority issues are selected based on the Head of SI's assessment of ongoing issues of international focus with regards to responsible business practice. These are currently:

- severe environmental damage;
- climate change;
- human rights (including health and safety); and
- bribery and corruption.

Exclusion List means a list of corporate or sovereign issuers excluded from the investment universe of the Fund's segregated listed and other relevant portfolios pursuant to product, practice or sovereign securities exclusions.

Global Focus List means the list of securities prepared in accordance with section 5and 6 of these Procedures. The key purpose of the Global Focus List is to prioritise and track specific ESG issues of concern for investee companies. Where engagement is being implemented, the list tracks progress.

Head of SI means the Guardians' Head of Sustainable Investment.

Internationally accepted guidelines for good corporate practice means (as relevant to the issue):

- the UN Global Compact;
- the UN Guiding Principles on Business and Human Rights;

- other standards or guidelines for relevant specific or sectoral ESG issues as determined to be relevant by the Head of SI.

Relevant Peers means the relevant peer funds that the SI Team tracks for the purposes of these Procedures, being institutional investors, as determined by the Head of SI from time to time, that:

- have a global investment portfolio;
- operate under a commercial investment mandate; and
- are recognised as demonstrating best practice in sustainable or responsible investing and the management of ESG risks and impacts.

Severe ESG Impacts means the ESG impact attributable to the investee company involvement is severe having regard to:

- the nature and gravity of the impact;
- the scope of the impact; and
- whether the impact is reversible or not.

SI Team means the Guardians' Sustainable Investment Team.

Sustainable investment manager rating means a rating given under our internal framework for assessing the sustainable investment performance of external managers, using available ESG data and in-house scoring to understand a manager's sustainable investment capability across its organisation, investment process and portfolio, and to improve, monitor and report on manager progress over time. Sustainable investment ratings can also be provided for **direct investments** under relevant scoring elements of this framework.

2.2 To further aid with interpretation of these Procedures we have **Glossary of Terms**, which defines all investment and technical terms used in our policies and procedures. In this procedure the first instance of any such defined term is highlighted in **bold**. References to other documents are *italicised*.

2.3 When we refer to "we" / "our" / "us" in these Procedures we mean the Guardians of New Zealand Superannuation.

3 Overview

Roles, authorities and responsibilities

3.1 Our Sustainable Investment Team (**SI Team**), led by our Head of Sustainable Investment (**Head of SI**), is primarily responsible for implementing the procedures in this document.

3.2 There are certain delegated authorities granted to the Head of SI and other Guardians' Management to give effect to these Procedures, in line with our *Delegations Policy*. The delegations and reporting conditions attached to them are fully recorded in a delegations register.

3.3 Schedule 1 to these Procedures summarises certain Management responsibilities and delegated authorities under the Policy and these Procedures.

3.4 These Procedures are reviewed at least annually. Changes to these Procedures may be approved by the Chief Executive Officer (**CEO**).

Judgement required

3.5 Decisions under the Procedures often involve structured evaluation of a wide range of complex materials spanning a range of topics (including factual, official, opinion material and guidelines that can be open-textured) and assessment of potential impacts and effects of different courses of sustainable investment action. Accordingly, decisions can require careful evaluation of the specific context, balancing and expert judgement.

3.6 These Procedures are designed to ensure that we are in compliance with our statutory mandate. In particular, we must invest the Fund on a prudent, commercial basis, and manage and administer the Fund in a manner consistent with: best-practice portfolio management; maximising return without undue risk to the Fund as a whole; and avoiding prejudice to New Zealand's reputation as a responsible member of the world community. However, we recognise the possibility of exceptional circumstances arising which are not contemplated by these Procedures. To address this possibility, the Co-Chief Investment Officers (**Co-CIOs**), on the recommendation of the Head of SI, may approve an action not specifically provided for under these Procedures, in order to give effect to our statutory mandate. For example, this may involve escalating a matter more rapidly than provided for under these Procedures or considering an investee company for engagement or practice exclusion that is not on the **Global Focus List**.

4 Integration

Policy Statement (Section 4.5):

We will integrate sustainability considerations into our investment decisions and decision-making processes, including:

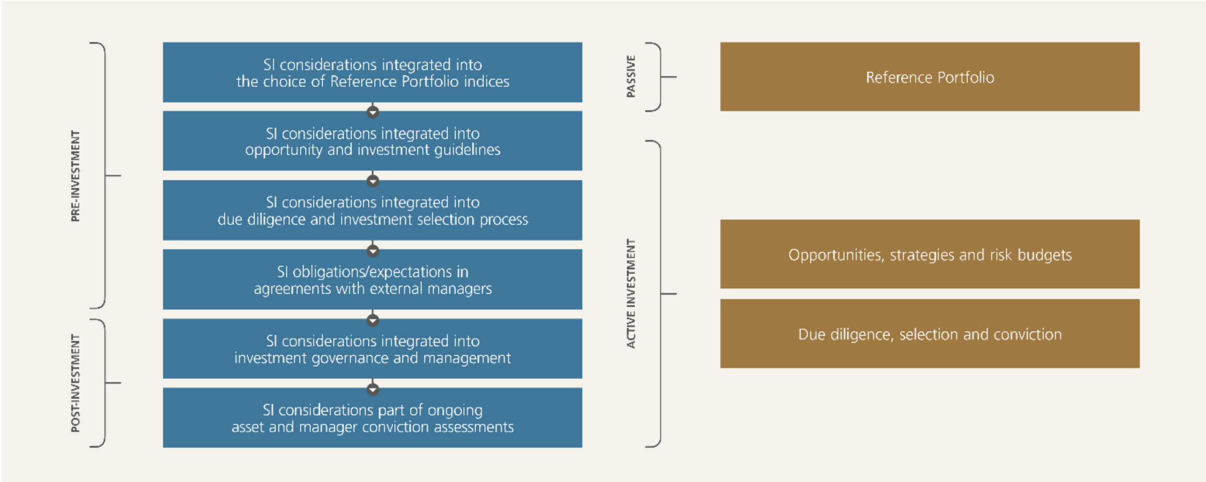
i. *allocation, selection and post-investment management; and*

ii. *seeking investments that deliver positive social and environmental impacts, including climate change solutions, in addition to the expected risk-adjusted returns.*

The asset classes this procedure applies to

4.1 This procedure applies to the Fund as a whole, with differences reflecting the nature and context of different asset classes.

4.2 The diagram below summarises our integration procedures:



<u>How we implement integration</u>

Reference Portfolio index selection

4.3 We build sustainability considerations into the **Reference Portfolio** by adopting certain indices for our passive listed equities and corporate bonds portfolios. The Board has approved a Reference Portfolio designed to address climate change and in addition to have improved **ESG** characteristics. (See our website or *Portfolio Design Policy* for further detail on the Reference Portfolio.)

4.4 The indices selected for the Reference Portfolio are designed to have lower carbon emissions over time, aligning with a net zero pathway, and to have improved ESG characteristics. Certain companies are ineligible for inclusion within the indices on the basis of their ESG or controversy ratings. These indices significantly improve the overall ESG profile of our listed equities portfolio and comprise fewer constituent companies. Having a smaller, more focused listed portfolio that is filtered for ESG performance allows us to monitor holdings and engage with investee companies more efficiently, and reduces the need for us to make individual exclusion decisions.

4.5 The selection of the Reference Portfolio indices is approved by the Board in accordance with the *Portfolio Design Policy*. The relevant indices for investee companies are currently as follows:

Portfolio	Benchmark	Index provider eligibility criteria applying to Reference Portfolio indices
Reference Portfolio – Passive Global Equities	MSCI World Climate Paris Aligned Index and MSCI EM Climate Paris Aligned Index	Companies that have red flags for controversies (indicating an ongoing, Very Severe controversy implicating a company directly through its actions, products or operations) or an orange flag for severe environmental controversies in the MSCI ESG Manager database or that fall within a range of MSCI controversial weapons, tobacco and carbon/climate

		exclusions are not eligible for inclusion in the index.[1]
Reference Portfolio – Passive Corporate Fixed Income	Bloomberg MSCI Global Corporate Paris-Aligned Select Index	Companies that have an ESG rating of CCC or NR (non-rated), have red flags for controversies (indicating an ongoing, Very Severe controversy implicating a company directly through its actions, products or operations) or an orange flag for severe environmental controversies in the MSCI ESG Manager database or that fall within a range of MSCI controversial weapons, tobacco and carbon/climate exclusions are not eligible for inclusion in the index.[2]
Reference Portfolio – Passive Global Fixed Income	All other Segments: Subcomponents of Bloomberg Global Aggregate Total Return Index	Nil.
Reference Portfolio – New Zealand Equities	NZX 50 Gross Total Return Index	Nil.

Portfolio active opportunity selection

4.6 We integrate sustainability considerations into selection of active investment **opportunities** and the amount of risk allocated to them through our **risk budgeting framework**. Our opportunities rating methodology includes sustainability considerations and upweights certain active investment opportunities with stronger ESG performance. This methodology applies across all opportunities we actively invest in.

4.7 The procedure for identifying and executing opportunities to add value to our portfolio is set out in our *Investment Procedures*.

Due diligence for new investments

4.8 We integrate sustainability considerations into our due diligence of new investments by assessing the ESG risks and opportunities of new active investments. The SI Team works with other investment team members to deliver due diligence for new investments.

4.9 For externally managed investments (i.e. **CIVs** we invest in or **IMA Managers** we appoint to invest on our behalf), the SI Team will conduct due diligence on external managers prior to investment, including their sustainability or ESG policies, procedures, resources and capabilities.

[1] These terms are further defined on MSCI's publicly available index methodology.
[2] These terms are further defined on MSCI's publicly available index methodology.

4.10 **For Internal Investment Mandates (IIMs)** (i.e. where we invest in an opportunity internally) before establishing the IIM, the SI Team and relevant investment team members will conduct due diligence in respect of the sustainable investment risks relating to the opportunity and IIM.

4.11 For **direct investments**, the SI Team and relevant investment team members will conduct due diligence on the potential investee, including on key ESG risks and opportunities.

4.12 This pre-investment assessment contributes to an **Investment Screen** for potential new investments, which is ultimately provided to the decision-makers on the potential investment. The Investment Screen includes specific consideration of whether the investment/transaction creates a risk of prejudice to New Zealand's reputation as a responsible member of the world community**.**

4.13 Our new investment implementation framework is set out in our *Investment Procedures*.

Reflecting ESG in external manager agreements and IIMs

4.14 We seek to include sustainability-related or ESG-related obligations in our agreements with external managers. The nature of the obligation depends on the form and context of the particular investment and the ESG risks and opportunities identified in our due diligence. This may include obligations for the manager to adopt a sustainability or ESG policy, integrate ESG considerations within investment processes and/or to apply our product and/or practice exclusions to the extent they are relevant to the manager's investment mandate.

4.15 Our IIMs set out the authorised scope of products and investments we can invest in pursuant to the IIM and a range of controls, including provisions relating to exclusions. The procedure for setting the terms of our IIMs is set out in our *Investment Procedures*.

Conviction oversight and SI Rating of managers

4.16 The SI Team complete an annual sustainable investment assessment of managers with the investment team responsible for that manager relationship, providing a **sustainable investment manager rating** which is approved by the Head of SI. The review includes an assessment of the manager's approach and capability with respect to ESG matters using criteria approved by the Head of SI. Sustainable investment manager ratings are reported annually to the Board.

4.17 The investment team undertake an annual **conviction assessment** of external managers, which takes into account our sustainable investment manager rating.

4.18 If the overall **conviction** in the manager falls below a certain threshold level we may seek to engage with the manager to agree on improvement, exit the relevant investment or terminate the appointment of the manager.

4.19 The procedure for selecting, and monitoring our conviction in, our external managers is set out in our *Investment Procedures*.

Direct Investments

4.20 For direct investments we maintain direct relationships with the investee company to positively influence ESG performance, and will interact with their board and management on ESG issues arising with the business, as appropriate and relevant for our role as shareholder. We may also issue letters of expectation to our investee companies on ESG and other matters. Any such interactions will be in accordance with our *Investment Procedures*.

4.21 Where appropriate for the nature and context of the investment, we seek to include an obligation in shareholders' agreements we enter into for direct investments addressing ESG objectives. For example, these can require the board of the investee company to use reasonable endeavours to conduct the company according to high standards of corporate governance and best-practice principles for the management of ESG factors.

Impact investment

4.22 We seek to make impact investments that provide measurable positive social or environmental outcomes in addition to the Fund's expected risk-adjusted returns.

4.23 The procedure for making impact investments is set out in our publicly available *Impact Investment Framework*.

5 Monitoring

Policy Statement (sections 4.6 and 4.7):

We will prioritise certain ESG issues for focusing our sustainable investment activities given the scale of the Fund.

We will maintain procedures for monitoring our segregated listed securities portfolios for potential ESG concerns (including by reference to internationally accepted guidelines for good corporate practice) and for prioritising and analysing such concerns to inform further actions.

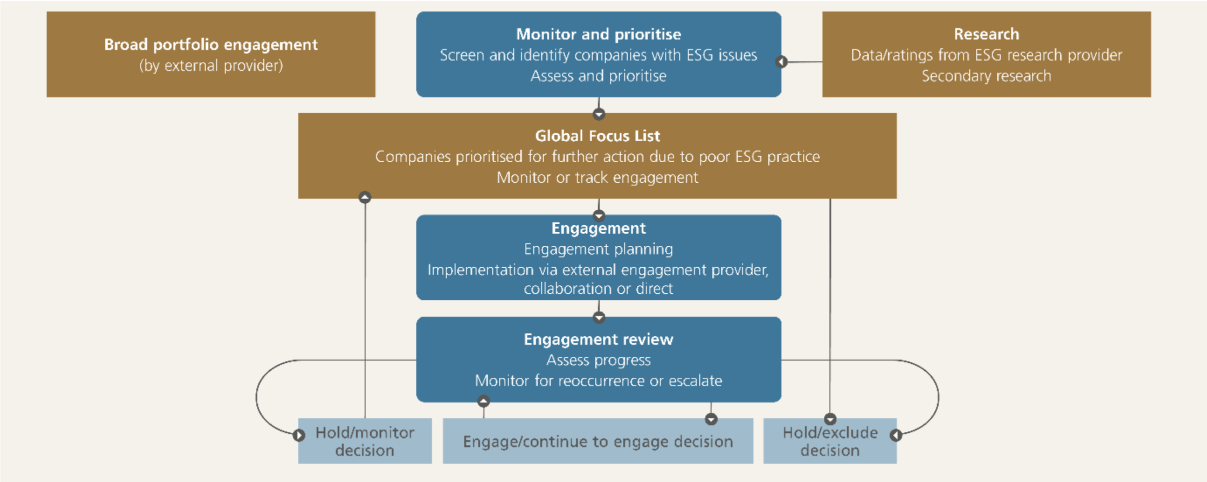
The asset classes this procedure applies to

5.1 This procedure applies to our segregated listed securities portfolios which account for the majority of our assets under management.

5.2 Given the scale of our segregated listed securities portfolios, we use specialist screening services to help identify and prioritise ESG issues within those portfolios.

5.3 We have other systems for monitoring ESG issues arising in respect of other asset classes. These vary depending on the nature and context of the asset class and particular investment but can include obligations for external managers to report on ESG incidents or for no surprises and other reporting obligations within the governing documents for our direct investments.

5.4 The diagram below summarises our monitoring, engagement and exclusion processes:



Overview of how we monitor our listed securities

5.5 This procedure identifies companies where there is credible evidence that the investee company has had **direct and material involvement** in **severe ESG impacts** and prioritises certain companies for consideration of further action(s).

5.6 We use external ESG research providers to screen investee companies for poor ESG practices. The SI Team supplements this screening with other selected sources of information in certain circumstances.

5.7 The SI Team also monitors the actions taken by **Relevant Peers** on companies with which there are concerns over the company's ESG practices.

5.8 We undertake research and analysis on companies to respond to specific event-driven issues.

5.9 Investee companies identified using the monitoring procedure are assessed for addition to the Global Focus List.

5.10 The purpose of the Global Focus List is to provide a list of investee companies that are considered for engagement (see further below) and, in rare cases, exclusion.

5.11 In our sustainable investment activities we consider certain **ESG priority issues.** These are currently:

i. severe environmental damage;

ii. climate change;

iii. human rights (including health and safety); and

iv. bribery and corruption.

5.12 The SI Team undertakes portfolio monitoring on a six-monthly basis and will respond to event-driven issues as they arise, applying the steps detailed further below.

How we identify companies with poor ESG practices

5.13 The SI Team monitors the portfolio to identify investee companies for inclusion on the Global Focus List in two main ways:

a. Through ratings given to the investee companies by external ESG research providers.

b. Carrying out additional research and analysis of investee companies in certain circumstances (described in paragraph 5.19 below).

5.14 Each of these are explained further below.

Ratings from portfolio monitoring services

5.15 Portfolio monitoring services provided by external ESG research providers give us wide coverage of investee companies in our portfolio. The external ESG research providers are appointed in line with our *Delegations Policy* and *Procurement Policy*.

5.16 Our approved portfolio monitoring services are provided by MSCI's ESG Manager, using MSCI's ESG Ratings Methodology and Controversies and Global Norms Screening Methodology.

5.17 Investee companies that receive a Red Controversy Flag or an Orange Controversy Flag on an ESG priority issue using MSCI's Controversies and Global Norms Methodology, are considered by the SI Team for inclusion on the Global Focus List.

5.18 For reference, the MSCI Controversies and Global Norms Methodology assesses company practices for potential inconsistency with the OECD Guidelines for Multinational Enterprises, UN Global Compact, ILO Fundamental Conventions and ILO Declaration on Fundamental Principles and Rights at Work, and the UN Guiding Principles on Business and Human Rights.

Secondary research and analysis

5.19 To supplement our monitoring from our external provider the SI Team carries out additional research and analysis of an investee company:

a. that certain information sources indicate may have a direct and material involvement in certain high-risk contexts;

b. that is the subject of observation or exclusion actions by Relevant Peers;

c. where credible evidence comes to our attention that:

   i. the investee company may have a direct and material involvement in event-driven issues, being a recent major incident of environmental damage or severe human rights abuse; and / or

   ii. suggests a strong possibility that the grounds to engage or exclude could be met and further investigation is warranted via the Global Focus List.

5.20 Companies identified through this process are also considered for addition to the Global Focus List.

5.21 For the above purposes, the high-risk contexts we prioritise and the information sources we use in respect of them are identified by the SI Team and approved by the Head of SI. In selecting these information sources we consider the credibility of the information and the resources available to us. The high-risk contexts will be areas assessed by the Head of SI to involve a higher level of ESG risk because of the potential severity involved where additional oversight is required, including conflict zones, but are not intended necessarily to cover all areas carrying a higher level of risk.

How we prioritise investee companies for the Global Focus List

5.22 The SI Team maintains a Global Focus List of companies that it considers for further action(s).

5.23 The SI Team assesses investee companies for addition to the Global Focus List if they have a MSCI Red Controversy Flag or Orange Controversy Flag (using MSCI's Controversies and Global Norms Methodology) due to potential direct involvement in very severe or severe controversies within our ESG priority issues.

5.24 The SI Team also assesses companies for addition to the Global Focus List where they have been identified through secondary research processes for potential direct and material involvement in severe ESG impacts within ESG priority issues.

5.25 As part of its assessment the SI Team reviews supplementary research on investee companies' ESG policies and practices for the relevant ESG priority issue, primarily but not limited to research provided by our ESG research providers. The SI Team’s research adopts the core elements used in MSCI’s framework, to consider the severity of the social or environmental impact, the role of the company and the status of the issue of concern.

5.26 Investee companies will be added to the Global Focus List if the SI Team determines through its assessment that there is credible evidence that the investee company has had direct and material involvement in severe ESG impacts within ESG priority issues in breach of internationally accepted guidelines for good corporate practice.

Maintaining the Global Focus List

5.27 The Global Focus List is reviewed and updated by the SI Team at least six-monthly.

5.28 The Global Focus List is also updated by the SI Team based on the outcomes of engagement and exclusion procedures.

5.29 A company will remain on the Global Focus List for 12 months following conclusion of engagement to monitor for reoccurrence of the issue of concern, before being removed. Companies may remain on the Global Focus List following a decision to hold the company and monitor for improvement or deterioration in the situation.

5.30 The Head of SI has delegated authority to approve the addition or removal of an investee company from the Global Focus List.

6 Engagement

Policy Statement (Section 4.8):

We will seek to improve poor ESG practices through engagement and voting and will maintain procedures to engage with companies.

We will reference internationally accepted guidelines for good corporate practice in our engagement programme, including the UN Global Compact and the UN Guiding Principles on Business and Human Rights.

The asset classes this procedure applies to

6.1 This procedure applies to our segregated listed securities portfolios (listed equities and fixed income).

6.2 Engagement is predominantly relevant to our segregated listed investments, in which we hold shares and corporate bonds directly, and which are liquid, and widely held. We address ESG risks in private markets investments primarily through our integration procedures.

6.3 Additionally, we may participate in collaborative engagements with companies in which we do not have holdings to improve ESG performance, achieve sustainability outcomes in the wider market and to amplify investor influence on ESG matters.

6.4 We may determine during this engagement procedure that the investee company should continue to be held and monitored on the Global Focus List or be escalated to our practice exclusion procedure.

How we Engage

6.5 We conduct engagement in four ways:

a. through our global engagement provider;

b. in collaboration with other Crown financial institutions;

c. in collaboration with other international asset owners and institutional investors; and

d. direct engagement with investee companies.

6.6 The Head of SI approves an external engagement provider to carry out engagement with investee companies on our behalf. The external engagement provider conducts the main engagement coverage across our listed equity and corporate bond portfolios, and in doing so considerably expands our resources and provides expertise. We conduct engagement with companies on our Global Focus List as much as possible through our external engagement provider.

6.7 As at the date of this document, we have engaged Columbia Threadneedle Investment's Responsible Engagement Overlay service (**CTI reo®**) as our external engagement provider.

6.8 CTI reo®'s engagement approach is informed by global norms, including:

a. OECD Guidelines for Multinational Enterprises;

b. UN Global Compact;

c. ILO Core Conventions; and

    d. UN Guiding Principles on Business and Human Rights.

6.9 We also take part in our external engagement provider's annual client consultation, which it uses to develop and implement its annual engagement plan and to inform its thematic engagement priorities.

6.10 Every quarter our Operations Team sends our external engagement provider a list of the listed equities and corporate bonds that we hold. The SI Team is able to access CTI reo®'s engagement data platform containing information on all engagements undertaken. We also receive reports on a quarterly and annual basis that detail the engagements conducted with companies in our portfolio. Summary reports are published each quarter on our website. The SI Team also meet with the external engagement provider on a quarterly basis to discuss engagement activity, including a focus on companies in the Global Focus List.

Collaborative engagement

6.11 Collaborative engagement is where we join with other investors to engage with companies or policy makers on a particular issue.

6.12 Our external engagement provider takes part in collaborative engagement initiatives and does so on our behalf as part of its wider client pool.

6.13 Joining collaborative engagement initiatives with international asset owners and institutional investors are approved by the Head of SI.

6.14 The use of our name in any public collaborative engagements requires approval from the CEO on recommendation from the Head of Communications and the Head of SI.

Direct engagement

6.15 Where an investee company on the Global Focus List is not included in our external engagement provider's engagement programme in respect of the issue of concern, we may engage directly with that investee company.

6.16 When deciding whether to engage directly with a company, the SI Team will conduct further research into the company and will consider:

a. whether we can participate in collaborative engagements in respect of the activity of concern;

b. whether engagement efforts are already underway by other investors with the same company and related to the same activity of concern, so as not to duplicate efforts;

c. the likelihood that the company can and will respond to engagement;

d. the investee company's ESG policies and practices on the relevant ESG priority issue; and

e. whether engagement is an efficient use of our resources relative to the expected impact.

6.17 Instead of direct engagement, we may determine from further research that the investee company should continue to be held and monitored on the Global Focus List or be escalated to our practice exclusion procedure.

6.18 If we decide to directly engage the SI Team will develop an engagement plan for the company that:

a. draws on relevant internationally accepted guidelines for good corporate practice;

b. includes a specific objective for the engagement and milestones for progress; and

c. includes specific engagement actions and potential escalation options.

6.19 Direct engagement actions taken by the SI Team may include:

a. making specific requests for improvement through correspondence and / or meeting with investee companies; and

b. exercising shareholder rights such as voting.

6.20 Direct engagement plans are approved by the Head of SI. Direct engagement is conducted by the SI Team, in some cases with support from our other investment teams or managers.

How we track the progress of engagement

6.21 The SI Team tracks the progress of engagements through:

a. the Global Focus List;

b. our external engagement provider's client portal, quarterly reports and updates on specific companies (as requested);

c. engagement reports from membership bodies or initiatives; and

d. internal six-monthly reports on engagements.

6.22 To help us determine whether an investee company on the Global Focus List has made progress to resolve the issue in cases where we directly engage with them, the SI Team will consider:

a. ratings from our ESG research provider;

b. any response from the company; and

c. additional official or other credible information sources such as regulatory information, company communications, and other disclosures.

The outcomes of company engagement

6.23 The engagement will end and the company will remain on the Global Focus List for a further 12 months to monitor for re-occurrence, when:

a. the issue we engaged with it on is resolved; or

b. material progress has been made to resolve the issue we engaged with it on, which requires:

i. a change in rating from our external engagement provider and / or our portfolio monitoring service; and / or

ii. credible evidence of the company materially improving the relevant practice.

6.24 If the issue has not been resolved and no material progress has been made, the Head of SI will determine whether we:

a. escalate engagement; or

b. progress to a hold (continue to monitor and vote); or

c. progress to a hold or exclude decision (see section 7).

6.25 To determine whether we will escalate engagement or progress to a hold or exclude decision we consider:

a. the investee company's engagement history (whether the company has previously been responsive and / or receptive to change);

b. the likelihood that further engagement will encourage the company to resolve or make material progress to resolve the issue we engaged with them on; and

c. whether engagement escalation is an efficient use of our resources relative to the expected impact.

6.26 Engagement escalations may include:

a. collaboration with other shareholders;

b. proxy voting;

c. filing or supporting shareholder resolutions; and / or

d. in certain circumstances, making or joining a public statement in respect of an issue or engagement.

6.27 Engagements with companies will typically be conducted in confidence, as free and frank exchanges of information are critical in order for engagement to be effective.

6.28 Escalations require approval from the Head of SI.

Policy engagement on sustainable investment

6.29 Policy engagement is part of our sustainable finance approach. It is a procedure by which investors actively seek to provide input to regulation and market standards to support a more sustainable financial system and good shareholder and corporate governance, including shareholder rights. In engaging on New Zealand public policy issues we adhere to strict political neutrality.

6.30 We may conduct policy engagement on sustainable investment matters where it is relevant for institutional investors, it is addressing one of our ESG priority issues, the policy is likely to play an important role with regards to the issue, it is likely to be impactful; and it is a good use of our resource.

6.31 Policy engagement actions can include:

a. responding to a public consultation;

b. participating or providing feedback to an industry working group;

c. undertaking collaborative policy engagement; and / or

d. providing technical input via Government or standard-setting working groups.

6.32 Policy engagements in respect of sustainable investment matters require approval by the Head of SI . The use of our name in public Policy Engagements and responding to public consultations also requires approval by the Head of Communications.

7 Exclusion

Policy Statement (Section 4.10):

We will maintain procedures for considering the exclusion of companies from investment by the Fund where they are involved in certain products/activities (product exclusions) or based on a company's poor ESG practices (practice exclusions). Product exclusions will require approval of the Board, on recommendation of the Co-Chief Investment Officers, following the endorsement of the Investment Committee.

We will exclude investment in the government bonds of any nation state where there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government.

The Board may approve the divestment and exclusion of other categories of investments, on recommendation of the Co-Chief Investment Officers, following the endorsement of the Investment Committee.

The asset classes this procedure applies to

7.1 Exclusion is applied in two ways depending on the asset class and investment vehicle:

a. where we hold securities directly we divest and/or exclude these companies based on our Exclusion List;

b. where we are investing through a CIV, we do not have direct holdings in the portfolio entities owned by CIVs but instead hold an interest in the CIV itself. However, we endeavour to include the categories of exclusions in our agreements with the external manager of the CIV to the extent this is feasible and relevant to the CIV's investment strategy. CIVs have other investors in them, and it is not always possible for us to negotiate to include our sustainable investment exclusions. Where that is the case this is reflected in our **access point** selection and pre-investment assessment (refer to paragraphs 4.8 to 4.13).

7.2 This procedure applies to:

a. listed global equities;

b. listed corporate bonds;

c. sovereign and sub-sovereign securities;

d. unlisted CIV investments;

e. unlisted corporate bonds;

f. single name derivatives;

g. private credit; and

h. direct private markets assets.

7.3 This procedure does not apply to our index derivative exposures. Some of our derivatives track country or global share or bond market indices, which can give us an economic exposure to companies in the index, including excluded securities. When we invest through a derivative we do not own the underlying shares or bonds, so we hold no securities issued by excluded companies, receive no dividends, and have no voting rights. For derivative exposures no funds flow from us to the companies concerned.

How we make exclusion decisions

7.4 We exclude companies or securities from our portfolio in three main ways:

a. product exclusions;

b. poor ESG practice exclusions; and

c. Sovereign bond issuer exclusions.

7.5 We are also required to comply with sanctions issued under New Zealand law.

Product exclusions

7.6 We apply product exclusions to our portfolio to exclude companies that produce certain products and / or participate in certain categories of activities as set out below.

7.7 Product exclusions are approved by the Board on the recommendation of the Co-CIOs, following endorsement of the Investment Committee.

7.8 We may apply product exclusions where we consider that each of the following requirements are met based on information available to us:

a. **The concern is product-based, not primarily practice-based:** The ESG concern can be framed by reference to a type of product, product-related activity or sector that can be clearly scoped and defined (rather than the particular practices of an investee company).

b. **There is a clear New Zealand public-policy anchor:** The relevant product/activity to which the ESG concern relates is restricted, prohibited or materially inconsistent with one or more of:

i. New Zealand law;

ii. international conventions New Zealand has signed; and / or

iii. significant Crown actions or policy positions; and

c. **International censure against the industry/activity:** There:

i. are broad international actions against the product, product-related activity or sector; and / or

ii. is an established pattern of exclusion among Relevant Peers.

7.9 In addition, we may consider a product exclusion where there is some other special circumstance which, in the context of the particular concern and in our expert judgement, justifies further consideration of a product exclusion, including avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

7.10 **Mandate considerations**: If the requirements in either paragraph 7.8 or 7.9 are met, we then consider whether a product exclusion is consistent with our statutory mandate as a whole. This involves assessing the considerations in paragraph 7.8 or 7.9 above as well as the portfolio management and financial impacts of the product exclusion, including (as relevant) impact on:

a. sector and / or country concentration (measured in terms of capital or risk);

b. tracking error relative to benchmark (measured as standard deviation of portfolio returns relative to Reference Portfolio returns);

c. risk-adjusted return of the portfolio;

d. cost of implementing the portfolio;

e. our ability to satisfy portfolio constraints; and

f. potential negative systematic impacts from precedent.

7.11 Product exclusions we have previously decided to apply to the portfolio are summarised below. Securities identified as falling within those exclusions are recorded in our Exclusion List which is updated and published on our website on an at least six-monthly basis.

Product category	Exclusion description summary
Cluster Munitions	Involved in development or production of cluster munitions or key cluster munitions components.
Nuclear Explosive Devices (NEDs)	A. Nuclear Explosive Devices: i. Manufacture and testing of nuclear explosive devices; ii. Simulated testing of nuclear explosive devices. B. Nuclear bases: operation or management of military bases where nuclear weapons are deployed, maintained, refitted, stored or developed.
Anti-Personnel Mines	Involved in the manufacture or production of anti-personnel mines.
Tobacco	Tobacco manufacturing, development and brand activities as a core part of the business.
Whaling	Conducting whaling or the processing of whale meat.
Cannabis (recreational use/ unlicensed medicinal use)	Companies that:

Product category	Exclusion description summary
	i. cultivate or manufacture cannabis plants or cannabis products for recreational use; ii. supply cannabis plants or cannabis products for recreational use - as their main business; iii. provide support services for the recreational use of cannabis - as their main business; or iv. cultivate, manufacture or supply cannabis plants or cannabis products for medical, scientific or industrial purposes without appropriate licence or authorisation.
Civilian automatic and semi-automatic firearms	The manufacture of civilian automatic and semi-automatic firearms, magazines or (critical) parts prohibited under New Zealand law. Under the NZ Arms Act 1983, these are: A. Prohibited Firearms B. Prohibited Magazines C. Prohibited Part and D. Prohibited Ammunition (Implementation in this category is on best efforts based on screening provider categorisation)

7.12 We use external providers to identify and screen companies that product exclusions apply to. The Head of SI has delegated authority to compile the list of excluded companies in order to implement the product exclusions approved by the Board.

Poor ESG practice exclusions

7.13 Poor ESG practice exclusions are a discretionary escalation tool and are generally rare within our broader sustainable investment approach. Investor best practice guidance recognises that exclusion does not necessarily follow from unsuccessful engagement and may not be the right outcome in any given circumstance, for example because continuing to hold may preserve investor voice.

7.14 Where an investee company has not responded to engagement, has made insufficient progress or engagement is considered likely to have limited effectiveness, we will decide whether to continue to hold (and monitor) the investment or exclude the investment from the portfolio.

7.15 We exclude investee companies because of their practices under the following procedure.

<u>ESG practice assessment</u>

7.16 We first assess if the basis for including the company on the Global Focus List continues to apply – i.e. there is still credible evidence that the investee company has direct and material involvement in severe ESG impacts within ESG priority issues in breach of internationally accepted guidelines for good corporate practice.

7.17 We also consider whether continuing to hold the company that is the subject of the ESG practice assessment is consistent with our statutory mandate including avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

Determining the appropriate action

7.18 If either the requirement in paragraph 7.16 is met, or the requirement in paragraph 7.17 is not met, we then undertake a structured assessment to identify whether in the particular context the appropriate course of action is to:

a. exclude;

b. hold and engage (including escalation); or

c. hold and monitor (including continuing voting).

7.19 In making this assessment, we consider:

a. the feasibility of any further engagement, including:

i. the likelihood that engagement will lead to the company mitigating, remediating or preventing recurrence or making progress to do so;

ii. whether there are other investors, regulators or collaborative initiatives already engaging in respect of the same matter, such that continued holding with stewardship oversight is the better outcome;

iii. the investee company's ESG policies and practices for the relevant ESG priority issue; and

iv. whether engagement is an efficient use of our resources relative to the expected impact; and

b. whether the exclusion is consistent with our statutory mandate. This involves considering:

i. ***Best practice portfolio management***: Whether the practice exclusion would be consistent with best-practice portfolio management.

ii. ***Maximising returns without undue risk to the Fund as a whole***: The financial impact of exclusion on our statutory mandate, including (as relevant) impact on:

1. sector and/or country concentration (measured in terms of capital or risk);

2. tracking error relative to benchmark (measured as standard deviation of portfolio returns relative to Reference Portfolio returns);

3. risk-adjusted return of the portfolio;

4. cost of implementing the portfolio;

5. our ability to satisfy portfolio constraints; and

6. potential negative systematic impacts from precedent.

iii. ***Avoiding prejudice to New Zealand's reputation as a responsible member of the world community***: Whether continuing to (as applicable) hold and engage or hold and monitor investments in the company would risk prejudicing New Zealand's reputation as a responsible member of the world community, and the extent of that risk, which we assess in a practice exclusion context through considering:

1. the extent to which there are significant legal sanctions or similar legal measures by States in relation to the company's activities of concern (for example, sanctions designations, asset freezes, dealing prohibitions, trade, import, export or service restrictions, licence suspensions or revocations or significant regulatory orders);
2. the extent to which there have been other significant broad international censures, or coordinated actions by States, in relation to the company's activities on the relevant issue of concern;
3. whether there is an established pattern of exclusion among Relevant Peers; and
4. any other matters we consider, in our expert judgement, to be relevant in the context of the particular issue.

7.20 If we consider there is not a sufficient basis to exclude the investee company or it is not the appropriate action at that time we will continue to hold the company and monitor it on the Global Focus List. We may revisit and reassess this decision in light of any new information or developments.

7.21 The Co-CIOs have sub-delegated authority from the Board to make practice exclusion decisions on the recommendation of the Investment Committee. The Investment Committee's recommendation will take into account advice prepared by the SI Team and approved by the Head of SI. Practice-based exclusion decisions are reported to the Board. (The Board has approved poor ESG practice as a category of exclusions with Management having authority to make individual company exclusion decisions).

7.22 We will communicate the decision to exclude the investee company directly to the company.

7.23 Poor ESG practice exclusions are recorded on our Exclusion List which is updated and published on our website on a six-monthly basis. The Head of SI approves the Exclusion List for distribution and publication.

7.24 The Head of SI has authority to approve, on the advice of the SI Team, a decision to hold and engage or hold and monitor the investee company. The Head of SI has authority to refer the company for an exclusion or hold decision to the Investment Committee for consideration and recommendation to the Co-CIOs.

Sovereign bond issuer exclusions

7.25 The Fund invests in a range of sovereign securities.

7.26 Excluding sovereign securities of another State is a very significant step and qualitatively different to product exclusions or practice exclusions.

7.27 Our Sustainable Investment Policy provides that we exclude the government bonds of any nation state where there is widespread condemnation or sanctions by the international community and New Zealand has imposed meaningful diplomatic, economic or military sanctions aimed at that government.

7.28 We consider this a strong measure for avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

7.29 The Head of SI has delegated authority to determine the sovereign securities in which the Fund cannot be invested in line with this test.

How we monitor our portfolio for compliance with exclusions

7.30 We monitor our portfolio for compliance with Exclusion List daily through our global investment **Custodians**.

7.31 The relevant investment team for the asset class provides our internal and external managers our Exclusion List and notify them of any updates to the Exclusion List.

Sanctions

7.32 We are required to comply with sanctions imposed by New Zealand law, which includes sanctions imposed by the UN Security Council.

7.33 In practical terms, our listed portfolio also reflects sanctions imposed by a range of major States. This is because our custodian, investment managers and other financial markets intermediaries will themselves be required to implement those sanctions. Similarly, CIVs we invest in will be required to comply with sanction laws that apply to their investment activities.

8 Voting and protection of shareholder rights

Policy Statement (Section 4.9):

We will maintain procedures for the retention, exercise and delegation of our voting rights with the intent of improving corporate practices and protecting our rights as shareholders.

We will exercise our voting rights globally and domestically across the Fund's listed equities.

We will maintain a global voting policy guided by international Corporate Governance Codes and guidelines. For New Zealand listed companies we endorse the New Zealand Corporate Governance Guidelines *published by the New Zealand Corporate Governance Forum.*

Where we participate in securities lending, we will retain the right to recall shares to vote and the right to withhold shares from lending, in order to exercise our voting rights on those securities, including to address ESG issues.

The asset classes this procedure applies to

8.1 This procedure applies to all our segregated listed equities portfolios.

How we vote on listed equities

8.2 We vote our listed equities in accordance with our publicly available *Global Voting Policy & Guidelines* to maintain shareholder oversight over directors, boards and company policies.

8.3 Our *Global Voting Policy & Guidelines* reflect those of the International Corporate Governance Network and New Zealand Corporate Governance Forum, as well as the voting guidelines of our selected proxy voting agency, Institutional Shareholder Services (**ISS**). Such principles represent the essential elements of good governance, and include transparency, board alignment with shareholder interests, remuneration, business ethics, and protecting voting rights.

8.4 We have customised our *Global Voting Policy & Guidelines* by adopting the stronger ISS policies in relation to climate change, board governance, and ESG, including diversity, equity and inclusion. We exercise our voting through the ISS proxy voting platform. We retain the right to vote and can exercise our vote directly through the agency's voting platform.

8.5 While we will generally vote as set out in voting guidelines, in special circumstances we may respond to specific issues on a case-by-case basis.

8.6 Our internal and external New Zealand Listed Equity Managers make recommendations to the Head of Sustainable Investment on voting agenda items taking account of our *Global Voting Policy & Guidelines* and ISS recommendations. The Head of Sustainable Investment makes the final decision based on these recommendations, and submits the final vote to ensure all shares for each company are voted consistently.

8.7 We publish how we voted on a *Proxy Voting Dashboard* on our website.

8.8 Where we participate in securities lending, we retain the right to recall our shares to vote and the right to withhold shares from lending, in order to exercise our voting rights in those securities.

8.9 The SI Team maintains an *ESG Share Recall List* that will be sent to our proxy voting service provider each quarter in order to recall the relevant shares from our securities lending programme in order to vote our shares. The list comprises companies that are included on the Global Focus List or that have poor ESG ratings (CCC) in the MSCI ESG Manager platform. In addition, ISS adds companies with climate change-related items on the meeting agenda to the recall list.

How we vote on unlisted direct investments

8.10 Our voting rights for direct investments will vary depending on the nature of the investment, and will typically comprise appointment of directors and approval of certain decisions reserved to shareholders.

8.11 The **Lead Investment Professional** typically holds delegated authority in respect of voting decisions and will do so in line with our strategy for that investment.

How we participate in class actions

8.12 We may participate in class actions against investee companies on a case-by-case basis. The decision to participate involves a range of considerations dependent on the type of action (opt-in or opt-out). We automatically participate in opt-out class actions. For active opt-in class actions we take into account considerations, including:

a. whether the Fund suffered a loss/disadvantage and the materiality of the loss/disadvantage;

b. the severity of the issue or the conduct of the company;

c. the financial or adverse costs risks;

d. the jurisdiction of the investee company and the legal regime for shareholder actions in that jurisdiction; and

e. whether it is in the Fund's best interests to participate.

8.13 The General Counsel has delegated authority to approve the decision to participate in an opt-in class action. This authority is exercised in accordance with the requirements of the Guardians class action guidelines.

Schedule 1: Management Responsibilities and Delegated Authorities

Chief Executive will:	• approve amendments to these Procedures • approve the use of our name in collaborative engagements on the joint recommendation of the Head of Communications and Head of SI
Co-CIOs will:	• ensure the Sustainable Investment Policy is reviewed at least five yearly • ensure these Procedures are kept current and relevant to the activities being undertaken • make practice exclusion decisions on the recommendation of the Investment Committee • recommend product exclusions or new category exclusions for approval by the Board following endorsement by the Investment Committee • recommend emissions reduction targets to the Board • recommend the climate-related disclosures (CRD) to the Board and CEO • approve, on the recommendation of the Head of SI, an action not specifically provided for under these Procedures, in order to give effect to our statutory mandate • approve the annual PRI Assessment leadership statement – the Senior Leadership Accountability Report - for submission • receive reporting from the Head of SI on implementation of the Procedures, • receive the Sustainable Investment Annual Report from the Head of SI to approve prior to being submitted to the Board
Investment Committee	• endorse product or new category exclusions for Board approval, on recommendation from the Co-CIOs • recommend practice exclusion decisions to the Co-CIOs for approval • receive six-monthly SI reporting from the SI Team in collaboration with other teams on sustainable investment actions under these Procedures

Head of SI	**Reporting** • report to Co-CIOs on the implementation of these Procedures • manage and deliver 6-monthly SI reporting to Co-CIOs (and Investment Committee) and the Sustainable Investment Annual Report to the Board • manage Climate-Related Disclosure reporting to the Audit & Risk Committee and the Board • manage external SI reporting in coordination with and for approval by Head of Communications **Integration** • approve the criteria used for annual sustainable investment manager assessments • approve the annual sustainable investment manager ratings • oversee SI manager ratings and diligence input into investment screens, SI opportunity assessment input to Risk Budget review and SI input to opportunity investment strategies • review (jointly with the Head of Asset Allocation) the emissions reduction targets at least every 5 years and report to the Investment Committee and Board **Monitoring** • monitor the portfolio including priority issues, information sources, high-risk context focus, global focus list constituents, and Relevant Peers • determine the ESG priority issues • approve the high-risk contexts we prioritise and the information sources we use in respect of them as identified by the SI Team **Engagement** • approve all engagement matters in accordance with these Procedures, including with regard to engaging external providers, engagement plans and escalations and collaborative engagement initiatives • approve policy engagements in respect of sustainable investment matters • jointly approve responses to public consultations on sustainable investment matters with the Head of Communications

	• recommend (jointly with the Head of Communications) CEO approval for use of the Guardians' name in public collaborative engagements **Exclusion** • approve product and practice exclusion list for distribution and external publication • determine sovereign securities in which the Fund cannot be invested under Sovereign Exclusion test • compile the list of exclusions to implement product exclusions approved by the Board • approve, on the advice from the SI Team, decisions to hold and engage or hold and monitor investee companies • refer companies for exclusion or hold decisions to the Investment Committee for consideration and recommendation to the Co-CIOs • approve the addition or removal of an investee company from the Global Focus List **Voting** • decide voting policy for listed securities owned directly by the Fund • decide whether voting in accordance with the Sustainable Investment Policy should be undertaken by Guardians staff, an IMA manager or other person • provide a recommendation to the Co-CIOs for approval, an action not specifically provided for under these Procedures, in order to give effect to our statutory mandate

SI Team	• implement these Procedures, under the leadership of the Head of SI
	• provide SI due diligence input into Investment Screens in collaboration with relevant investment team members for potential new investments including t:
	  ○ due diligence on external managers prior to investment
	  ○ due diligence on potential direct investees
	  ○ due diligence for IIMs before establishment
	• complete annual sustainable investment assessments of managers in collaboration with relevant investment teams

	• undertake six-monthly portfolio monitoring and secondary research and analysis in line with these Procedures • review and update the Global Focus List at least six-monthly • coordinate with Engagement Provider on engagement activities • develop direct engagement plans for approved direct engagements • conduct direct engagement with investee companies • track engagement progress • prepare advice for the Head of SI on hold and engage and hold and monitor decisions • prepare advice for the Investment Committee on product and practice exclusion for recommendations/endorsements to the Co-CIOs • maintain the ESG Share Recall List and provide it to the proxy voting service provider each quarter
Relevant investment team for each manager relationship	• work with the SI Team to complete annual sustainable investment manager assessments / ratings • undertake annual conviction assessments of external managers • work with the SI Team on due diligence for new investments, including IIMs and direct investments • provide the Exclusion List to internal and external managers for the relevant asset class and notify them of updates to the Exclusion List
Operations Team	• send external engagement provider a quarterly list of listed securities and corporate bonds that we hold
General Counsel	• approve decisions to participate in opt-in class actions
Head of Asset Allocation	• review (jointly with the Head of SI) the emissions reduction targets at least every 5 years and report to the Investment Committee and Board

Head of Communications	• recommend (jointly with the Head of SI) CEO approval for use of the Guardians' name in public collaborative engagements • approve the use of our name in public policy engagements and responding to public consultations in respect of sustainable investment matters • approve external SI reporting, in coordination with the Head of SI