



# SUSTAINABLE INVESTMENT FRAMEWORK

22 JUNE 2023



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## 1 Introduction

**Section 61(d) – ethical investment, including policies, standards, or procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community**

**Section 61(i) – the retention, exercise or delegation of voting rights acquired through investments**

Our Act states that we must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- Best-practice portfolio management; and
- 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

Our policy, standards and procedures for sustainable investment are consistent with meeting this mandate and also address matters that are required by sections 61(d) and (i) of our Act.

Sustainable investment is understood internationally to include integrating environmental, social and governance (ESG) considerations, including climate change, into investment management. When we refer to the term "sustainable investment" we also see it as encompassing ethical investment as required under Section 61(d). Our own approach to sustainable investment is intended to be consistent with managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

This Sustainable Investment Framework also addresses aspects of 61(i) regarding the retention, exercise and delegation of voting rights.

One of our investment beliefs is that ESG considerations, including climate change, are fundamental to long-term risk and return.

We have a sustainable finance strategy with the goal of incorporating sustainability considerations into investment decision-making and supporting the development of a sustainable financial system within the context of our legislative purpose and mandate. It is reflected in our organisational purpose “sustainable investment delivering strong returns for all New Zealanders”. As a Crown entity we also apply the Crown Responsible Investment Framework.

Our Sustainable Investment Framework supports our Statement of Investment Policies Standards and Procedures, our sustainable finance strategy, our organisational purpose and application of the Crown Responsible Investment Framework.

We have developed our Sustainable Investment Framework to cover procedures and elements we consider in applying the judgement needed to implement our sustainable investment policy including meeting the obligations under section 58 (2), 61(d) and (i) of our Act.

Sustainable investment actions include investment integration, engagement, voting and exclusion from the Fund. We invest across a wide range of asset classes and regions. With such a breadth of investments we need to prioritise the issues and companies we focus on. There will be, from time to time, holdings in the Fund that need special consideration under this Sustainable Investment Framework including with respect to exclusion and engagement.

## 2 Policy

- 2.1 We are committed to integrating Sustainable Investment considerations into our investment decision making process.
- 2.2 We believe that applying Sustainable Investment best practice supports managing and administering the Fund in a manner consistent with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.
- 2.3 We are committed to developing and integrating a Sustainable Finance strategy in support of our Sustainable Finance goals within the context of our legislative purpose.
- 2.4 We will apply standards and procedures that focus on:
  - Meeting relevant obligations under our Act;
  - Our investment belief that "environmental, social and governance considerations including climate change are fundamental to long-term risk and return";
  - Supporting our Sustainable Finance goals including our climate change investment strategy;
  - Integrating environmental, social and governance considerations into our investment decisions and processes, including allocation, selection and post-investment management;
  - Effective engagement with the external investment managers and advisors we use and the companies we invest in;
  - Exercising our voting rights in investee companies;
  - Considering investments which deliver positive social and/or environmental impacts in addition to the required financial return;
  - Maintaining a robust analytical and decision making process in responding to investee companies breaching standards contained in this Sustainable Investment Framework including decisions to exclude or engage with companies; and
  - Benchmarking our performance against the UN-supported Principles for Responsible Investment (**PRI**) a globally accepted standard.

- 2.5 A policy statement relating to the constraint on investing in securities excluded by application of this Sustainable Investment Framework can be found in section 11 (Investment Constraints) of the Investment Risk Allocation Policy.
- 2.6 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.
- 2.7 From time to time we may participate in class actions against investee companies. The decision to participate involves a range of 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 cost versus benefit of pursuing the action, and (d) whether it is in the Fund's best interests to participate.
- 2.8 We have developed this Sustainable Investment Framework to cover procedures and factors that we consider in applying the judgement needed to implement our sustainable investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.

### **3 Standards**

- 3.1 We refer to international standards for guidance on best practice.
- 3.2 We are committed to PRI. The principles promote integration of ESG issues into investment analysis and asset ownership and supports the development of a sustainable financial system. We use the PRI, a globally recognised standard, for guidance on best practice in sustainable investment and to benchmark our own performance.
- 3.3 Our voting policies are guided by national and international standards of good corporate governance. International standards include the International Corporate Governance Network Guidelines and the G20/OECD Principles of Corporate Governance. For New Zealand listed companies we endorse the New Zealand Corporate Governance Forum Guidelines and the NZX Corporate Governance Code and the New Zealand Stewardship Code.

## 4 Procedures

- 4.1 Sustainable investment is integrated into investment of the Fund through this Sustainable Investment Framework and the application of it by the investment staff of the Guardians.
- 4.2 Our procedures support our policy objectives and are guided by our sustainable investment standards. Climate change is an integral part of the ESG issues we consider and our Sustainable Investment Framework supports implementation of our climate change investment strategy and the Crown Responsible Investment Framework.
- 4.3 To best satisfy our SI Policy and Standards, we utilise the following Sustainable Investment procedures, as we consider appropriate in the circumstances: Integration, Monitoring, Voting, Engagement and Exclusion. We invest across a wide breadth of investments and therefore need to prioritise the companies and issues we focus our resources on. There will be, from time to time, investments that need special consideration under this Sustainable Investment Framework with respect to exclusion and engagement.
- 4.4 We use relevant ESG corporate standards to provide guidance for our sustainable investment monitoring and analysis of corporate ESG practice.
- 4.5 Integration: We will incorporate ESG issues into investment analysis and decision-making processes including pre-investment diligence and post-investment management. We will seek investments that deliver positive social and/or environmental impacts as well as the required financial returns and have established impact investment procedures to support this activity.
- 4.6 Monitoring: We apply ESG monitoring processes across our segregated listed portfolios - including using specialist agencies to monitor ESG performance against ESG standards and to identify poor practice. We undertake additional analysis or seek expert input and consider other information as appropriate. Monitoring supports our engagement and exclusion activities.
- 4.7 Engagement: We focus engagement efforts on priority issues. Our approach and engagement priority issues may change over time based on our mandate, assessment of overall SI priorities, changes in company practices and other matters. Engagement may include direct engagement, engagement via collaborations with other investors, or through utilising external specialists. We encourage corporate ESG disclosure, including reporting on climate change, and we encourage investment professionals to use this information.
- 4.8 Exclusions: In some limited cases the Fund will exclude securities issued by companies from the portfolio. This may occur where we identify companies that are involved in certain products or consider there is serious risk of breaches of standards of good corporate practice and we believe exclusion is the appropriate course of action.
- 4.9 Sovereign Bond exclusions: The Fund 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.

4.10 Collective Investment Vehicles (**CIVs**). We endeavour to apply exclusions to CIVs, which are pooled funds with other investors, to the extent this is feasible and commercially prudent. CIVs are evaluated on a case-by-case basis and agreements are entered into where possible. The potential for indirect exposure to excluded securities through CIVs is factored into how we access investment opportunities.

4.11 We need to exercise judgement in making our sustainable investment decisions. Analysis to support our monitoring, engagement and exclusion decisions may take account of, as relevant:

- The requirements of our mandate
- New Zealand or other national law
- International law, including conventions to which New Zealand is a signatory
- Significant policy positions of the New Zealand Government
- Significance of the Fund's holding
- Impact of exclusion on expected Fund returns
- Actions of our peers
- Strength of grounds to believe a breach of good practice standards may occur, or may have occurred
- The severity of the breach of standards
- Likelihood of success of course of action
- Efficient use of resources
- Expert or other advice where relevant, and
- Other relevant factors on a case-by- case basis

4.12 Voting: We put in place voting processes including adopting voting policies and guidelines and exercising our votes at shareholder meetings. Voting policies provide guidance based on good corporate governance principles including on voting rights. In exercising our votes we may respond on a case-by-case basis when voting directly or where special circumstances arise. We report on our

voting activities publicly. Our voting and engagement supports implementation of the New Zealand Stewardship Code.

- 4.13 For our overseas holdings we will generally direct our elected proxy voting agency to vote in line with our customised global voting policy. We retain the right to instruct voting decisions on the shares we own.
- 4.14 For our New Zealand equity holdings, we instruct our voting directly. We consider the recommendations of both our proxy voting agency and our New Zealand investment managers.
- 4.15 We may withhold or recall shares from loan to exercise our voting rights to support our governance and engagement policies.

Communication: Sustainable investment is included in internal reporting to the Board and the investment committee. sustainable investment is also included in our public reporting, including the PRI Transparency Report, our Climate Change Report and as part of stakeholder engagement activities..



## Version Control

This is the fourteenth version of the RI Framework (which will hereafter be called the Sustainable Investment Framework) and tenth version approved by the Board.

Version	Date	Change	Status
V. 5	19 June 2014	Modified ESG investment belief. Responsible Investment Framework V.5 included as procedure in SIPSP.	Final
V. 6	17 June 2015	Change to reflect updated approach to exclusion of government bonds. Also more minor changes to reflect RAP and other initiatives.	Final
V.7	21 June 2016	Change to reflect exclusion approach to CIVs and to include NZCGF under ownership and collaboration.	Final
V.8	6 April 2017	Reflect voting rights as part of securities lending programme.	Final
V.9	19 June 2018	Reflect implementation of the Climate Change Investment Strategy, bringing voting in-house and adding the process for Class Actions to sit within the RI Framework.	Final
V.10	20 June 2019	Updated codes and standards. Include key initiatives on sustainable finance and climate change. Update RI Integration process slide to include direct assets.	Final
V.11	24 June 2020	Update wording for ESG investment belief and minor clarifications.	Final
V.12	24 June 2021	Minor edits for clarification.	Final
V.13	22 June 2022	Updated to be consistent with format of other policies and procedures. Introduction of sustainable finance goals and strategy in development. Edits to reduce content to aid clarity and focus on key procedures.	Final
V.14	22 June 2023	Shift to sustainable investment reflected in policy and framework.	Draft