TITLE:
Responsible Investment Framework

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EVENT | PRESENTATION:
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Overview

- Policy and Framework
- Standards
- Activities and Procedures
Policy and Framework

Our responsibilities under our Act

- Our governing legislation says 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;
  - Maximising return without undue risk to the Fund as a whole;
  - Avoiding prejudice to New Zealand’s reputation as a responsible member of the world community

- None of these three legs has precedence over the other so each must be taken into account when considering investment issues.

- Our Responsible Investment Framework is consistent with our mandate and incorporates both 61(d) and (i) under our Act:
  - ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community; and
  - the retention, exercise or delegation of voting rights acquired through investments
Policy and Framework

We are committed to integrating consideration of environmental, social and governance (ESG) issues into our investment decision making process

- We will maintain and adhere to a Responsible Investment Framework that focuses on:
  - Ensuring we meet our obligations under our Act
  - Our investment belief that “responsible investors must have concern for ESG factors because they are material to long-term returns”
  - Developing guidelines to integrate ESG considerations across different types of investments
  - Supporting our climate change investment strategy
  - Effective engagement with the external investment managers and advisors we use and the companies we invest in
  - Being an active owner of securities in which we invest by exercising our voting rights
  - Considering investments which provide positive social returns in addition to the required financial return
  - Maintaining a robust analytical and decision making process in responding to investee companies breaching our Responsible Investment standards
  - Benchmarking our performance against the Responsible Investment standards to which we aspire
# The Responsible Investment Framework

## Governance, Policy and Strategy

### Work streams

### Standards and Benchmarks

### Activities and Procedures (examples)

### Mandate, Beliefs, Values, Philosophy

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<th>Disclosure (Company Reporting)</th>
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### UNPRI (Principles 1-6)
- UN Global Compact (all principles as they are issue specific) and other good practice standards.

- Integrate ESG, factors including climate change, into the Risk Allocation Process (RAP)
- Integrate RI guidelines for opportunities and asset classes
- Positive Investment
- Integrate ESG into manager selection, monitoring & conviction, and direct investment management.

- Stewardship over investment portfolios
- Direct and collaborative engagements with companies
- NZ & Global Corporate Governance & voting guidelines & execution
- Portfolio Monitoring
- Apply exclusions

- Promote good practice ESG reporting by companies.
- Disclosure on climate change-related risks, management and emissions.
- Participation in Forums and working groups
- Engagement with regulators and advisors
- Collaboration with CFIs and global peers

- Public reporting of RI activity and benchmarking
- Internal reporting
- Stakeholder engagement
- Report on our climate change investment strategy and progress against goals.
Standards

UNPRI – RI Principles for Investors

<table>
<thead>
<tr>
<th>P1-6</th>
<th>GNZS Work Stream</th>
<th>Principle Description</th>
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<tr>
<td>P1</td>
<td>Integration</td>
<td>We will incorporate ESG issues into investment analysis and decision-making processes</td>
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<td>P2</td>
<td>Ownership</td>
<td>We will be active owners and incorporate ESG issues into our ownership policies and practices</td>
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<td>P3</td>
<td>Disclosure</td>
<td>We will seek appropriate disclosure on ESG issues by the entities in which we invest</td>
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<td>P4</td>
<td>Best Practice</td>
<td>We will promote acceptance and implementation of the Principles within the investment industry</td>
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<tr>
<td>P5</td>
<td>Collaboration</td>
<td>We will work together to enhance our effectiveness in implementing the Principles</td>
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<tr>
<td>P6</td>
<td>Communication</td>
<td>We will each report on our activities and progress towards implementing the Principles</td>
</tr>
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</table>
Standards

RI Standards for Companies

<table>
<thead>
<tr>
<th>Subject area</th>
<th>Principles</th>
</tr>
</thead>
</table>
| **Human rights** | 1. Support and respect human rights  
                        2. No complicity in abuses                                                  |
| **Labour**       | 3. Uphold freedom of association  
                        4. Eliminate forced/compulsory labour  
                        5. Abolish child labour  
                        6. Eliminate discrimination                                                  |
| **Environment**  | 7. Precautionary approach  
                        8. Act to promote greater responsibility  
                        9. Encourage environmentally friendly technologies                         |
| **Anti-Corruption** | 10. Work against corruption                                                  |

Why these benchmarks?
- Universally recognised
- Signatories include our peers, investment managers and investee companies
- Unlikely to be superseded

Corporate Governance guidelines

UN Global Compact

Industry standards

International Corporate Governance Network; OECD

NZ Corporate Governance Forum Guidelines
Standards

Corporate governance and voting guidelines

- We aim to promote best practice corporate governance in the long-term interests of the Fund.
- Voting rights and engagement with companies are important for maintaining shareholder stewardship and oversight of directors, boards and company policies.
- Our voting guidelines are based on principles and guidelines published by the New Zealand Corporate Governance Forum, the International Corporate Governance Network (including on Securities Lending) and the OECD.
- Our voting generally follows our customised global voting policy guidelines set out by our elected proxy voting agency and other applicable codes of good practice. We may also instruct investment managers to vote according to the manager’s own corporate governance guidelines.
- If we lend securities we will retain our rights to withhold or recall shares to exercise our voting rights. We will maintain guidance on when to withhold or recall shares. We will work with our securities lending agents to encourage good practice standards by borrowers including not borrowing for the primary purpose of voting.
Activities and Procedures: Integration

Investment selection and management

- Why integrate ESG into investment process?
  - Responsible investors must have concern for environmental, social and governance factors because they are material to long-term returns
  - Investment professionals, managers and advisors can help us to implement our RI Policy and meet our UNPRI commitments

- Activities
  - ESG risks and benefit analysis integrated into prioritisation of investment opportunities
  - Supporting our climate change investment strategy
  - RI guidelines across investment opportunities and access points
  - RI training and education across teams
  - Manager selection, due diligence and ongoing portfolio management
    - Manager RI assessment
    - RI requirements in legal contracts
    - Awareness and management of ESG issues
  - Substantial owner & direct investments - ESG due diligence, meetings and site visits as required.
  - Positive investment – financial + social returns intended
  - Exclusions applied (legal contracts, portfolio monitoring)
Activities and Procedures: Integration

Integration of RI into Investment Framework

1. RI analysis integrated into the prioritisation of investment opportunities
2. RI guidelines by Opportunity and Access Point
3. RI assessment integrated into due diligence and investment approval
4. Fund Mandates and Legal Clauses
5. Annual Manager RI Review and input into on-going Manager Conviction

RAP

Due Diligence, Manager Conviction and Approval
Activities and Procedures: Integration

Integrate Positive Investments

We are committed to considering investments which provide positive social and environmental benefits in addition to the required financial return. We will:

- identify and consider positive investment opportunities within the investment strategies of the Fund, including those providing climate-related benefits.
- aim for positive investment mandates that deliver tangible, measurable, social, governance or environmental benefits.
- develop a positive investment plan to assess:
  - the environmental and social benefit of investment opportunities
  - managers’ ability to deliver environmental and social benefit in addition to financial returns
  - integration into the investment framework
Activities and Procedures: Ownership

Active Ownership

- Why is active ownership important?
  - Responsible asset owners must have concern for ESG factors because they are material to long-term returns
  - Institutional investors are “universal owners” and through collaboration can reduce value destroying practices across markets
  - Exercising rights as shareholders helps to reduce agency risk and improve shareholder oversight

- Activities
  - Governance and Voting – to encourage high governance standards across markets and asset classes, in particular in the New Zealand market
  - Monitoring and Engagement – dialogue with companies over significant breaches of standards and to encourage best practice
  - Substantial owner – engagement on material ESG issues with companies in which we have a significant stake

- Class actions – We maintain internal guidance on the approach we take to class actions including considering the loss or disadvantage to the Fund, the severity of the issue, corporate conduct, the cost:benefit of the action, and whether it is in the Fund’s best interests.
Activities and Procedures: Ownership

Voting

- Our voting at company AGMs and EGMs is based on corporate governance and voting guidelines, but we respond on a case-by-case basis where special circumstances arise.

- For our overseas holdings we will generally direct our elected proxy voting agency to vote in line with our customised global voting policy or instruct our investment managers to vote in line with their proxy voting agency or their own internal voting guidelines. We retain the right to instruct voting decisions on the shares we own.

- For our New Zealand equity holdings, we consider the recommendations of both our proxy voting agency and our New Zealand investment managers in our New Zealand voting decisions.

- Our customised global voting policy can be found on our website and our proxy voting agency’s guidelines can be found at http://www.issgovernance.com/policy.

- We will maintain guidelines for circumstances under which we may withhold or recall shares from loan to exercise our full voting rights. We will monitor securities lending and retain a minimum holding of shares in each company on loan.
Activities and Procedures: Ownership

Monitoring

- Our portfolio holdings are monitored by specialist research providers against best practice standards e.g. UN Global Compact.

- Our research providers analyse breaches of these standards by companies to determine if they:
  - Are a significant environmental, social or governance risk;
  - Have a long-term or short-term social impact;
  - Are an isolated incident or a structural problem

- Companies in the MSCI World Index are covered by this service. Companies outside this universe are considered on a case-by-case basis from other relevant sources of information.

- Additional in-house analysis is conducted as required.
Activity and Procedures: Ownership

Engagement

- Where companies are found to breach RI standards, we focus our engagement efforts by taking into account:
  - Significance of the breach e.g. if it is a priority issue
  - Significance of the Fund’s holding in the company
  - Ability to collaborate with other investors, engage directly with the company or through our external managers and advisors
  - Potential effectiveness of engagement (given context and responsiveness)
  - Resources required

- Where companies have made sufficient progress, engagement ends and the company is monitored for further breaches

- Where companies have not responded to engagement or engagement is unlikely to be effective, the Guardians may in certain cases decide to exclude companies.
Activities and Procedures: Ownership

**Portfolio Monitoring**
- by External Service Provider or
  UNPRI Clearinghouse initiative

**Focus Stocks Identified**
- Breach of International Standards or high ESG risk

**Detailed Analysis**
- to prepare Engagement plan with focus companies

**Issue not a priority or is resolved**

**Monitor for reoccurrence**

**Engagement**
- Contact with companies (collaboratively or direct)

**Unsatisfactory response**

**On-going Shareholder engagement: correspondence, meetings; voting**

**Unsatisfactory response**

**Guardians’ assess progress and determine future shareholder action including Exclusion**

**Portfolio Monitoring & Analysis**

**Satisfactory response**

**Monitor Progress on actions**

**Unsatisfactory progress made**

**Actions Implemented**

**Monitor or Exclude from portfolio holdings**

**END**

**Quarterly**

**1 - 2 years**
Activities and Procedures: Ownership

Exclusion

- In some limited cases the Fund will exclude securities issued by companies from the portfolio. This may occur where companies are involved in certain activities or breaches of standards. These decisions take account of:
  - New Zealand or national law
  - International conventions to which New Zealand is a signatory
  - Significant policy positions of the New Zealand Government
  - Impact of exclusion on expected Fund returns
  - Actions of our peers
  - Severity of breach/action
  - Likelihood of success of alternative course of action (engagement)

- 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.

- We endeavour to apply exclusions to Collective Investment Vehicles (CIVs), to the extent this is feasible and commercially prudent. CIVs are evaluated on a case-by-case basis. The potential for indirect exposure to excluded securities through CIVs is factored into the selection of access points.
Activities and Procedures: Disclosure

Corporate Disclosure

Why encourage companies to report on ESG practices?
- Integration into investment analysis and ownership activities are dependent on access to relevant ESG information
- Disclosure on climate change-related risks, management and emissions.

Activities

- Engagement with companies and relevant organisations to encourage ESG disclosure against good practice standards
- Encourage investment analysts and managers to use this information
Activities and Procedures: Best Practice

- Why develop RI best practice?
  - Statutory requirement on us to adopt best-practice portfolio management
  - RI still developing as a discipline and we want to promote relevant best practice standards
  - Promote best practice amongst managers and advisors

- Activities
  - RI Reviews of managers and investments
  - UNPRI and other working groups to develop RI guidelines
  - RIAA – regional RI industry association promoting best practice
  - Conferences, industry reviews, information sharing
Activities and Procedures: Collaboration

- Why collaborate with other investors?
  - Collaboration is more effective and resource efficient than standing alone.
  - RI requires inclusiveness – peers, managers, advisors and stakeholders

- Activities
  - RI Agreement with other Crown Financial Institutions
  - Collaboration with peers on engagement and RI standards
  - Membership of relevant organisations to provide access to global expertise, best practice & education.
Activities and Procedures: Communication

- **Why communicate on RI activities?**
  - Benefits: internal integration and inclusiveness
  - We are committed to transparency

- **Activities**
  - Internal reporting to Board, internal committees and team
  - Public reporting
  - UNPRI assessment and case studies
  - Stakeholder engagement and events
# Document History

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<thead>
<tr>
<th>Version</th>
<th>Date</th>
<th>Changes/ Modifications</th>
<th>Approved By:</th>
<th>Status</th>
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<tr>
<td>V. 5</td>
<td>19 June 2014</td>
<td>Modified ESG Investment Belief</td>
<td>Board</td>
<td>Final</td>
</tr>
<tr>
<td>V. 6</td>
<td>17 June 2015</td>
<td>Change to reflect updated approach to exclusion of government bonds. Also more minor changes to reflect RAP and other initiatives</td>
<td>Board</td>
<td>Final</td>
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<tr>
<td>V.7</td>
<td>21 June 2016</td>
<td>Change to reflect exclusion approach to CIVs and to include NZCGF under ownership and collaboration.</td>
<td>Board</td>
<td>Final</td>
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<tr>
<td>V.8</td>
<td>6 April 2017</td>
<td>Reflect voting rights as part of securities lending program</td>
<td>Board</td>
<td>Final</td>
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<td>V.9</td>
<td>19 June 2018</td>
<td>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.</td>
<td>Board</td>
<td>Final</td>
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