

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; 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

- None of these three legs has precedence over the other so we must manage and administer the Fund in a manner consistent with all three.

- Our Responsible Investment (RI) Framework is consistent with our mandate (s 58) and is intended to provide further detail on standards and provide procedures as referred to in the statement of investment policies, standards and procedures which sections 61(d) and (i) of our Act specify must include:
 - 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

- Responsible investment has become the predominant framework for what was known as "ethical investment" at the time the Act was passed. Responsible investment is understood internationally to involve considering and giving effect to environmental, social and governance (ESG) factors in investment management. When we refer to the term "Responsible Investment" we see it as encompassing ethical investment. Our own approach to Responsible Investment is also intended to ensure the Fund is managed and administered in a manner consistent with avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.

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 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”
 - Developing guidelines to integrate RI 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 investee companies in which we invest by exercising our voting rights
 - Considering investments which provide positive ESG benefits in addition to the required financial return
 - Maintaining a robust analytical and decision making process in responding to investee companies breaching standards contained in our RI framework, including decisions to exclude or engage with companies
 - Benchmarking our performance against the UNPRI (a globally accepted standard)

The Responsible Investment Framework

Governance, Policy and Strategy

Mandate, Beliefs, Values, Philosophy

Work streams

Integration

Ownership

**Disclosure
(Company Reporting)**

**Best Practice and
Collaboration**

Communication

P1

P2

P3

P4 and 5

P6

Standards and Benchmarks

Principles for Responsible Investment (PRI) (Principles 1-6)

- United Nations Global Compact (all principles) and other good practice standards

Activities and Procedures (examples)

- Integrate RI, factors including climate change, into the choice of investment opportunities
- Integrate RI guidelines for opportunities and asset classes
- Positive Investment
- Integrate RI into manager selection, monitoring & conviction, and direct investment management

- Stewardship over investment portfolios
- Direct and collaborative engagements with companies
- Corporate Governance & Stewardship Codes, 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 for investors

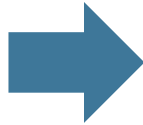
■ PRI – RI Principles for Investors

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

Standards for companies

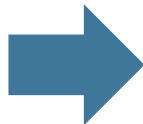
RI Standards for Companies

Corporate
Governance
guidelines



Industry
Standards
(other)

UN Global
Compact



Why these standards?

Universally recognised by world community

Signatories include our peers, investment managers and investee companies

Unlikely to be superseded

International Corporate Governance Network; OECD

NZ Corporate Governance Forum Guidelines

Health & Safety Standards

Climate Change-related Industry Standards

Subject area

Principles

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

Standards for voting

Corporate governance and voting guidelines

- We aim to promote best practice corporate governance as it is 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 reflect our specific mandate and utilise general best practice principles and guidelines published by the New Zealand Corporate Governance Forum, the New Zealand Stock Exchange, 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 retain our right to instruct voting on shares we own taking account of the individual or market context.
- 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: Overview

Overview

- To best satisfy our mandate (s 58), and to further other RI outcomes, we utilise the following activities and procedures, as we consider appropriate:
 - Integration
 - Active ownership;
 - Voting;
 - Monitoring;
 - Engagement; and
 - Exclusion.

Activities and Procedures: Integration

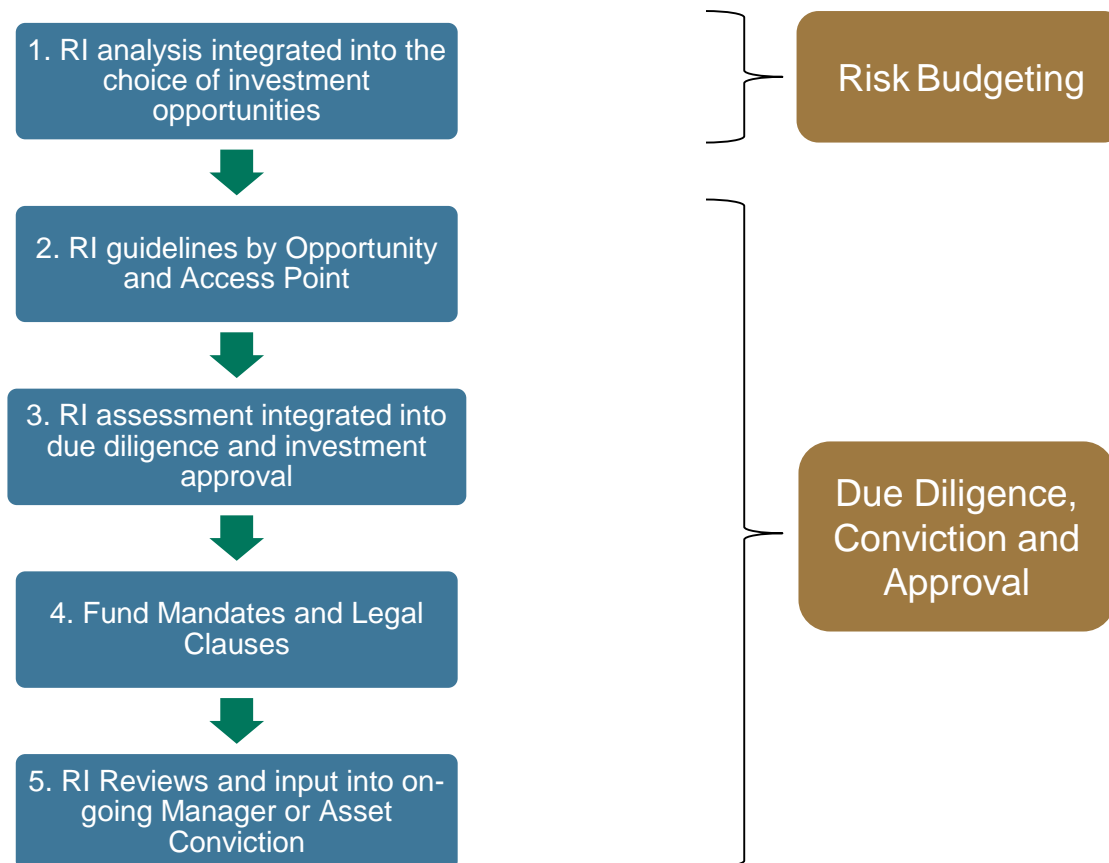
Investment selection and management

- Why integrate RI 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 PRI commitments
 - It gives effect to our obligations to manage and administer the Fund consistent with s 58(2) of our Act

- Activities include:
 - 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 RI issues
 - Substantial owner & direct investments - RI 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



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?
 - We believe environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.
 - 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 or other issues potentially relevant to our Act and to encourage best practice
 - **Substantial owner** – engagement on material RI 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 and our mandate, 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. We retain the right to instruct voting decisions on the shares we own.
- 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 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 to vote in each company on loan.

Activities and Procedures: Ownership

Monitoring

- Our portfolio holdings are monitored by specialist research providers against environmental, social and governance best practice standards.
- 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.
- We will undertake additional in-house analysis and seek expert or other input as appropriate.

Activities and Procedures: Ownership

Engagement

- We focus our engagement efforts by taking into account:
 - Significance of the breach
 - Strength of grounds to believe a breach may occur, or may have occurred
 - 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
 - The requirements of our mandate

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

- We will engage in a manner that is most appropriate in the circumstances, that may include (but is not limited to) direct engagement, engagement via UNPRI collaboration, or outsourcing engagement.

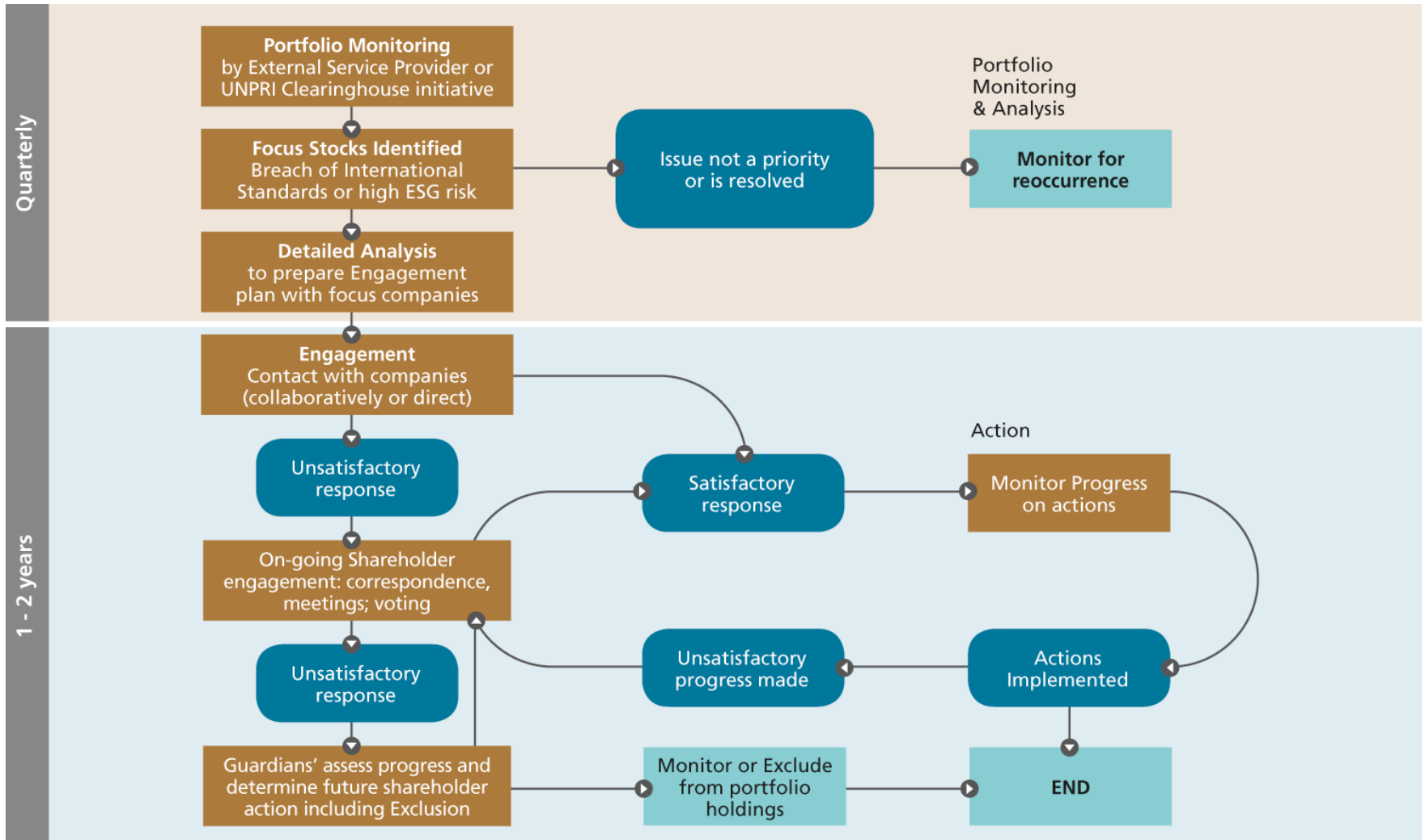
- Where companies have not responded to engagement or we consider engagement is unlikely to be effective, the Guardians may consider whether exclusion is an appropriate response.

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. We exercise judgement in making these decisions and, as relevant, take account of:
 - 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
 - Impact of exclusion on expected Fund returns
 - Actions of our peers
 - Severity of breach/action
 - Likelihood of success of alternative course of action (engagement)
 - Expert or other advice where relevant
 - Other relevant factors on a case-by-case basis
- 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 and agreements are entered where possible. The potential for indirect exposure to excluded securities through CIVs is factored into the selection of access points.

Activities and Procedures: Ownership Overview



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 is important to the implementation of our climate change investment strategy

- Activities
 - Engagement with companies and relevant organisations to encourage ESG disclosure against good practice standards
 - Encourage investment analysts and managers to use this information
 - Encourage reporting on climate change strategy and greenhouse gas emissions

Activities and Procedures: Best Practice

- Why develop RI best practice?
 - Statutory requirements of our mandate
 - RI is still evolving 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
 - PRI and other working groups to develop RI guidelines
 - Regional RI industry associations promoting best practice e.g. Responsible Investment Association Australasia (RIAA)
 - Conferences, industry reviews, information sharing
 - Initiatives on sustainable finance

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
 - While we collaborate we must also recognise that our mandate may sometimes require us to take positions not shared by other entities

Activities and Procedures: Communication

- Why communicate on RI activities?
 - Benefits internal integration and inclusiveness
 - We are committed to transparency
 - Maintaining stakeholder trust

- Activities
 - Internal reporting to Board, internal committees and team
 - Public reporting
 - PRI assessment and case studies
 - Stakeholder engagement and events

Document History

Version	Date	Changes/ Modifications	Approved By:	Status
V. 5	19 June 2014	Modified ESG Investment Belief	Board	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	Board	Final
V.7	21 June 2016	Change to reflect exclusion approach to CIVs and to include NZCGF under ownership and collaboration.	Board	Final
V.8	6 April 2017	Reflect voting rights as part of securities lending program	Board	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.	Board	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.	Board	Final
V.11	24 June 2020	Update wording for ESG investment belief and minor clarifications.	Board	Final