

TITLE:

# Responsible Investment Framework

AUTHOR:

Guardians of New Zealand Superannuation

EVENT | PRESENTATION:

June 2019

# 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 (RI) standards
  - Benchmarking our performance against the Responsible Investment standards to which we aspire

# The Responsible Investment Framework

Governance, Policy and Strategy

Mandate, Beliefs, Values, Philosophy

Work streams

**Integration**

**Ownership**

**Disclosure  
(Company Reporting)**

**Best Practice and  
Collaboration  
P4 and 5**

**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 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
- 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

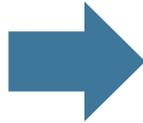
## ■ PRI – RI Principles for Investors

| 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

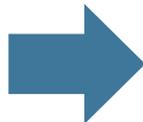
## RI Standards for Companies

Corporate  
Governance  
guidelines



Industry  
Standards  
(other)

UN Global  
Compact



### Why these benchmarks?

Universally recognised

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

## 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 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.

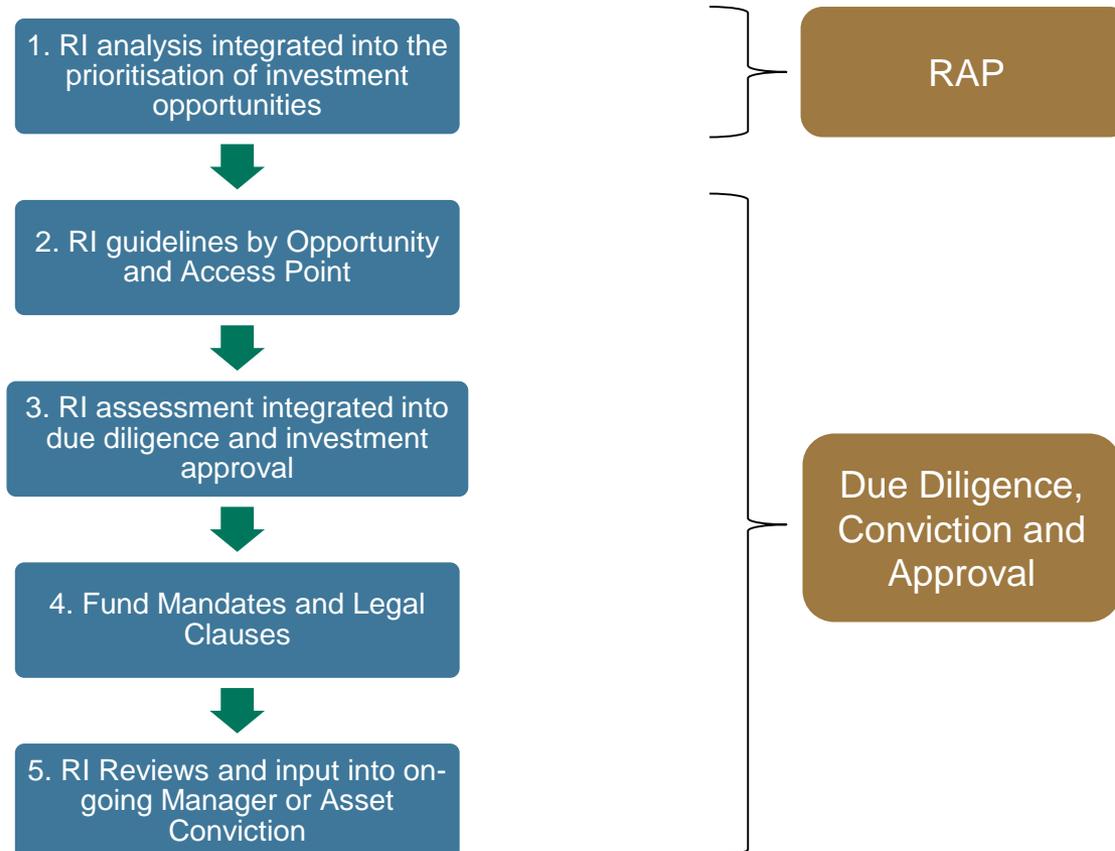
# Activities and Procedures: Integration

## 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 PRI 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



# 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. 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

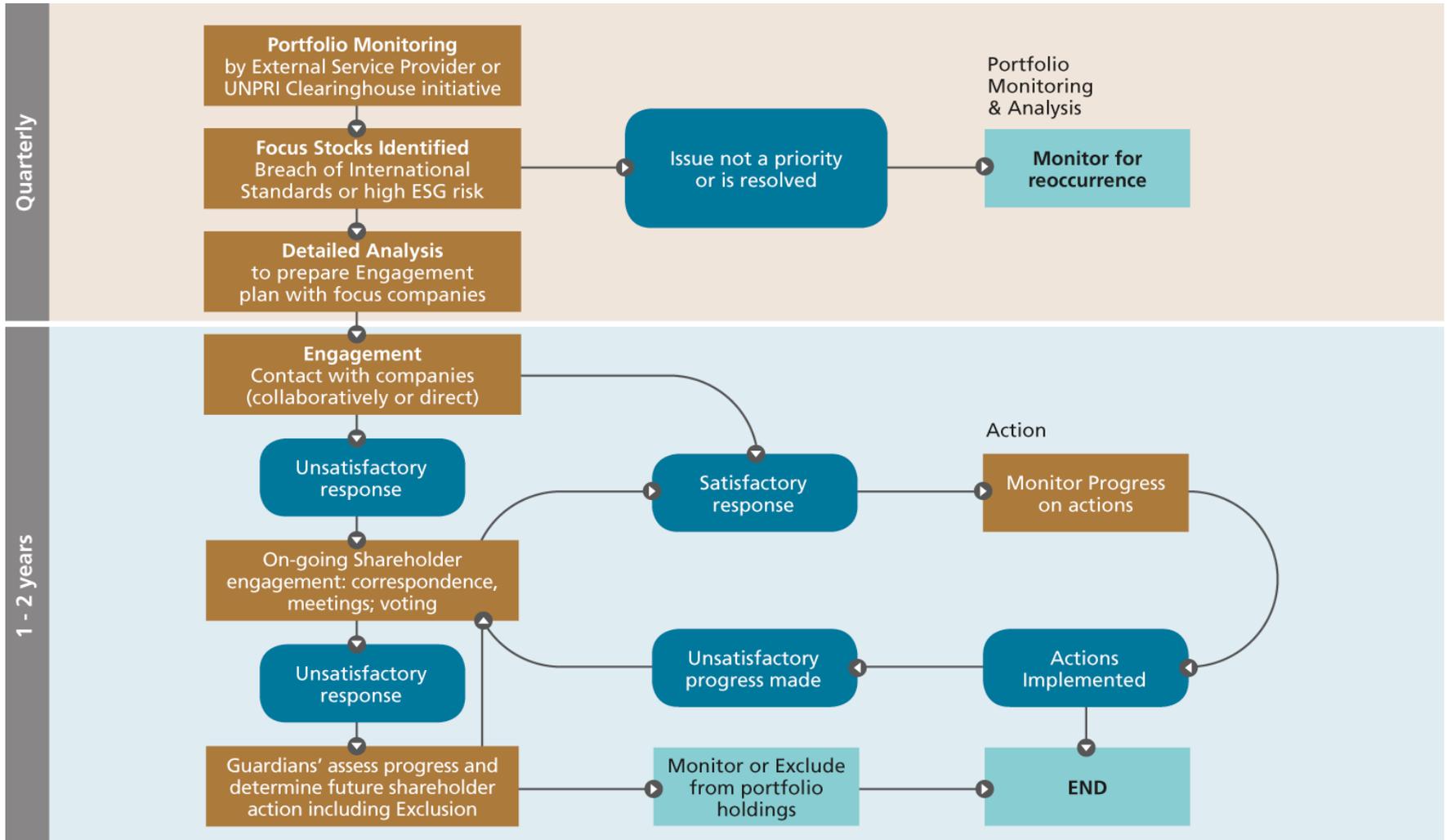
- Our portfolio holdings are monitored by specialist research providers against environmental, social and governance best practice standards.
- Our research providers analyse breaches of these standards by companies to determine if they:
  - Are a significant environmental, social or governance risk;
  - 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.
- 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



# 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 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 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
  - 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.

# 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  |