NZBritannia's approach to Environmental, Social and Governance matters

NZBritannia
RETIRE BETTER

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Introduction

NZBritannia is focused on delivering results for its clients and understands its responsibility to act as a good corporate citizen. In this document we address how we consider Environmental, Social and Governance (ESG) (also called Socially Responsible Investing (SRI)) issues in our investment products.

NZBritannia believes that consideration of the most significant ESG issues may help investment managers gain greater insight into each security's risk and return potential. We consider ESG issues alongside traditional financial measures and integrate them into the investment decision making process.

There is no global unified approach to ESG matters. NZBritannia engages investment managers with a range of views on ESG, on behalf of a range of clients who likewise have a range of views. We do not impose our views on ESG matters on our investment managers but do consider their approach when they are appointed and when we monitor and review their appointment.

We believe in positive engagement with companies to encourage better outcomes for investors, communities and the wider public. We see divestment as a last course of action, mainly reserved for areas of investment that are, in our view and in the eyes of our stakeholders, socially unacceptable.

We believe that by incorporating ESG considerations into our investment manager selection, monitoring and retention processes, our investors should not receive worse performance nor incur additional costs.

Some managers claim addressing ESG issues will result in improved performance (for example, through avoiding stranded assets or avoiding companies with higher compliance costs). Our view is slightly different as we believe that markets are generally fairly priced based on all known information. Consequently, managers can address ESG issues without any material adverse performance and have the opportunity (rather than having a "strong likelihood") of benefitting from the upside of reduced ESG risk. Accordingly, we support the incorporation of ESG considerations into our funds.

Investment managers

All our investments are implemented by firms who are signatories to the Principles of Responsible Investing (Principles), a United Nations supported framework that provides an aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

- **Principle 1**: We will incorporate ESG issues into investment analysis and decision-making processes
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

Further, all our investment implementation managers have policies considering ESG in their businesses. Their respective approaches to ESG matters can be found in the relevant links.

- ANZI Sustainable investing | ANZ
- Harbour Asset Management Harbour-ESG-Policy-FINAL.pdf (harbourasset.co.nz)
- Dimensional Fund Advisors Investment Stewardship | Dimensional
- Franklin Templeton Sustainable Investing | Franklin Templeton
- Insignia Financial Environmental, social and governance - Insignia Financial
- Northern Trust Sustainable Investing | Northern Trust
- Resolution Capital Resolution Capital | About (rescap.com)
- Maple-Brown Abbott Maple-Brown Abbott (maple-brownabbott.com.au)

Below we expand on our particular approach to Environmental, Social and Governance matters.

Environmental considerations

Our primary focus is on climate change. This is in line with the New Zealand Government's declaration of a climate emergency, the international action taken through the UN Paris accord and local obligations placed on fund managers to address and report on climate change (e.g. Taskforce for Climate-related Financial Disclosures). We invest according to academically proven methods and have adopted the same approach for ESG matters. The scientific consensus says greenhouse gases/carbon emissions are the most significant contributors to climate change, and that climate change is the most pressing issue. As such, we have adopted an ESG approach that is measurable against greenhouse gases/ carbon emissions.

A requirement for appointing and removing investment managers is whether the portfolios they have constructed have reduced exposure (compared to the relevant benchmark equity index) to carbon emitting companies/users of fossil fuels.

It is also common for our investment managers to address wider environmental concerns, including:

- Energy use
- Waste disposal
- Natural product use and scarcity.

Social considerations

Social considerations are an important focus with employee, supplier and community relations all playing key roles. We include consideration of social concerns through our investment managers. Our underlying investment managers address a variety of social concerns including:

- Factory farming
- Cluster munitions and landmines
- Nuclear weapon systems
- Tobacco
- Child labour
- Alcohol
- Gambling

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- Adult entertainment
- Personal firearms
- Human rights breaches.

These social concerns are primarily addressed through exclusions of certain companies (filters). It is important to note that not all investment managers adopt the same interpretations or thresholds in their exclusion filters, and as a result a company that one underlying manager may exclude from their portfolio might be present in another underlying manager's portfolio.

Governance considerations

We believe companies with solid governance should provide investors with better performance, be less risky and be better placed to address environmental and social concerns.

We believe it is important to engage with companies to make positive change. Exclusion lists are less preferable on their own as companies do not receive feedback as to the reasons why we (through our investment implementation managers) chose to divest from them. Divestment eliminates the possibility of promoting positive change through active engagement with the company. We believe that positive shareholder engagement is key to making positive changes. Shareholders are in a powerful position to identify problems, voice concerns and drive change.

An important factor in the appointment and retention of our underlying investment managers is to make sure they have a proxy voting policy and that they regularly publish actual outcomes regarding fulfillment of that policy. Governance considerations that many of our underlying investment implementation managers take into account when investing include:

- Board composition including skills, independence and diversity
- Executive remuneration, compensation and incentives
- Bribery, corruption and ethics
- Anti-competitive practices.

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