



RESPONSIBLE INVESTMENT FRAMEWORK

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Table of Contents

1	Introduction	3
2	Policy	4
3	Standards.....	5
4	Procedures	6

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 on responsible investment is consistent with meeting this mandate and also addresses matters that our Act requires to be covered in our Statement of Investment Policies Standards and Procedures (**SIPSP**).

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 integrating environmental, social and governance (**ESG**) considerations into 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 be consistent with s 61 (d) 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.

This section of the Statement and the Responsible Investment Framework also addresses aspects of s 61(i) regarding the retention, exercise and delegation of voting rights. Section 8 of this Statement directly addresses other aspects required by s 61(i).

One of our Investment Beliefs (referred to in section 1.4 of the Statement) is that environmental, social and governance considerations, including climate change, are fundamental to long-term risk and return.

We consider sustainable finance to be emerging best practice and consistent with our mandate. We have a goal to incorporate sustainability considerations into investment decision-making and to support the development of a sustainable financial system within the context of our legislative purpose. We are developing a sustainable finance strategy to support these goals which will be integrated into the Statement and Responsible Investment Framework as work progresses.

The Responsible Investment Framework also supports the implementation of the Climate Change Investment Strategy (**CCIS**).

We use internationally recognised responsible investment principles as our standard for addressing environmental, social and governance considerations, including exercising voting rights.

We have developed our Responsible Investment Framework (**RI Framework**) to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act. Our RI Framework can be found on our website.

2 Policy

- 2.1 We are committed to integrating consideration of RI issues into our investment decision making process.
- 2.2 We believe that applying responsible 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";
 - 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;
 - 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 our RI 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 We have developed our RI Framework to cover procedures and factors that we consider in applying the judgement needed to implement our responsible investment policy when investing the Fund including meeting our obligations under sections 58(2), 61(d) and (i) of our Act.
- 2.6 A policy statement relating to the constraint on investing in securities excluded by application of our RI Framework can be found in section 11 (Investment Constraints) of the Investment Risk Allocation Policy.
- 2.7 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.
- 2.8 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.

3 Standards

- 3.1 We refer to international standards for guidance on best practice.
- 3.2 We are committed to the UN-supported PRI. The principles promote integration of ESG issues into investment analysis and asset ownership. We use the PRI, a globally recognised standard, for guidance on best practice in RI and to benchmark our own performance.
- 3.3 Our voting decisions take into account 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.

4 Procedures

- 4.1 RI is integrated into investment of the Fund through the RI Framework and the application of it by the investment staff of the Guardians.
- 4.2 Our procedures support our policy objectives and are consistent with our RI standards. Climate change is an integral part of the ESG issues we consider and our RI activities support the implementation of our CCIS.
- 4.3 To best satisfy our RI Policy and Standards, we utilise the following RI activities, 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, holdings in the Fund that need special consideration under our RI Framework including with respect to exclusion and engagement.
- 4.4 We use relevant ESG corporate standards to provide guidance for our RI monitoring and analysis of corporate 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.
- 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 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 RI 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 the selection of access points.

4.11 We need to exercise judgement in making our RI 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 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. Our voting is based on corporate governance and voting guidelines, but we respond on a case-by-case basis when voting directly or where special circumstances arise. We report on our voting activities publicly.
- 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.
- 4.16 Communication: RI is included in internal reporting to the Board and the investment committee. RI 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 thirteenth version of the RI Framework and ninth 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