

Guardians of New Zealand
Superannuation



RESPONSIBLE INVESTMENT POLICY, STANDARDS AND PROCEDURES

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1 Responsible Investment Policy

1.1 Obligations

The New Zealand Superannuation and Retirement Income Act 2001 (the Act) establishes the duties of the Guardians of New Zealand Superannuation (the Guardians) when investing the New Zealand Superannuation Fund (the Fund). Section 58 of the Act states that the Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with:

- a) best-practice portfolio management;
- b) maximising return without undue risk to the Fund as a whole; and
- c) avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

No one of these obligations has precedence over the others.

In addition, the Act requires the Guardians to produce a Statement of Investment Standards and Procedures (SIPSP) that must cover, under 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; and under Section 61(i) the retention, exercise, or delegation of voting rights acquired through investments.

This document outlines the Guardians' Responsible Investment (RI) framework that is designed to meet these obligations. The RI framework is consistent with meeting best-practice portfolio management, and with avoiding prejudice to New Zealand's reputation as a responsible member of the world community.

The RI framework is developed and maintained by the Guardians, and includes policies, standards and procedures to integrate environmental, social, and governance considerations into the investment process. RI actions can include investment, exclusion, engagement, voting, and/or divestment.

In implementing the RI policy, the Guardians are aware that maximising returns without undue risk implies investing across a wide range of asset classes and regions. Whilst the Guardians decide on the strategic asset allocation, the day-to-day buying and selling of stock is done by investment managers under contract. With such a breadth of investments, there will be, from time-to-time, stocks in the Fund that may need consideration within the RI framework.

The RI framework is regularly reviewed, and aspires to best practice. In developing and maintaining the RI framework, the Guardians are conscious of the boundaries of responsibility, and the degrees of influence, that exist between shareholders and companies. While it is not the role of shareholders to interfere with the direct management of companies, they can seek to influence outcomes by raising concerns with company boards or management.

1.2 Responsibilities

The Board of the Guardians (the Board) is ultimately accountable for, and maintains oversight of, the Guardians' RI policy. The Board has established the Responsible Investment Committee to oversee the development of the RI policy, monitor its implementation, and make recommendations to the Board. The Guardians' SIPSP is reviewed at least annually and signed off by the Board.

1.2 Responsibilities (continued)

The RI policy applies to all the Fund's assets under management. However, the Guardians' operational practices may vary across these assets, dependent on the nature of investment (e.g. whether it is segregated or pooled), and investors' rights.

The Guardians' executive is responsible for the implementation of the RI policy and for keeping abreast of good practice in this area. The executive reports regularly to the Responsible Investment Committee and the Board, and is responsible for internal and external communication on the Guardians' RI activities. The executive also produces discussion papers on specific issues for the Responsible Investment Committee at its request.

The Fund's investment managers have requirements in their mandates to comply with the Fund's SIPSP. Investment managers are also formally instructed of any divestment decisions by the Guardians.

1.3 Guidelines

The Guardians consider responsible investment to be part of evolving best-practice investment management. This RI policy has been developed to help the Guardians to manage the Fund in a manner consistent with:

- best-practice portfolio management;
- 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.

To the extent that it does not conflict with their obligations above, the Guardians, at their discretion, may consider other issues arising from the Fund's investments. In doing so, the Guardians may take into account factors including whether the issue is contrary to New Zealand law and New Zealand's international agreements, or is inconsistent with Crown actions.

The Guardians are committed to the United Nations (UN) Principles for Responsible Investment and aim to encourage companies to meet internationally agreed standards for responsible corporate behaviour, in particular the principles of the UN Global Compact.

If companies in the Fund are found to have corporate practices that breach the Guardians' RI standards, the Guardians may consider engaging with the company, either directly, or in conjunction with other investors, and taking other shareholder action as appropriate. The Guardians believe they can, in most instances, have a greater impact on company practices through dialogue with company management in conjunction with others.

There may be occasional circumstances where the Guardians may consider excluding a particular investment, or divesting the Fund's holding.

The Guardians' actions are guided by the considerations outlined in section 3 of this document.

2 Standards

2.1 The UN Global Compact¹

The Guardians have adopted the UN Global Compact principles as a benchmark for expected standards of corporate behaviour. The UN Global Compact asks companies to embrace, support, and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.

The UN Global Compact principles have gained international acceptance from stakeholders and companies across a wide range of sectors and countries. The principles form the basis for monitoring portfolio holdings under the RI framework.

The Guardians recognise that other international codes or standards also provide guidance for companies in developing their corporate responsibility policies, and will take these into account, where relevant, in their RI activities.

2.2 The UN Principles for Responsible Investment²

The Guardians are a founding signatory to the UN Principles for Responsible Investment (UN PRI). The UN PRI embodies an internationally accepted framework for investors to manage environmental, social, and governance issues in a manner consistent with improving long-term investment returns. The UN PRI operates its own secretariat that helps international institutional investors collaborate and engage with companies in order to encourage sustainable business practices. The initiative advances the integration of social, environmental, and governance factors into investment analysis. The UN PRI provides tools to enable the Guardians to benchmark their own performance in the area of responsible investment.

2.3 Corporate Governance Voting Guidelines

The Guardians believe that good corporate governance should maintain the appropriate balance between the rights of shareholders, and the needs of the corporate board and management, to effectively manage the company's affairs.

Voting rights are important to the Fund for maintaining shareholder oversight of directors and company policies. The Guardians are committed to exercising their voting rights directly or indirectly across the Fund's portfolio. The Guardians aim to use their voting rights to promote corporate best practice in the long-term interests of the Fund.

The broad principles set out in the voting guidelines of the Guardians' elected proxy voting agency³ represent the Guardians' view of the essential elements of good governance. Such principles include transparency, board alignment with shareholder interests, remuneration, business ethics, and voting rights. The Guardians will generally vote as set out in these guidelines, but may respond to specific issues on a case-by-case basis.

Overseas voting is based on the voting agency's international proxy voting guidelines. The Guardians participated in the development of their voting agency's New Zealand proxy voting guidelines.⁴ These guidelines reference global corporate governance principles, and codes, adopted by the Securities Commission, New Zealand Stock Exchange, the ASX Corporate Governance Council, and other international agencies and investor funds.

1. www.unglobalcompact.org and see Appendix 1.

2. www.unpri.org and see Appendix 2.

3. Institutional Shareholder Services (ISS) is the Guardians' current proxy voting provider (www.issproxy.com).

4. www.nzsuperfund.co.nz.

2.3 Corporate Governance Voting Guidelines (continued)

The proxy voting guidelines are reviewed regularly and amended as developments in best practice occur, or when there are changes to legislative or regulatory requirements.

2.4 Sovereign Securities

When investing in securities issued by sovereign states, the Guardians are guided by UN' standards and other similar international organisations' standards. These standards include the Universal Declaration of Human Rights and UN sanctions. The Guardians also receive expert assessment of sovereigns' records on human rights, labour standards, environmental standards, trans-national crime, or evidence of reprehensible conduct.⁵

5. Consultants H.Willberg and M. Powles.

3 Procedures

The Guardians incorporate a number of procedures into their RI framework, in particular:

- improving the Guardians' expertise in, and the effectiveness of, their shareholder activities through membership of relevant organisations;
- maintaining a system for monitoring portfolio holdings against relevant standards;
- implementing an engagement programme to encourage improvements in responsible corporate behaviour;
- encouraging disclosure by companies, and consideration by investors, of material social and environmental information in order to better understand the impact of these issues on long-term shareholder value;
- exercising votes at company meetings, including votes on responsible investment resolutions; and
- utilising exclusion or divestment as appropriate.

3.1 Monitoring

3.1.1 Listed Equities

The Guardians have service level agreements and operating systems in place to monitor the Fund's equity holdings against their RI standards. However, these arrangements do not cover all stock holdings due to practical constraints (e.g. the wide breadth of holdings or pooled nature of some securities), and hence the Guardians also take into account other relevant sources of information.

The Guardians' proxy voting agency monitors the Fund's international equity holdings against the Guardians' selected corporate governance guidelines.

The Guardians employ an external specialist agency to screen the Morgan Stanley Capital International Global Index (MSCI) against the UN Global Compact principles.⁶ This monitoring provides profiles of company performance and aims to identify significant breaches of the 10 UN Global Compact Principles. The majority of the Fund's equity investment lies within the MSCI universe.

If the Guardians receive other valid reports of breaches of responsible investment standards by companies in the Fund, they may consider these issues on a case-by-case basis.

3.1.2 Sovereign Securities

The Guardians receive regular reports from their engaged advisor, and from time-to-time other external advisors, on resolutions or sanctions imposed on an issuer of sovereign securities, or other breaches of the RI standards. On a six-monthly basis, the Guardians' submit a list of countries to their advisor to screen against their RI standards.

Where a breach of RI standards on sovereign securities is identified, the Guardians may elect to divest from the sovereign securities of that country.

6. Innovest Strategic Value Advisors (www.innovestgroup.com)

3.1.3 Other Assets

The Guardians invest in private market assets that include infrastructure, property, timber, and private equity investments. RI considerations are included in the Guardians' decision-making on potential investments in private market assets. As best practice in RI develops, the Guardians aim to refine their RI standards and procedures to specifically encompass criteria for other asset classes.

3.2 Analysis

The Guardians may undertake further analysis on key issues, or breaches of RI standards, in order to assess the most appropriate shareholder response.

The Guardians assess investments against their RI standards using the guidelines outlined in section 1.3. The Guardians' analysis of RI issues may typically include:

- the nature of involvement by the company and the Fund;
- the materiality of the issue or breach of RI standards;
- the regulatory environment, including international conventions and New Zealand law;
- the effectiveness of shareholder actions; and
- the impact on the Fund's portfolio.

The Guardians are aware that firms operate in different legal, cultural, and geographical contexts. Achieving certain standards, such as compliance with the UN Global Compact, may thus be work in progress. The Guardians endeavour to understand individual circumstances if breaches of standards occur.

3.3 Engagement

The Guardians utilise the RI monitoring and analysis process to prioritise their engagement activities. The Guardians may engage with companies in which the Fund invests unilaterally or with other investors. In most cases, engagement will involve encouraging companies to address significant breaches of standards, and/or improve their policies and practices. The Guardians may also take a more general approach to engagement in order to raise awareness of relevant standards amongst business and investors, such as being a signatory to the Carbon Disclosure Project.

Engagement with a company is often most effective through developing dialogue with the boards or senior management of companies. Establishing such a dialogue requires a degree of confidentiality, and detailed or premature disclosure of discussions may be counter-productive to progress. However, within these constraints, the Guardians are committed to reporting on their engagement activities.

3.4 Exclusion and Divestment

The Guardians may decide to exclude investment in, or divest from, certain securities. Any exclusion or divestment decisions made in accordance with this policy must be taken by the Board.

The Guardians inform their investment managers of any decisions to exclude, or divest, securities from the Fund's portfolio. The security is then placed on a exclusion list which is monitored by the Guardians and their custodian.

3.5 Voting

The Guardians encourage the adoption of good corporate governance standards through:

- promoting the relevant proxy voting guidelines;
- utilising a proxy voting service, which promotes corporate governance principles to companies, and provides specific engagement activities; and
- encouraging investment managers to engage with companies as appropriate.

The Guardians also stay abreast of best practice through retained advisors and investment managers, international corporate governance networks, and communication with other institutional investors.

3.5.1 Exercising Voting Rights

The Guardians retain the ultimate right to exercise any voting rights attached to a security held by the Fund. The Guardians work with their voting agency to cast votes in accordance with the established guidelines. The voting agency will revert for the Guardians' direction where necessary. The Guardians may also seek the advice of their investment managers. The Guardians retain the right to override any voting recommendations made by their advisors.

3.5.2 International Equities

In general, the voting agency will be delegated full responsibility to exercise voting rights for international equities, in accordance with its international proxy voting guidelines. A service level agreement sets out the monitoring and reporting requirements in relation to corporate governance and voting activity.

3.5.3 New Zealand Equities

For New Zealand equities, the Guardians will generally vote as outlined in the New Zealand proxy voting guidelines. The Guardians' New Zealand investment managers and voting agency provide voting recommendations, and highlight issues that are likely to attract widespread publicity, be contentious, or create a conflict of interest for the manager.

It is accepted that the New Zealand proxy voting guidelines will not cover all eventualities, and some resolutions will need to be considered on a case-by-case basis. Where the issue is very contentious and likely to attract widespread publicity, the Responsible Investment Committee may request a report outlining:

- the issue;
- the recommendations of the investment manager(s) and voting agency;
- whether the Guardians, the investment manager(s), or voting agency, have engaged with the company; and
- whether any further external advice on the issue has been sought by management.

The Guardians will consider the recommendations of their managers, advisors, and any direction from the Board, in exercising the vote. In controversial cases, a report will be made to the Responsible Investment Committee.

4 Transparency and Reporting

The Guardians recognise that the New Zealand public have a legitimate interest in the Fund. The Guardians will publish their responsible investment policy and communicate regularly to the public on their responsible investment activities. The Board will assess progress against the Guardians' responsible investment goals on an ongoing basis.

Appendix 1 The UN Global Compact

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment, and anti-corruption.

THE 10 PRINCIPLES OF THE UN GLOBAL COMPACT

Human Rights

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2 Make sure they are not complicit in human rights abuses.

Labour

- Principle 3 Businesses should uphold the freedom of association and the effective recognitions of the right to collective bargaining;
- Principle 4 The elimination of all forms of forced and compulsory labour;
- Principle 5 The effective abolition of child labour; and
- Principle 6 The elimination of discrimination in respect of employment and occupation.

Environment

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
- Principle 8 Undertake initiatives to promote greater environmental responsibility; and
- Principle 9 Encourage development and diffusion of environmentally friendly technologies.

Anti-Corruption

- Principle 10 Businesses should work against all forms of corruption, including extortion and bribery.

Appendix 2 The UN Principles for Responsible Investment

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes and through time). We also recognise that applying these principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following six principles of the UN PRI:

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