NZBritannia's approach to Environmental, Social and Governance matters

NZBritannia
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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 ourselves good corporate citizens by how we deal with 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 decision making process.

There is no globally unified approach to ESG. NZBritannia works with investment managers who hold a range of ESG views, as do our clients. We do not impose a single ESG stance; instead, we assess each investment manager's overall approach when they are appointed and during ongoing monitoring. We consider each investment manager's approach in totality, recognising differences due to their sizes and investment styles. These differences will not typically warrant a review.

We believe positive engagement with companies encourages 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 in incorporating ESG considerations into our investment manager selection, monitoring and retention processes, our investors should not receive worse systemic long-term performance nor incur additional costs.

Some managers claim addressing ESG issues will result in improved long-term 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 long-term performance and have the opportunity (rather than having a "strong likelihood") of benefitting from the potential upside of reduced ESG risk. Accordingly, we support the incorporation of ESG considerations into our funds.

Investment managers

Currently all our investments are managed or implemented by firms that are signatories to the Principles of Responsible Investing (PRI) (or an equivalent framework that is substantially the same as PRI, such as the UN Principles for Responsible Banking (UNPRB)), a United Nations supported framework that sets out aspirational guidelines for incorporating ESG considerations into investment practice.

- **Principle 1:** Incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** Be active owners and incorporate ESG issues into ownership policies and practices.
- **Principle 3:** Seek appropriate disclosure on ESG issues by the entities in which they invest.
- **Principle 4:** Promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** Work together to enhance effectiveness in implementing the Principles.
- **Principle 6:** Each report on activities and progress towards implementing the Principles.

Further, currently all our investment managers have policies considering ESG in their businesses. Their respective approaches to ESG matters can be found on their websites. Our investment managers are:

- Harbour Asset Management (partly implemented by PIMCO).
- Dimensional Fund Advisors.
- Insignia Financial (implemented by Dimensional Fund Advisors).
- Amova Asset Management (implemented by Northern Trust).
- Resolution Capital.
- Milford Asset Management.

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, international action taken through the UN Paris Accords and local obligations placed on certain fund managers and other entities 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 existential issue. As such, our ESG approach includes consideration of whether there is a reduction in greenhouse gases/carbon emissions.

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

Our investment managers may also address wider environmental concerns, including:

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

Social considerations

Social considerations are a factor when appointing and removing underlying investment managers with employee, supplier and community relations all playing key roles. Our underlying investment managers address some social concerns, such as:

- Adult entertainment.
- Alcohol.
- Child labour.
- Cluster munitions and landmines.

- Factory farming.
- Gambling.
- Human rights breaches.
- Nuclear weapon systems
- Personal firearms.
- Tobacco.

These social concerns are primarily addressed through the investment managers determining exclusions of certain companies (filters). It is important to note that not all investment managers adopt the same interpretations or thresholds in their 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 long-term 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.

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

- Board composition including skills, independence and diversity.
- Executive remuneration, compensation and incentives.
- Shareholder rights.