

*Responsible  
Investment Statement*

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# Responsible Investment

Responsible investment, including environmental, social, and governance considerations, is taken into account in the investment policies and procedures of the Christian KiwiSaver Scheme (**the Scheme**).

The following notes have been prepared to enable the Scheme investors to understand how the Trustee applies Responsible Investment processes in managing the Scheme. We have also covered issues raised by the Securities Commission's Guidance Note '*Responsible Investment Disclosure by KiwiSaver Scheme Providers*' (**Guidance Note**) as these issues continue to be relevant.

In common with the United Nations 2006 Principles for Responsible Investment (**UNPRI**) the Scheme's Responsible Investment policy and practice includes environmental, social and governance considerations, but also includes other considerations which can be termed ethical, socially responsible, or sustainable. The Trustee is serious about responsible investment because ethical considerations, in keeping with Christian values, are integral to the Scheme's investment process.

These notes need to be read in conjunction with the Ethical Investment Policy. This document can be found on the Scheme's website.

## Responsible Investment implementation issues

The following are some common examples of Responsible Investment and ethical issues the Trustee considers. This is not a comprehensive list of all issues that do arise.

### Industry

Specific industries may be excluded on grounds that the operations/activities display a moral hazard, e.g. tobacco is injurious to health, alcohol may be considered an addictive drug. In general terms the Trustee would exclude from the portfolio a company which was largely involved in the production of beer but may include a wine producer as many churches use wine in the communion service.

The gambling industry would also be excluded as an undesirable industry for a church to invest in, as would pornography, prostitution and the promotion of unacceptable activities.

A company whose business is largely involved in the manufacture of armaments would be excluded. This should not be taken as indicating a pacifist approach to investment, and so sovereign bonds are included in the portfolio as it is recognised that one of the primary functions of Government is national security. This obviously involves maintenance of adequate and well equipped armed forces.

### Company Style and Governance

Within a particular industry certain companies may be excluded for reason that a part of their activities include some of the above exposures, their governance is open to question or the directors are considered to be unsuitable people upon whom to place investment trust. An example could be a food company, the industry being acceptable but a specific exposure may be considered undesirable. A company's statement on their governance processes is part of the review of their annual report.

An additional safeguard is that the companies into which the Scheme generally invests are the larger listed companies which are the subject of considerable public interest, media scrutiny, and regulatory and stock exchange surveillance.

## Environment

The Trustee is selective in its fossil fuel investments, avoiding certain sectors and investing positively into energy companies that rank favourably on qualitative environmental, social and governance measures.

The Trustee has a direct exposure to forestry which they regard as a sustainable investment playing a part in mitigating climate change by sequestering carbon dioxide.

## Employment

While recognising that employees do not always show loyalty to their employers, it is equally true that the reverse is also the case. The manufacturing base of western economies has been transferred to low cost countries to utilise cheap labour. Conditions are often sub-standard in addition to the low rates of pay. The Trustee recognises that each country has its own cost structure and that therefore rates of pay should be fair and reasonable in relation to that country's cost of living. Consequently it is the relative working conditions which are of importance.

## Executive Pay

The Trustee views executive pay seriously as it has, in recent years, become an ugly face of capitalism. With the onset of globalisation the increase in executive pay over recent years has vastly outstripped the rates of employee pay. A justification for this has been that due to globalisation, executive pay carries an international aspect in order to attract the most suitable people. In other words there is a deemed international pay scale which applies to chief executives and other senior management which is in stark contrast with the employment issues discussed above.

When faced with resolutions from companies in which the Trustee has an interest covering executive pay rates, there is active participation through the lodging of proxy votes at annual meetings, writing letters of protest or simply disposing of the investment.

## The Guidance Note suggests comment be made on the following issues:

### 1. The role or weight of Responsible Investment considerations

Responsible Investment criteria are one of the factors that the Trustee considers in making investments. The Scheme remains primarily an investment vehicle which seeks to provide funds for a member's retirement and should not be seen as a means of achieving specific ethical outcomes. The Trustee is committed firstly to being an investor and secondly to applying that investment process in a responsible fashion. As the documents referred to above show, there are times when the need to be an investor is seen as more important than the ethical purity of the portfolio.

In this context comment needs to be made about tracker funds and investment trusts. In the course of establishing a global portfolio, and in order to achieve a diversification of investments and to provide liquidity, the Trustee is inevitably faced with a need to hold some index tracking funds or investment funds.

## 2. Actions taken

The following actions are taken in implementing the Responsible Investment process:-

- Review of company annual reports and other documents.
- Exercising shareholder voting.
- Reading widely about investments and markets generally and comment made on particular stocks.
- Discussion among management and the Investment Committee concerning RI issues.
- Informing the Church of the processes and accepting debate on that.
- Interaction with other industry players in seeking to emulate best practice.
- Discussion with fund managers about their investments.

## 3. Scope

The Scheme's Ethical Investment Policy attempts to cover all assets. As described generally above, some assets are excluded. The Trustee does not invest in a stock considered to be the best in an excluded sector, nor do they specifically seek investments seen to be "doing good".

The Trustee recognises there are difficulties in achieving purity in the case of responsible investing as there is an element of subjectivity when it comes to individual considerations. For example, a supermarket retailer may include alcohol as a shelf product. If the related turnover is not excessive investment would not be ruled out on the grounds of selling alcohol.

BHP Billiton and Rio Tinto, being the world's major mining companies, produce uranium among a range of minerals. It might be argued that potentially uranium contains properties (waste) which may be harmful to humans and the environment and therefore these should be excluded companies. Equally there is an argument that both of these companies are well governed, and provide vital components to numerous industries. The Trustee has no policy to exclude them.

The management of some sectors is delegated to external managers who in some cases exercise a particular ethical stance. In some other cases managers are considered by the Trustee to be careful and responsible investors without necessarily pursuing or articulating a particular ethical mandate (e.g. not all the overseas fixed interest portfolios are screened to an ethical mandate. However, in these cases, information provided by a manager shows that ESG (environmental, social and governance) factors are some of the things that the manager takes into account in deciding the risks and possible return available from any investment).

In some instances (e.g. private equity funds) there may only be discussion of an ethical issue about the investments of the Scheme after the investment has been made. Such funds of necessity operate in a confidential manner in developing their investment options and it is only after the investment has been made that investors can form any opinion of the ethics of the investment undertaken. The comfort the Trustee has with the manager's style and ethos is a key factor when an external manager is appointed, and follow discussions about the Trustee's ethical policies.

**The following additional comments are offered to further explain the Trustees' Responsible Investment policy and process.**

## **How important is Responsible Investment for existing and prospective members?**

The Trustee sees Responsible Investment or ethical investing in the context of the total investment process applied to the Scheme. It is only one of several factors to consider for prospective KiwiSaver investors. Members joining a KiwiSaver scheme should have a basic understanding of what type of investment it is, and whether it will meet their needs. They should choose an appropriate asset allocation suitable for their situation. Only after these issues are dealt with and understood, do questions of the ethos and style of the fund become relevant.

The Trustee notes that the pursuit of a Responsible Investment policy may result in returns which are better or worse than otherwise would be the case.

## **Responsible Investment is a subjective process**

The application of Responsible Investment or ethical principles is art rather than science. Responsible Investment is essentially a subjective process that weighs up issues and makes an investment decision, or takes other action.

The Trustee has codified aspects of the ethical policy into an outsourced screening service for equities, whereby equities are screened on the basis of percentage of revenue. This enables a formal cross-check of all holdings for compliance with the policy. In addition, the Trustee also cross-checks holdings against other like-minded screening sources.

The Trustee partners with like-minded organisations to co-file, in addition to directly voting and occasionally corresponding directly with the company.

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