



Lifestages KiwiSaver Scheme & Lifestages Investment Funds

Responsible Investment Brochure

As at July 2024



SBS Wealth is an operating division of Funds Administration New Zealand Limited ("FANZ").
FANZ is a wholly owned subsidiary of Southland Building Society, operating as "SBS Bank".

Wealth Grown with care

Environmental, Social, and Governance (ESG) considerations and active ownership are increasingly being integrated into investment processes and decisions. Together, the incorporation of ESG and active ownership within the investing world is becoming associated with the term “stewardship.”

As a steward of your investments, we are becoming more engaged in influencing investee entities through a combination of ESG practices (screening and excluding company investments for certain factors) and active ownership (through proxy voting and engagement).



We embrace our core fiduciary duty to balance risk and reward when constructing investment portfolios. We act ethically and responsibly throughout our decision-making processes, considering the potential consequences of our actions in making investments on your behalf.

Our ethos is supported by memberships to the Responsible Investment Association Australasia and Toitū Environcare. We have achieved the Toitū Carbon Reduce certification for our business and the wider SBS Group.

Ultimately, we aim to ensure that your wealth is grown with care.

Our Approach

We believe that we can foster positive outcomes for society and the environment by allocating capital to investments with more environmentally friendly practices and to those that minimise involvement in certain practices considered to be harmful.

Our approach to responsible investment is guided by our stewardship principles:

1. Driving change over time, not overnight.

Transitioning to a net carbon zero future is a journey which requires ongoing incremental improvement.

2. Focus on opportunities, not just exclusions.

Shareholders can influence companies through voting rights. We seek to use this influence to bring about change in the way that companies do business – there is an abundance of opportunities for improved ESG performance through changes in business practices.

We integrate ESG within the investment process by considering the following factors:

Strategic – we target specific ESG themes (for example, renewable energy) to provide clarity of direction and put our words into action, ensuring we remain true to our commitment to growing your wealth with care.

Proactive – we refine the overarching strategic ESG themes at the investment level with the aim of improving the overall ESG characteristics of your investment funds.

Reactive – if a concern regarding a company arises in relation to its ESG characteristics, a review of the company is triggered. If no material improvement or clear pathway is apparent, the company may be divested, subject to balancing concentration risk against prudent industry diversification.

Incorporating ESG into our research should not only drive better environmental and societal outcomes, but also better financial outcomes, which are integral to your investments.



The Details

Environmental (E)

Our environmental considerations help to enable opportunities for our investees to improve on their business practices – we can encourage change through allocating capital to those organisations who perform better on environmental scores.

We favour investments in companies with lower **carbon intensity** or that have a lower amount of **fossil fuel involvement**.

We also prefer companies with greater **carbon solutions involvement** and other initiatives aimed at promoting a fairer, greener future – this is key to encouraging and enabling companies in high-impact industries to do better for the environment.

| Key Terms | How it works |
|------------------------------|--|
| Carbon Intensity | Carbon Intensity measures the level of emissions a company produces compared with its declared revenue. This is calculated as metric tonnes of CO2 per US\$1 million of revenue. |
| Fossil Fuel Involvement | A company is classified as being involved in Fossil Fuels if it generates more than 5% of its total revenue from activities in thermal coal extraction, thermal coal power generation, oil and gas production, and oil and gas power generation. |
| Carbon Solutions Involvement | Carbon Solutions Involvement refers to when a company generates revenue from areas such as renewable energy, energy efficiency, and green buildings and transportation. |

Wherever possible we invest into more environmentally friendly companies. If two companies within the same industry have similar financial performance and prospects, the determining factor may come down to which has the better environmental score.

Overall, we aim to ensure that all of our funds have lower absolute scores for carbon intensity and fossil fuel involvement and higher absolute scores for carbon solutions involvement than each fund's benchmark, which should ultimately lead to better outcomes.

Social (S)

We all come from different walks of life and what investors consider important is dynamic as a result. Our social considerations reflect the nature of our investment style and cover the issues considered to be most important to Kiwis, as well as New Zealand's governing bodies.

We screen our investible universe for the following types of investments and either exclude or minimise exposure to them.



Investment Exclusions

We exclude companies involved in the production or distribution of the following:

1. Controversial Weapons

Companies involved in production and/or distribution of weapons that have a disproportionate and indiscriminate impact on civilians, including but not limited to cluster munitions, landmines, depleted uranium weapons, and chemical and biological weapons.

2. Nuclear Weapons

Companies involved in production and/or distribution of nuclear weapons or essential components.

3. Adult Entertainment

Companies that own or operate adult entertainment establishments or are involved in production of pornographic adult entertainment are excluded on the basis of heightened risk of breaches of human rights.

4. Whale Meat Processing

We exclude companies involved in whale meat processing on the basis that decades of poorly regulated hunting has dwindled numbers of some species to critically low levels.

5. Recreational Cannabis

Recreational use of cannabis is illegal in New Zealand under the Misuse of Drugs Act 1975 and is contrary to New Zealand's commitments to international drug conventions.



Investment Minimisation

We also minimise investments in companies involved in the following. This list is not exhaustive and may change as societal issues bring into relevance new considerations.

1. Conventional Military Weapons

Companies involved in the manufacturing of military weapons or tailor-made components.

This includes weapons and weapon systems including but not limited to missiles, grenades, attack helicopters, battleships, and tanks.”

2. Civilian Firearms (“Small Arms”)

While we recognise that many rural Kiwis are responsible gun owners, increased gun-related violence means we prefer to reduce exposure to manufacturing and sale of assault and non-assault weapons for civilian customers.

3. Tobacco

Due to social and regulatory pressures coupled with poor health outcomes for smokers, we avoid tobacco producing companies.

4. Gambling and Casinos

Gambling establishments like casinos, racetracks, and online gambling.

While we know many Kiwis enjoy a punt, research has shown that excessive gambling can lead to addiction and poor financial outcomes.

5. Palm Oil

Palm oil is the most widely used oil crop in the world, however, deforestation in the pursuit of farming expansion is a major cause of habitat loss for plants and animals.

6. Alcohol

Alcohol producers are avoided, due to adverse social and health outcomes.

International Sanctions

We will exclude investment in any nation state where there is widespread condemnation or sanctions by the international community *and* New Zealand has imposed meaningful legal, diplomatic, economic, or military sanctions aimed at that nation state.

Governance (G)

Governance considerations speak to how companies manage their business, plus factors like human rights issues, fair compensation and other Social factors. It also speaks to how the boards of directors deal with Environmental and Governance factors.

We may exclude individual companies where we believe that there is a serious risk of, or a material breach of standards of good corporate practice and that exclusion is the right course.



Proxy Voting

Once the decision is made to make an investment into a company, we make use of our influence as institutional shareholders.

Our prime considerations when evaluating proxy votes include (but are not limited to):

- Board composition (including diversity considerations);
- Auditor ratification;
- Executive compensation;
- Environmental and Social risks;
- Mergers and acquisitions;
- Capital structure;
- Shareholder rights;

The key common factor among these is risk oversight failure from the Board of Directors.

We vote in a manner which we consider is the best course of action in the name of good, transparent corporate governance.

Proxy Voting Guidelines

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|---|---|
| Board Structure and Composition | Investee companies should elect capable and qualified boards to oversee management and risks. Factors to consider include independence, Risk oversight failure, Board diversity, Climate accountability (GHG emissions and reduction targets). |
| Auditor Related | Vote for unless absence of Auditor Ratification, or concerns about the accounts in the statutory reports. |
| Executive Compensation | Investee companies should be transparent about compensation plans and use clear metrics that link long-term performance and pay. |
| Material Environmental and Social Risks | Investee companies should implement and exercise oversight of material environmental and social risks and disclose such risks to improve transparency. |
| Mergers & Acquisitions | The proposed transactions should include review and evaluation of the merits, and drawbacks. |
| Capital Structure | Vote for general issuance requests, and proposals to increase authorised capital. |
| Shareholder Proposals | The proposal should consider if the implementation is likely to enhance or protect shareholder value, if it is more appropriately or effectively dealt with through legislation, is unduly burdensome, compares with industry standard, and any litigation associated with the company's environmental or social practices. |

External Fund Managers

Where external funds and fund managers are used, we review the underlying responsible investment policy and stewardship statements/policies to ensure that these align with our own views.

We monitor the underlying holdings of these funds and regularly engage with the fund managers to ensure we are kept up to date on the investment exclusions.

We also permit external fund managers to exercise proxy votes on securities they manage according with their own proxy voting policy.

Value For Money

Growing your wealth for the long-term is our main goal. However, we believe incorporating ESG into your investments, should ensure better environmental and societal outcomes, while also providing you with better financial outcomes.

ESG integration is no easy task, so we utilise research from reputable research houses to ensure that you get the most out of your investments while keeping fees reasonable.



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