

TITLE:

# Responsible Investment Framework

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# Overview

- Policy & Framework
- Standards
- Activities and Procedures

# Policy & Framework

## Our responsibilities under our Act

- Our governing legislation says 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;
  - Maximising return without undue risk to the Fund as a whole;
  - Avoiding prejudice to New Zealand’s reputation as a responsible member of the world community
- None of these three legs has precedence over the other so each must be taken into account when considering investment issues.
- Our Responsible Investment Framework is consistent with our mandate and incorporates both 61(d) and (i) under our Act:
  - ethical investment including policies, standards and procedures for avoiding prejudice to New Zealand’s reputation as a responsible member of the world community ; and
  - the retention, exercise or delegation of voting rights acquired through investments

# Policy & Framework

We are committed to integrating consideration of environmental, social and governance (ESG) issues into our investment decision making process

- We will maintain and adhere to a Responsible Investment Framework that focuses on:
  - Ensuring we meet our obligations under our Act
  - Developing guidelines to integrate ESG considerations across different types of investments;
  - Effective engagement with the external investment managers and manager selection advisers we use and the companies we invest in
  - Being an active owner of securities in which we invest by exercising our voting rights
  - Considering investments which provide positive social returns in addition to the required financial return
  - Maintaining a robust analytical and decision making process in responding to investee companies breaching our Responsible Investment standards
  - Benchmarking our performance against the Responsible Investment standards to which we aspire

# The Responsible Investment Framework

Governance, Policy & Strategy

Mandate, Beliefs, Values, Philosophy

Work streams

**Integration**

**Ownership**

**Disclosure  
(Company Reporting)**

**Best Practice & Collaboration**

**Communication**

P1

P2

P3

P4 & 5

P6

Standards & Benchmarks

**UNPRI (Principles 1-6)**

- UN Global Compact (all principles as they are issue specific)
- Other good practice standards e.g. ILPA

Activities & Procedures (examples)

- Integrate RI guidelines across asset classes
- Apply exclusions
- Positive Investment & social rating
- Investment manager DD; monitoring & conviction

- Direct and collaborative engagements with companies
- Voting - reducing agency risk
- NZ Corporate Governance
- Governance guidelines for other asset classes

- ESG Reporting standards for companies
- Carbon Disclosure Project
- Encourage good practice reporting by NZ companies

- Participation in Forums & working groups (e.g. UNPRI)
- Engagement with regulators & advisors
- Collaboration with CFIs & global peers
- Asset & Co-investment guidelines

- Public reporting of RI activity & benchmarking
- Internal reporting
- Stakeholder engagement

# Standards

## ■ UNPRI – RI Principles for Investors

P1-6	GNZS Work Stream	Principle Description
P1	Integration	We will incorporate ESG issues into investment analysis and decision-making processes
P2	Ownership	We will be active owners and incorporate ESG issues into our ownership policies and practices
P3	Disclosure	We will seek appropriate disclosure on ESG issues by the entities in which we invest
P4	Best Practice	We will promote acceptance and implementation of the Principles within the investment industry
P5	Collaboration	We will work together to enhance our effectiveness in implementing the Principles
P6	Communication	We will each report on our activities and progress towards implementing the Principles

# Standards

## RI Standards for Companies

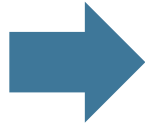
### Why these benchmarks?

Universally recognised

Signatories include our peers, investment managers and investee companies

Unlikely to be superseded

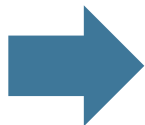
Corporate  
Governance  
guidelines



### International Corporate Governance Network guidelines

Proxy Agency voting guidelines

UN Global  
Compact



Subject area	Principles
<b>Human rights</b>	<ol style="list-style-type: none"> <li>1. Support and respect human rights</li> <li>2. No complicity in abuses</li> </ol>
<b>Labour</b>	<ol style="list-style-type: none"> <li>3. Uphold freedom of association</li> <li>4. Eliminate forced/compulsory labour</li> <li>5. Abolish child labour</li> <li>6. Eliminate discrimination</li> </ol>
<b>Environment</b>	<ol style="list-style-type: none"> <li>7. Precautionary approach</li> <li>8. Act to promote greater responsibility</li> <li>9. Encourage environmentally friendly technologies</li> </ol>
<b>Anti-Corruption</b>	<ol style="list-style-type: none"> <li>10. Work against corruption</li> </ol>

# Standards

## Corporate governance & voting guidelines

- We aim to use our voting rights to promote best practice corporate governance in the long-term interests of the Fund.
- Voting rights are important for maintaining shareholder oversight of directors, boards and company policies.
- Our voting follows the guidelines set out by our elected proxy voting agency which are available on the ISS website: <http://www.issgovernance.com>. We may also instruct investment managers to vote according to the manager's own corporate governance guidelines.
- These guidelines are based on global corporate governance principles including the OECD principles and for New Zealand includes consideration of guidelines published by the NZ Financial Markets Authority.



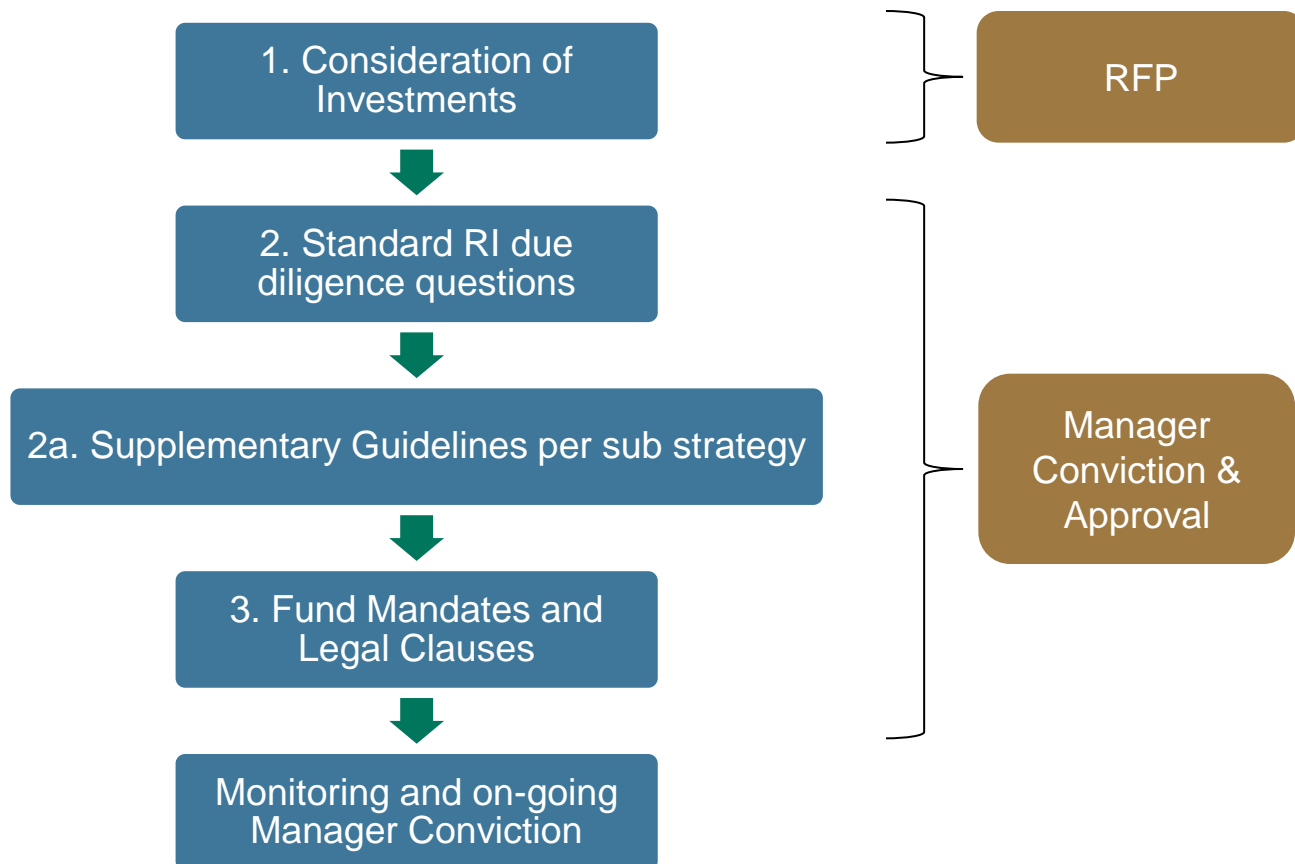
# Activities & Procedures: Integration

## Investment selection and management

- Why integrate ESG into investment process?
  - Responsible investors must have concern for environmental, social and governance factors because they are material to long-term returns.
  - Investment managers and advisors can help us to implement our RI Policy and meet our UNPRI commitments
  
- Activities
  - Manager selection, due diligence & ongoing fund management
    - Guidelines across asset classes: Equities, PE; Property; Timber; and others as necessary
    - Manager RI assessment
    - RI requirements in legal contracts
    - Awareness and management of ESG issues
  - Substantial owner - ESG reports, meetings & site visits as required.
  - Positive investment – financial + social returns intended
  - Exclusions applied (legal contracts, portfolio monitoring)

# Activities & Procedures: Integration

## Integration of RI into Investment Framework



# Activities & Procedures: Integration

## Integrate Positive Investments

- We are committed to considering investments which provide positive social returns in addition to the required financial return. We will:
  - identify and consider positive investment opportunities within the investment strategies of the Fund.
  - aim for positive investment mandates that deliver tangible, measurable, social, governance or environmental benefits (i.e. social returns).
  - develop a positive investment framework to assess:
    - the social return
    - manager’s ability to deliver social return in addition to financial returns
    - integration into the investment framework

# Activities & Procedures: Ownership

## Active Ownership

- Why is active ownership important?
  - Responsible asset owners must have concern for ESG factors because they are material to long-term returns
  - Institutional investors are “universal owners” and through collaboration can reduce value destroying practices across markets
  - Exercising rights as shareholders helps to reduce agency risk and improve shareholder oversight
  
- Activities
  - **Governance & Voting** – to encourage high governance standards across markets & asset classes
  - **Monitoring & Engagement** – dialogue with companies over significant breaches of standards & to encourage best practice
  - **Substantial owner** – engagement on material ESG issues with companies in which we have a significant stake

# Activities & Procedures: Ownership

## Voting

- Our voting at company AGMs and EGMs is based on our voting guidelines, but respond on a case-by-case basis where special circumstances arise.
- For our overseas holdings we will either direct our elected proxy voting agency to vote in line with its recommendations or we will instruct our investment managers to vote in line with their proxy voting agency or their own internal voting guidelines.
- For our New Zealand equity holdings, we consider the recommendations of both our proxy voting agency and our New Zealand investment managers in our New Zealand voting decisions.
- Our proxy voting agency's guidelines can be found at <http://www.issgovernance.com/policy>.

# Activities & Procedures: Ownership

## Monitoring

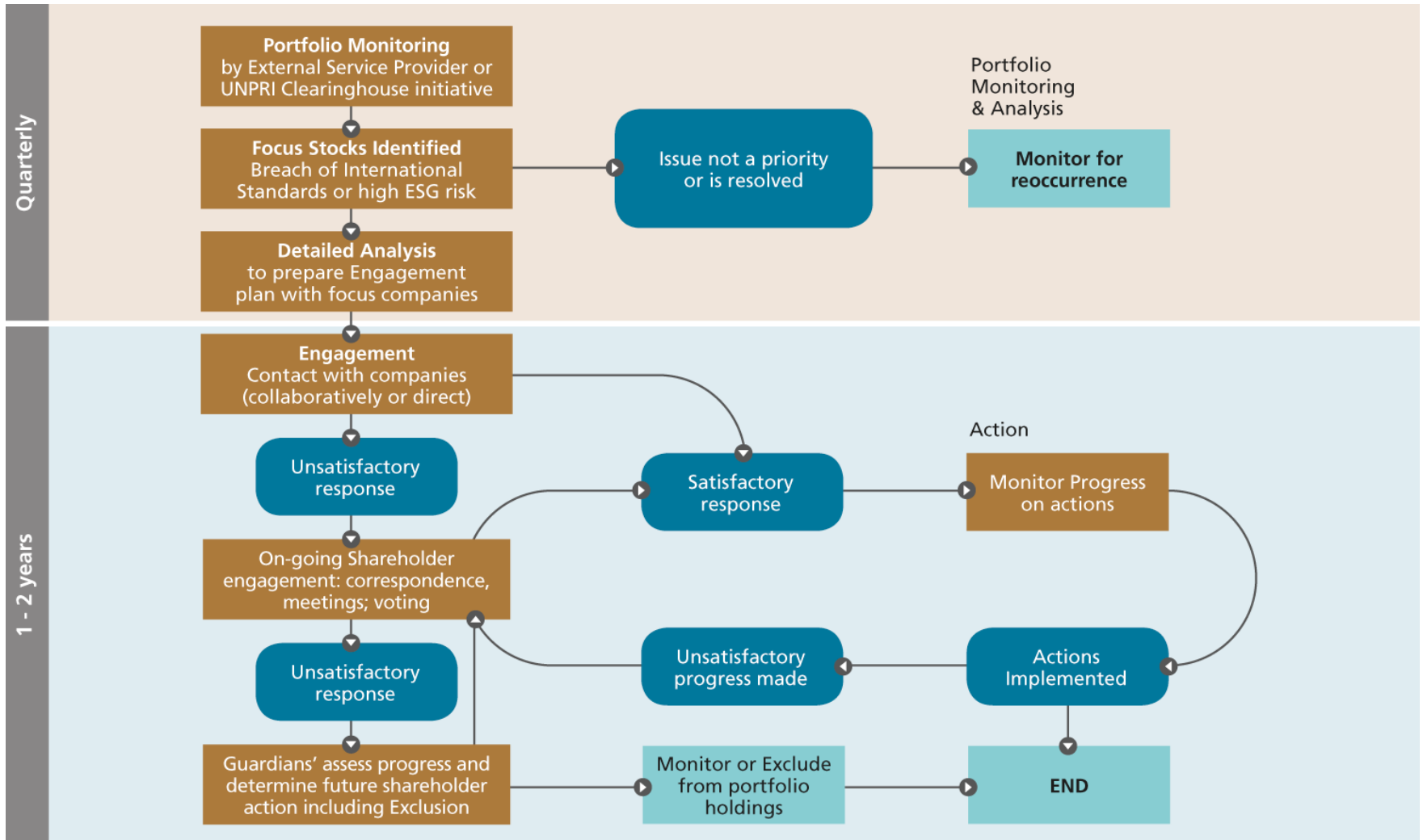
- Our portfolio holdings are monitored by specialist research providers (e.g. MSCI) against best practice standards e.g. UN Global Compact.
- Our research providers analyse breaches of these standards by companies to determine if they:
  - Are a significant environmental, social or governance risk;
  - Have a long-term or short-term social impact;
  - Are an isolated incident or a structural problem
- Companies in the MSCI World Index are covered by this service. Companies outside this universe are considered on a case-by-case basis from other relevant sources of information.
- Additional in-house analysis is conducted as required.

# Activity & Procedures: Ownership

## Engagement

- Where companies are found to breach RI standards we focus our engagement efforts by taking into account:
  - Significance of the breach e.g. if it is a priority issue
  - Significance of the Fund's holding in the company
  - Ability to collaborate with other investors or engage directly with the company
  - Potential effectiveness of engagement (given context and responsiveness)
  - Resources required
- Where companies have made sufficient progress, engagement ends and the company is monitored for further breaches
- Where companies have not responded to engagement or engagement is unlikely to be effective, the Guardians may in certain cases decide to exclude companies.

# Activities & Procedures: Ownership





# Activities & Procedures: Ownership

## Exclusion

- In some limited cases the Fund will exclude securities issued by companies from the portfolio. This may occur where companies are involved in certain activities or breaches of standards. These decisions take account of:
  - New Zealand or national law
  - International conventions to which New Zealand is a signatory
  - Significant policy positions of the New Zealand Government
  - Impact of exclusion on expected Fund returns
  - Actions of our peers
  - Severity of breach/action
  - Likelihood of success of alternative course of action (engagement)

# Activities & Procedures: Disclosure

## Corporate Disclosure

- Why encourage companies to report on ESG practices?
  - Integration and ownership activities are dependent on access to relevant ESG information
- Activities
  - Engagement with companies and relevant organisations to encourage ESG disclosure
  - Encourage investment analysts & managers to use this information
- Notes
  - Listing requirements and company law beginning to address ESG disclosure but varies between countries
  - Reporting Initiatives: Global Reporting Initiative (GRI) key standard to guide ESG reporting; Carbon Disclosure Project (CDP) is specific to carbon emissions

# Activities & Procedures: Best Practice

- Why develop RI best practice?
  - Statutory requirement on us to adopt best-practice
  - RI still developing as a discipline and we want to promote relevant best practice standards
  - Promote best practice amongst managers and advisors
  
- Activities
  - Annual RI Conviction Review of Managers
  - UNPRI and other working groups to develop industry guidelines e.g. private equity
  - RIAA – regional industry association promoting education and professional development
  - Conferences, industry reviews, information sharing

# Activities & Procedures: Collaboration

- Why collaborate with other investors?
  - Collaboration is more effective & resource efficient than standing alone.
  - RI requires inclusiveness – peers, managers, advisors and stakeholders
  
- Activities
  - RI Agreement with other Crown Financial Institutions
  - UNPRI collaboration with peers on engagement and RI standards
  - Membership organisations: UNPRI, IGCC, RIAA, ICGN for access to global expertise & education

# Activities & Procedures: Communication

- Why communicate on RI activities?
  - Benefits internal integration & inclusiveness
  - We are committed to transparency
  
- Activities
  - Internal reporting to Board, internal committees and team
  - Public reporting
  - UNPRI assessment & case studies
  - Stakeholder engagement & events