

1 INTRODUCTION

This document outlines the Government Superannuation Fund Authority's (**the Authority**) Policies, Standards and Procedures (**RI Policies**) for:

- ethical investment, including avoiding prejudice to New Zealand's reputation as a responsible member of the world community;
- environmental, social, and governance considerations; and
- the retention, exercise, or delegation of voting rights acquired through investments.

The Authority has determined to maintain this separate document to address the responsible investment requirements under the Government Superannuation Fund Act (**the GSF Act**). The document titled "Statement of Investment Policies, Standards and Procedures", refers to this document.

2 RESPONSIBILITIES

Section 15J (2) of the GSF Act sets out the Authority's responsibilities with respect to investment of the Government Superannuation Fund (**GSF** or **the Fund**). Specifically, the GSF Act requires that:

"The Authority 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; and*
- (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."*

In addition, the GSF Act also requires the Authority's Statement of Investment Policies, Standards and Procedures to cover ethical investment, including policies, standards, or 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. These requirements are addressed in this document.

The Authority is also bound by the Crown Entities Act, Income Tax Act, the Public Finance Act and various other legislation and regulations.

The Authority's Board (**the Board**) is accountable for, and maintains oversight of, the Authority's **RI** Policies and has established the Responsible Investment Committee to

oversee the development of the **RI** activities, monitor their implementation, and make recommendations to the Board on **RI** matters, as required.

The Authority's Management (**Management**) is responsible for implementation of any decisions the Board makes under the **RI** Policies. Management reports regularly to the **RI** Committee and the Board, and produces discussion papers and recommendations on specific issues

The Authority's **RI** Policies are regularly reviewed by the Board.

3 DEVELOPMENT OF RESPONSIBLE INVESTMENT

The investment community is recognising the impact of environmental, social and governance factors on investment value and performance where they are material and, in many cases, is also accommodating responsible investment concerns of investors. Best practice in this area is still evolving and it requires careful balancing against a requirement to invest prudently in the financial interests of investors.

The Authority, along with significant numbers of institutional investors globally, is a signatory to the United Nations Principles for Responsible Investment (**UNPRI**). The **UNPRI** aims to help integrate consideration of environmental, social and governance issues by institutional investors into investment decision-making and ownership practices. The **UNPRI** operates its own secretariat that assists international institutional investors collaborate in engaging with corporate entities on **RI** issues.

4 POLICIES

Section 15J (2) of the GSF Act sets out the Authority's responsibilities with respect to investment of the Fund.

The Authority may take other factors into account in its investment processes, provided this does not conflict with its responsibilities under the GSF Act, and these can be implemented in a practicable and cost effective way. The factors the Authority may take into account are set out in section 5.0 (Responsible Investment Standards).

Where an investment is found to contravene the Authority's **RI** Policies, the Board considers the appropriate action or actions to take. Responsible investment actions may include engagement, voting, exclusion and/or divestment.

Exclusion or divestment decisions taken under the **RI** Policies may be cancelled where advice is subsequently obtained by the Authority indicating that the investment again complies, or has demonstrated actions consistent with complying, with the **RI** Policies.

In addition to the application of the **RI** Policies to the investments held in the Fund, the Authority:

- encourages the adoption of good corporate governance practices through engaging a proxy voting service which promotes good corporate governance

¹ The Authority has engaged Institutional Shareholder Services Pty Limited (ISS) as its proxy voting service provider.

principles to corporate entities and provides specific engagement activities, and by exercising voting rights across the Authority's portfolio. In general the Authority will support proposals that reflect good corporate governance practice and are in the Fund's interests. Where a voting proposal does not meet good corporate governance practice and/or is not in the Fund's interests, the Authority will oppose the proposal;

- may support initiatives to clarify the benefits of integrating responsible investment into investment processes, and to develop tools for implementation;
- recognises investment managers that integrate responsible investment into their investment analysis and/or engage with corporate entities as part of their investment process, where it improves investment performance;
- stays abreast of best practice in the area of responsible investment by monitoring relevant literature and research, and the steps that other funds are taking with respect to responsible investment; and
- works together with similar investors to enhance the effectiveness of its **RI** Policies. This may include developing or supporting collaborative initiatives, participating in networks and information platforms to share tools, pooling resources and collectively addressing relevant emerging issues.

5 RESPONSIBLE INVESTMENT STANDARDS

Responsible investment standards have been developed for:

- direct investment in fixed interest securities (other than public debt) issued by, and shares in, corporate entities (together corporate securities) This definition may be updated from time to time to include other asset classes;
- direct investment in fixed interest securities issued by central governments, entities guaranteed by central governments, local authorities and quasi-government organisations (together public debt); and
- investment in products which aggregate the investments of multiple investors and manage them under a common investment mandate (referred to as collective investment vehicles).

5.1 Corporate securities

In applying the **RI** Policies to direct investment in corporate securities, the Authority will have regard to (amongst other considerations):

- information and advice obtained by the Authority that a corporate entity has, on the basis of credible evidence from publicly available sources, participated in serious infringements of relevant international standards relating to:
 - human rights
 - labour and employment
 - the environment or
 - international security and disarmament

and the participation relates to a material part of, or is materially significant to, the corporate entity's business and/or is of such a nature that the Board considers that ongoing investment may give rise to a risk of prejudice to New Zealand's reputation as a responsible member of the world community; and

- information and advice obtained by the Authority that the entity is subject to economic or other sanctions that New Zealand applies.

5.2 Public debt

In applying the **RI** Policies to direct investment in public debt, the Authority will have regard to (amongst other considerations):

- information and advice obtained by the Authority that a country is, on the basis of credible evidence from publicly available sources, widely regarded in the world community as having participated in:
 - serious infringements of relevant international standards in relation to human rights, labour, or the environment; or
 - other reprehensible conduct;
 - of such a nature that the Board considers that ongoing investment in the public debt of that country may give rise to a risk of prejudice to New Zealand's reputation as a responsible member of the world community; and
- information obtained by the Authority that indicates that the country has been subject to international censure (including the imposition of sanctions) by New Zealand and the wider world community in relation to human rights, labour, the environment or other reprehensible conduct.

5.3 Collective investment vehicles

Investment in collective investment vehicles (**CIV's**) may be a practicable and cost effective way of achieving exposure to some investment markets. The Authority will have no influence or control over the structure of the product, the corporate securities held by the product or individual voting decisions of the product.

In applying the **RI** Policies to an actively managed or indexed CIV the Authority will assess the product itself, rather than each corporate security held by the product.

The Authority will communicate its **RI** Policies and activities to managers of the CIVs and encourage the managers to consider whether the Authority's policies are appropriate for the CIV. In addition, the Authority will review its assessment of a product should there be a material change in the product, including the composition and/or weighting of the underlying corporate securities held by the product.

5.4 Corporate governance guidelines - voting

The Fund will hold shares in a number of New Zealand and international corporate entities. As an owner of shares, the Authority is committed to encouraging the adoption of good corporate governance and disclosure practices.

The Institutional Shareholder Services (**ISS**) Proxy Voting Guidelines, adopted by the Authority, provide direction for the Authority in monitoring the corporate governance of corporate entities in which it is a shareholder and in deciding how to vote. The ISS Proxy Voting Guidelines are also a means of communicating the Authority's expectations and reasons for voting, on topics such as transparency, broad alignment with shareholder interests, remuneration, business ethics and voting rights.

Where a security is held in a jurisdiction where there are specific legal or codified requirements in relation to corporate governance, that law or code will be the basis for monitoring and deciding action.

The ISS Proxy Voting Guidelines for New Zealand can be viewed on the Authority's website - www.gsfa.govt.nz

5.5 The UN Principles for Responsible Investment

The UNPRI aspirational principles provide operational guidelines for developing the Authority's responsible investment capabilities. The UNPRI provides tools to enable the Authority to benchmark its own performance in the area of responsible investment. The six UNPRI principles are set out below.

Where consistent with our fiduciary responsibilities, we commit to the following six principles of the UNPRI:

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.

6 PROCEDURES

The **RI** Policies include actions and supporting procedures on:

- exercising votes at company meetings, including votes on responsible investment resolutions;
- monitoring portfolio holdings against the **RI** Policies;
- analysing key responsible investment issues or potential non-compliance of the Responsible Investment Standards, in order to assess the most appropriate shareholder response, in accordance with the requirements of the GSF Act;
- excluding or divesting of investments as appropriate;
- communicating the Authority's responsible investment expectations to its investment managers and encouraging (relevant) managers to seek appropriate disclosure on responsible investment issues, from corporate entities in which the Authority is invested; and
- improving the Authority's expertise in, and the effectiveness of, its shareholder activities through membership of relevant organisations and evaluation of quality research.

6.1 Voting

General

Investment managers are delegated responsibility to exercise voting rights attached to securities held by the Fund. However, the Authority retains the ultimate right to exercise voting rights.

International Equities

Investment managers will be delegated responsibility to exercise voting rights in accordance with their judgement of what is in the best interests of the Fund. In general, this will be in accordance with the ISS Proxy Voting Guidelines.

New Zealand Equities

Investment managers will be delegated responsibility to exercise voting rights in accordance with their judgement of what is in the best interests of the Fund. In general, this will be in accordance with the ISS Proxy Voting Guidelines. A proxy voting service researches upcoming voting proposals and provides recommendations to investment managers. Investment managers must advise the Authority how they intend to vote where the issue is likely to attract widespread publicity, where the investment manager does not intend to vote in accordance with the recommendations from the proxy voting service, or could create a conflict of interest for the Fund or the investment manager.

Management, under delegated authority from the Board, may direct an investment manager on how to vote if the investment manager has a different view on an issue than that recommended by the proxy voting service, or where there are conflicting views among the investment managers on the same issue.

6.2 Monitoring

The Authority engages specialist research agencies and external advisors to supply advice to the Board to enable it to monitor securities against the **RI** Policies.

For the purposes of applying the **RI** Policies the Authority may, in consultation with the external advisors:

- consider only the countries in which the Authority is invested or intends to invest; and
- out of those countries, establish a list of countries which the Board considers does not give rise to risk of prejudice to New Zealand's reputation as a responsible member of the world community, should the Authority invest in public debt of that country.

The Board reviews the list no less than annually, and more frequently should it receive advice at any time that a more frequent review is appropriate or the list of countries changes. In this case, only the country or countries for which a potential change could apply shall be reviewed.

6.3 Analysis

The Authority may undertake further analysis on key issues, or potential non-compliance with the **RI** Policies, in order to assess the most appropriate shareholder response, in accordance with the requirements of the **GSF** Act.

The Authority's analysis may include:

- the nature and size of investment by the Fund;
- the materiality of the issue or non-compliance with the Responsible Investment Standards;
- the regulatory environment, including international conventions;
- impact on long term financial performance and investment efficiency of the Fund;

² Innovent Strategic Value Advisors Inc, Sustainable Investment Research Institute Pty Limited (SIRIS) and Michael Powles.

- the effectiveness of shareholder actions; and
- the cost and practicalities of shareholder action.

International public and corporate entities operate in different legal, cultural, and geographical contexts. The Authority endeavours to understand individual circumstances if non-compliance of the investment standards occur and takes these circumstances into account when deciding the response to the non-compliance.

6.4 Engagement

The Authority may engage with corporate entities in which it holds an interest in, in collaboration with other investors. The Authority believes that engagement activities are not effective unless coordinated with groups of large investors with similar views. In most cases engagement will involve encouraging corporate entities to address significant contraventions of Responsible Investment Standards, and/or to improve their business practices.

6.5 Exclusion and divestment

The Authority may decide to exclude investment in, or divest from, certain securities. The Authority informs its investment managers of any decisions to exclude, or divest, a security from the Fund's portfolios. The security is then placed on an exclusion list which is monitored by the Authority and its custodian.

6.6 Communication and disclosure

The Authority communicates its responsible investment expectations to investment managers and requires each investment manager to disclose how (and why) responsible investment factors are integrated into their investment processes.

6.7 Transparency and reporting

The Authority will publish its **RI** Policies and communicate regularly on the implementation of the **RI** Policies.