

mysuper Superannuation Scheme

# Responsible Investment Philosophy

1 October 2019

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## 1. Purpose

- 1.1 mysuper Superannuation Scheme (**Scheme**) is committed to making responsible investment decisions for the benefit of our members. In line with our responsible investment philosophy, we continue to evolve how we can best integrate environmental, social and governance (**ESG**) issues into investment decisions.
- 1.2 Shamrock Superannuation Limited (**Shamrock, we, us, our**), Trustee and Manager of the Scheme, is responsible for selecting and measuring the performance of the Investment Manager who invest the Scheme's assets held in the Underlying Investment Fund
- 1.3 This document outlines the Scheme's ESG and responsible investment philosophy. The ethical criteria outlined in this document may be amended from time-to-time and applies to all of the Scheme's assets.

## 2. Background

- 2.1 The Scheme is a registered workplace savings scheme and is governed by the Scheme's Trust Deed, the Financial Markets Conduct Act 2013, the KiwiSaver Act 2006 and the Trustees Act 1956.

### Investment Approach

- 2.2 The Scheme offers Members four investment funds and a **easysselect** investment option (each a **Fund**) to invest their retirement savings. Members money is pooled with other Members' money and invested, which gives them greater access to investments they may otherwise not be able to access as individuals.
- 2.3 However, due to the Scheme's relatively small size it is not economical to undertake direct investments. Therefore, all of the Scheme's assets are invested in Underlying Investment Funds. This means we, on behalf of Members, acquires interests in Underlying Investment Funds. These interests are rights to receive financial benefits produced by the efforts of other people (i.e. the investment managers of the Underlying Investment Funds) but those interests do not give us day-to-day control over the operation of the Underlying Investment Fund.
- 2.4 When we invest the Scheme's assets the decision is made on the terms and conditions set out in the Product Disclosure Statement (**PDS**) issued by the manager of the Underlying Investment Fund. While we can decide which Underlying Investment Fund to invest in, it does not have the ability to influence or select the individual securities the Underlying Investment Fund holds.

### Current Underlying Investment Funds

- 2.5 As at 1 October 2019 the Scheme invests in the following Underlying Investment Funds:

Investment Manager	Asset Class	Underlying Investment Fund
AMP Capital Limited ( <b>AMPC</b> )	Cash and cash equivalents	AMP Capital NZ Cash Fund
	New Zealand fixed interest	AMP Capital NZ Fixed Interest Fund
	International equities	Wholesale Unit Trust Global Index Share Fund AMP Capital Hedged Global Index Share Fund
Fisher Funds Management Limited ( <b>Fisher</b> )	International fixed interest	Fisher Institutional International Bond Fund
Salt Funds Management Limited ( <b>Salt</b> )	Australasian equities	Salt NZ Dividend Appreciation Fund

- 2.6 The three investment managers, of the Underlying Investment Funds, we have selected to invest the Scheme's assets have adopted their own ethical investment policies and are signatories to the United Nations Principles for Responsible Investment<sup>1</sup> (**UNPIR**).
- 2.7 As signatories, AMPC, Fisher and Salt, have made a public commitment to implement ESG policies, and to report on these policies and their implementation. The United Nation principles are based on the view that ESG issues can positively affect the long-term performance of investments as well as those of society at large.<sup>2</sup>

<sup>1</sup> [unpri.org](http://unpri.org)

<sup>2</sup> Principles for Responsible Investment, 2016, [unpri.org](http://unpri.org).

### 3. Guiding Principles

- 3.1 A number of key principles underpin this Policy. We operate within the legal framework of managed investment schemes.<sup>3</sup> As such, it owes its legal and fiduciary duties to Scheme Members.
- 3.2 Our primary objectives, when acting as Trustee of the Scheme,<sup>4</sup> is to act in the best interest of beneficiaries (i.e. Members) all the while exercising the same degree of care, skill and diligence that a prudent director would exercise. Further, the ‘sole purpose test’ requires us to focus on maximising long-term investment returns by requiring they ensure the Scheme is maintained solely for the purpose of providing benefits to Members upon their retirement.
- 3.3 Against this context, it is acknowledged that there can be diverse individual views as to the content of ethical investment principles. What may be imperative (ethically-speaking) for one individual may not be a concern for another. Further, it is noted that distinguishing between companies in legitimate businesses and those acting unethically is inherently subjective.
- 3.4 While there will generally be no conflict between ethical and legal obligations, sometimes they can and do arise (i.e. an actively may be legal in one jurisdiction, but illegal in another jurisdiction). Therefore, we must decide how best discharges its duties when ethical and legal obligations conflict.
- 3.5 We have an irreducible degree of responsibility for what it chooses to do, or not do, how we invest the Scheme’s assets and that under rare or extreme circumstances it may be appropriate to withdraw the Scheme’s assets from an Underlying Investment Fund for purely ethical reasons.
- 3.6 Therefore, we endeavor to identify Underlying Investment Funds that do not invest in activities that are contrary to New Zealand Law, would be contrary to New Zealand Law if carried out in this jurisdiction, or are otherwise likely to be regarded as unethical by a substantial majority of the New Zealand public, recognising that the views on what is unethical by a substantial majority of the New Zealand public may change from time-to-time.
- 3.7 We take the laws of New Zealand to be a reflection of those principles that are widely held by the New Zealand public. ESG policies have become a commonly accepted framework in the investment community for incorporating ethical principles into the investment decision-making process. For example, it is a well-established corporate principle that good management of ESG factors – including governance, employee relations, safety, and environmental risks – is material to the long-term successful performance of any business.
- 3.8 We look to integrate ethical investment considerations all through all of the Scheme’s investment process, but there can be practical implementation issues of finding Underlying Investment Funds that both maximise members’ investment returns and meet ethical investment principles. This integrated method is an important ‘gate’ or ‘hurdle’ when we evaluate Underlying Investment Funds to invest the Scheme’s assets.
- 3.9 We set the overall guidance as to the types of activity that are considered unethical through the Scheme’s Statements of Investment Policy and Objectives (**SIPO**). Through the SIPO we have highlighted that the following should be part of the Scheme Investments ethical considerations.

<sup>3</sup> Workplace savings schemes’ are a subset as defined in section 9 of the Financial Markets Conduct Act 2013.

<sup>4</sup> This is different when the Directors of Shamrock are acting as directors of the limited liability company. For the purpose of this Policy, unless stated otherwise, Shamrock is always acting as Trustee of the Scheme, not as the company.

Excluded Activity	Rationale
Anti-Personnel Mines	Actual or potential investment (directly or via subsidiaries) in the production of landmines is not compliant with the Ottawa Mine Ban Treaty and the intent of the Anti-Personnel Mines Prohibition Act 1998
Civilian Firearms	Investment (directly or via subsidiaries) in firearms and associated parts that are prohibited Arms Act 1983
Cluster Munitions	Investment (directly or via subsidiaries) with the development and/or production of cluster munitions, or key components, are not compliant with the Convention on Cluster Munitions and would be contrary to the Cluster Munitions Prohibition Act 2009
Mercenary Activities	The intentional funding of or knowing that funds are to be used, to enable a mercenary to take part in hostilities in an armed conflict or a concerted act of violence is not compliant with the Mercenary Activities (Prohibition) Act 2004
North Korea Munitions	Knowingly dealing in assets, money or securities owned by, or sending, transferring or delivering any asset, money or security to, any person designated by the United Nations as being involved in the Democratic People's Republic of Korea's nuclear, weapons of mass destruction or ballistic missile programmes that is inconsistent with the United Nations Sanctions (Democratic People's Republic of Korea) Regulations 2006
Nuclear Explosive Devices	Investment (directly or via subsidiaries) with the design, testing, assembly and/or refurbishment of nuclear explosive devices would be contrary to the South Pacific Nuclear Free Zone Treaty and of the New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987
Tobacco	Any relationship with tobacco companies that is inconsistent with New Zealand government policy
Whale Meat Processing	Investment (directly or via subsidiaries) in the processing of whale meat is not compliant with New Zealand law and is not consistent with the International Convention for the Regulation of Whaling

- 3.10 We will not invest any of the Scheme's assets in any Underlying Investment Funds that invest in companies involved in the above activities, except in very limited circumstances in which precluding an investment in the Underlying Investment Fund would significantly compromise our legal and fiduciary duties to Scheme members due to there being no other suitable and readily accessible Underlying Investment Fund alternative.

## 4. Implementation Guidelines

- 4.1 We have limited control or influence over the investment decisions of the investment managers of the Underlying Investment Funds that invest the Scheme's assets, except to the extent of what is disclosed in that Underlying Investment Fund, PDS or SIPO. This can at times prove difficult when balancing our legal and fiduciary duties to Scheme Members against ethical investment principles.

### Monitoring Guidelines of Underlying Investment Funds

- 4.2 We will monitor the securities held by each of its Underlying Investments Funds on a six-monthly basis to determine if any of the investment managers of the Underlying Investment Funds invested or invests in activities on our Excluded Activity List during the period (we take the 'ACC Investment Team Excluded Activity List' as a proxy for our list).
- 4.3 Where an investment manager of the Underlying Investment Fund is found to have held or holds securities that participate in activities on our Excluded Activity List during the period, we will formally write to the investment manager to influence the investment manager to sell the securities where possible and/or seek assurances the investment manager will not purchase similar securities in the Underlying Investment Fund in the future.
- 4.4 We will also evaluate whether continuing to invest the Scheme's assets in the Underlying Investment Fund is appropriate based on the following factors:
- Significance of the breach.
  - Significance of the Underlying Investment Fund's holding in the security.
  - The nature of securities (for example, if a parent company was engaged in an excluded activity (i.e. the manufacturing of tobacco packaging) and a subsidiary company was not engaged in an excluded activity it would be appropriate to invest in subsidiary company).
  - Potential effectiveness of engagement (given context and responsiveness).
- 4.5 If it is determined the investment decisions of the investment manager of the Underlying Investment Fund are inconsistent with our Ethical Investment Policy a formal review of the Underlying Investment Fund will be undertaken based on the assessment guidelines - see paragraph 4.6.

### Assessment Guidelines for investing in new Underlying Investment Funds

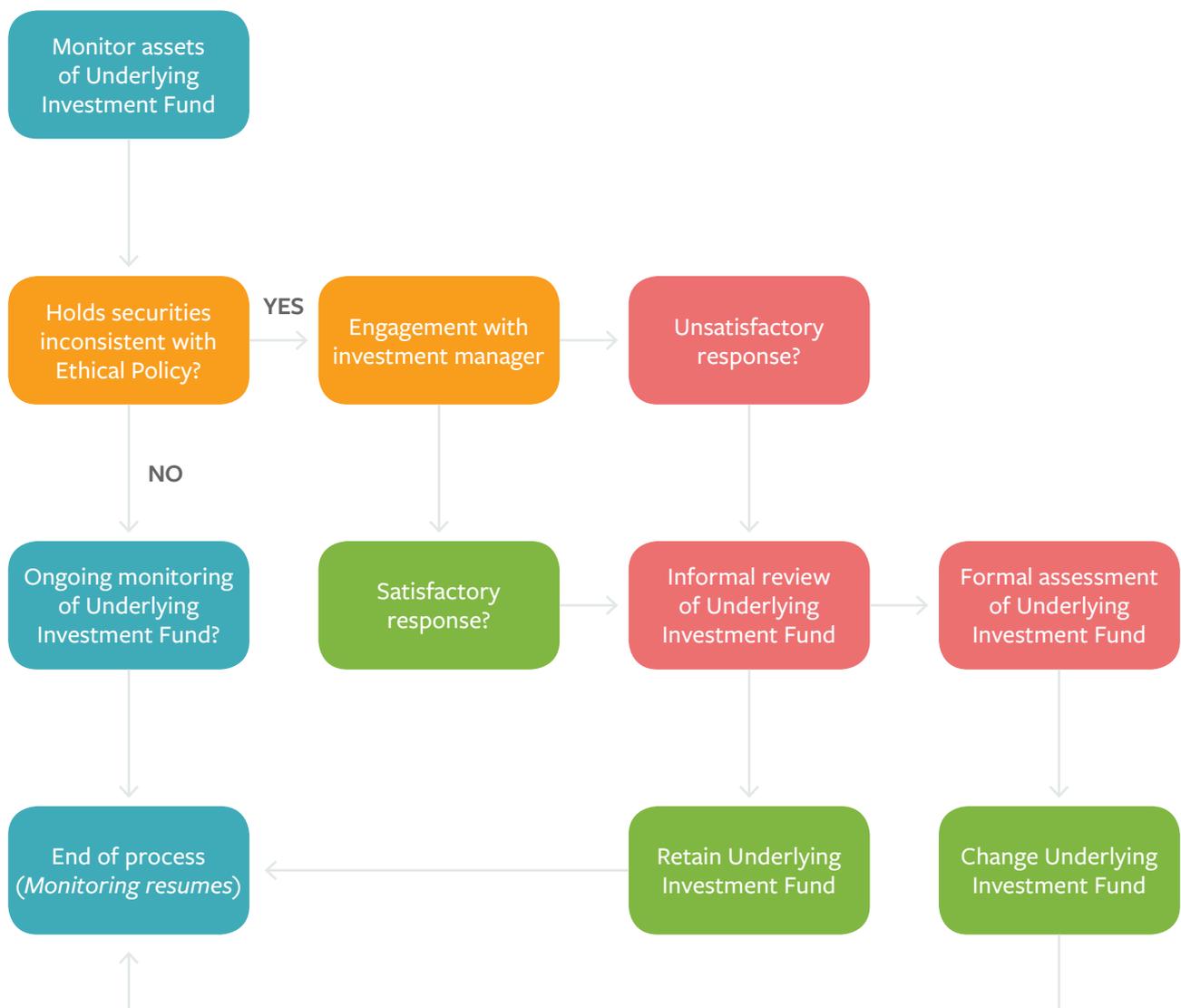
- 4.6 When we are considering investing Scheme assets in a new Underlying Investment Fund or reviewing an existing Underlying Investment Fund the following factors are taken in to account:
- When considering whether to initiate or retain an investment in an Underlying Investment Fund, Shamrock must take into consideration the extent to which the investment manager of the Underlying Investment Fund invests in a manner that is in line with or contrary to Shamrock's Policy.

- In making this assessment, we will look at the extent to which the investment manager has made investments (or seems likely to invest) in activities set out in our Excluded Activity List. If we assesses that the investment manager of an Underlying Investment Fund does not fully adhere to the same ethical standards in our Ethical Investment Policy, this will not necessarily preclude us from investing, or continuing to invest, in the Underlying Investment Funds, but must be taken into account and weighed up as a negative factor in the decision as to whether or not to initiate or retain the investment. Factors relevant to this evaluation include:
  - whether or not the manager is a signatory to the UNPRI; or
  - whether or not the investment manager of the Underlying Investment Fund is a signatory of any other responsible investment organisation; or
  - whether or not the investment manager of the Underlying Investment Fund has adopted its own ethical standards and policies (including procedures for excluding activities) and if so the extent to which these are in accordance with Shamrock's Ethical Investment Policy; or
  - the extent to which Shamrock is able to determine the holdings within Underlying Investment Fund through time; or
  - where we are able to determine the holdings of the Underlying Investment Fund:
    - > the total proportion held in companies engaged in activities subject to investment restrictions under New Zealand legislation (for example, companies engaged in the manufacture of cluster munitions) not exceeding 1.00% of the Scheme's total property; and
    - > whether the Underlying Investment Fund has provided new capital or lending to entities involved in unethical activities, or whether the investment in unethical activities has only involved the purchase of existing securities in the secondary market.
- In making the final decision whether to invest (or continue investing) in an Underlying Investment Funds, we need to, based on an objective assessment, weigh the negative ethical investment factors against Shamrock's legal and fiduciary duties to Scheme members. In other words, based on an objective assessment, if there are no suitable and readily available alternative Underlying Investment Fund (with the similar investment returns characteristics and fees) would a reasonable Scheme member object to the level of unethical activities in the Underlying Investment Fund being considered versus their investment return were those assets not held in the Underlying Investment Fund.

## 5. Reporting and Monitoring

- 5.1 Ethical investment changes to PDS or SIPO's of Underlying Investment Funds that the Scheme is invested in are monitored and reviewed six-monthly (or more frequently as required) by our investment adviser and Scheme Secretary and formally reported at the next Shamrock Board meeting or more frequently as required.
- 5.2 The Policy is referenced in the Scheme's PDS as required by section 129 of the KiwiSaver Act 2006 (as the Scheme is complying superannuation fund).

# Monitoring Guidelines of Underlying Investment Funds



mysuper

mysuper

Freepost 130993

PO Box 242

Wellington 6140

0508 MYSUPER (0508 697 873)

hello@mysuper.co.nz