

Generate™

Generate KiwiSaver Scheme **Responsible Investment Policy**

30 Sept 2018



Signatory of:



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1. Policy Statement

Investing in a way that incorporates environmental, social and governance (**ESG**) issues, manages risk and generates sustainable long-term returns is an important consideration in Generate Investment Management Limited's (**Generate**) investment decision making process. This policy describes the values based excluded investments and some of the most important ESG issues considered for direct investments and investments made via Underlying Funds. This policy supplements the Statement of Investment Policy and Objectives (**SIPO**).

Generate believes that proactively managing ESG issues will deliver stronger long-term investment returns.

2. Background

Generate became a signatory of the United Nations Principles for Responsible Investment (**UNPRI**) on 10 May 2018. As an investment manager signatory, we have declared our commitment to the UNPRI regarding responsible investment.

Generate has committed to:

- Incorporate ESG issues into investment analysis and decision-making processes;
 - Be an active owner and to incorporate ESG issues into our ownership policies and practices;
 - Seek appropriate disclosure on ESG issues by the entities in which we invest;
 - Promote acceptance and implementation of the UNPRI within the investment industry;
 - Work with the PRI Secretariat and other signatories to enhance their effectiveness in implementing the UNPRI;
 - Report on our activities and progress towards implementing the UNPRI.
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3. Our approach

The Investment Committee is responsible for overseeing investment decisions of the Scheme that are made by the Investment Executive and monitoring compliance with the SIPO. As part of this remit the Investment Committee is responsible for ESG oversight and maintaining the Scheme's Approved Issuer List (**AIL**). Generate's responsible investment approach includes negative screening and ESG integration. Generate's initial and ongoing due diligence activities are described below.

Negative screening for excluded investments

Investment decision-making first involves an assessment of whether the investment must be excluded on the basis that it is inconsistent with certain values-based criteria.

Specifically, direct and Underlying Fund investments into companies involved in the following activities are excluded:

- Cluster munitions;
- Anti-personnel mines;
- Chemical weapons;
- Nuclear weapons;
- Whaling; or
- Manufacture of tobacco.

An investment will not be eligible for inclusion on the AIL if it is an excluded investment. On a six-monthly basis, the Investment Executive will repeat our due diligence on a sample of the AIL, or at any time if relevant material information becomes available. If a directly held AIL investment is discovered to contravene our excluded investments, we will sell the investment in an orderly fashion to protect members' interests.

We recognise and accept some risks associated with investing in Underlying Funds. There is a risk that Underlying Funds may hold excluded investments from time to time. As we are not part of the Underlying Funds investment making decision process, we are unable to know exactly what Underlying Funds are investing in on an ongoing basis. If an AIL investment in an Underlying Fund is discovered to contravene our excluded investments, we will first engage with the Underlying Fund manager to recommend this investment is sold. If this engagement is unsuccessful, we will then dispose of our investment in the Underlying Fund in an orderly fashion to protect members' interests.

In addition to the above listed excluded investments we will avoid investing directly in companies that have displayed behaviour that we determine shows a complete disregard for our approach to responsible investing. We will take into account any evidence of change in company activities or behaviour when making these exclusion decisions.

ESG integration

The Investment Executive conducts due diligence on all investments before they are included on the AIL and will include consideration of broader ESG issues as part of their on-going investment management activities. Examples of the factors considered are set out in section 4.

ESG integration promotes consideration of investments that are expected to have a positive real-world impact. This means we will prefer investments that have positive findings regarding ESG issues where all other factors are equal. Investments will not be excluded from the AIL solely based on negative findings regarding ESG issues. However, as we rely on boards and management to make positive decisions regarding ESG issues, we may engage with organisations who we consider have high risk ESG issues or concerning behaviour as identified during our investment analysis. This engagement will be to encourage the organisation to adopt better ESG practices and encourage disclosure of these practices.

Initial due diligence includes consideration of ESG issues as part of the qualitative research conducted for our investment analysis. For Underlying Funds, this involves understanding the Underlying Fund's Responsible Investment Policy (if it exists). Ongoing due diligence is conducted either by a review of reporting information issued by the Underlying Fund or by requesting confirmation that specific investments have been excluded from their portfolio. However, where an Underlying Fund has its own Responsible Investing Policy that meets our expectation regarding ESG issues we consider this provides sufficient assurance that their activities align with our approach.

4. Examples of ESG issues

ESG issues include but are not necessarily limited to:

Environmental issues for consideration relate to the quality and functioning of the natural environment and natural systems. These include excessive and harmful: pollution, resource depletion, use of toxic chemicals, and the endangerment of animal species.

Governance issues for consideration relate to the governance of companies. These include strong governance structures, appropriate executive control and high levels of transparency. Governance is concerned with the way organisations are governed, as distinct from the way businesses within those companies are managed on a day to day basis.

Social issues for consideration relate to the rights, well-being and interests of people and communities. These include human rights, health and safety, child labour, community relations and respect for the rule of law.

5. Active Ownership

Active ownership is about exercising our rights and using our influence as an investor. We consider that our constructive and effective active ownership approach to ESG issues regarding direct investments, consisting of the activities listed below, can encourage companies to improve their responsible investing behaviour which is likely to provide greater benefits than divestment alone. Engagement is undertaken pragmatically and subject to Generate's size of investment, resource and ability to influence positive outcomes.

Our active ownership activities include:

- **Governance and voting** – to encourage high governance standards across markets and asset classes.
 - **Monitoring and engagement** – dialogue with companies and Underlying Funds over significant breaches of standards and to encourage best practice.
 - **Substantial owner** – engagement on material ESG issues with companies and Underlying Funds in which we have a significant interest.
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6. Reporting

Details of portfolio holdings are accessible by clients via their online accounts. This information is regularly updated and contains a breakdown of direct investments and Underlying Funds. Information on investments held by Underlying Funds and respective responsible investment policies are available on the Underlying Funds' own websites (which can be accessed via links from our website).

The Compliance Officer reports results of ongoing due diligence to the Investment Committee on a six-monthly basis.

Generare will publicly report on responsible investment activity annually from the second anniversary of becoming a signatory to the UNPRI. This reporting is conducted in accordance with the UNPRI reporting framework.

Details of what is expected is available at:
<https://www.unpri.org/signatories/signatory-accountability>

7. Governance

The following roles are responsible for the execution, management and oversight of the Responsible Investment Policy:

Investment Committee – Policy approval, reviews and monitors policy execution.

Investment Executive – Executing the policy in investment decisions.

Compliance Officer – Reporting deliverables and ongoing due diligence of Underlying Funds.

This Responsible Investment Policy will be reviewed annually or more regularly as required. During this review, the persons responsible will consider developments in responsible investing practices. This policy is subject to change at any time.

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