# Socially Responsible Investment Policy

*23 September 2017*



## Our approach to investing

We take a long-term approach to investing. We believe that this will produce better risk weighted returns for our investors than focusing on a short-term horizon.

Given we are investing for the long term, we want to invest in a way that is consistent with our values as a fund manager. We want to avoid (or engage with) companies that cause harm to individuals, society or indeed the planet. We'd like to reward companies that adopt and implement sound long term practices.

## Our approach to investor values

We recognise that values are personal and will vary from one investor to the next. Through a managed fund it is hard to settle on one responsible investment or ethical strategy that will suit everyone. We see our role as:

- ***Clearly communicating*** how socially responsible or ethical aspects of investing are applied in our funds. A high level of transparency means each investor can then decide if our approach is suitable for them.
- ***Listening*** to and engaging with our investors to understand commonality of values. The outside world constantly changes, and so do social values and concerns. We need to be sure our investment process has the flexibility to adapt. This is part of being socially responsible.

## Ethical and socially responsible investment strategies

Below is a short summary of different types of socially responsible or ethical investment. We then summarise in a table how these apply to each of Pathfinder's funds:

***"Exclusions"*** (which is also known as "negative screening") is avoiding companies with revenue sources from (or activities in) certain industries. This could include, for example, tobacco, land mines, adult entertainment and gambling. This approach is seen by many as negative (because it excludes companies) meaning we have a preference to team exclusions up with other strategies where possible.

***"Sustainable theme"*** investing is investing in ideas making the planet a better place. These include clean energy and water treatment.

***"Norms-based"*** investing is guided by international treaties and government policy on what is acceptable. This approach is adopted by the NZ Super Fund. For example in a New Zealand context norms based investing excludes cluster munitions manufacturers (as NZ is one of over 100 countries that have joined the UN's Convention on Cluster Munitions).

***"Engagement"*** is not excluding companies but rather voting, engaging and lobbying as a shareholder for change.

***"Controversy ratings"*** are a scoring process for companies based on current news flow, law suits and reported business activities. High current levels of controversy may be a threat to the long-term growth and even survival of a business. This will impact financial returns. A very high controversy rating is also likely to cause harm to the environment or society

***"ESG integration"*** Responsible investment incorporates environmental, social and governance (**ESG**) factors into investment decisions to better manage risk and generate sustainable, long-term returns (*source: UNPRI website*). ESG integration means reviewing ESG factors and integrating these into investment decisions. This can involve reviewing workplace accidents, environmental incidents, governance effectiveness, tax transparency and product recalls. We expect share prices of companies that score highly on ESG metrics to perform better than low scoring companies over long time periods. This may be explained through business advantages that improved ESG practices may provide:

- lowering reputational risk
- raising employee satisfaction (meaning greater productivity)
- increasing consumer engagement (meaning greater customer loyalty) and
- stronger corporate governance and oversight

***"Impact investing"*** is relatively new and focused on generating social or environmental benefits as well as a financial return. Impact investing is generally very targeted, such as providing affordable housing or healthcare in a specific area. This means social outcomes can be clearly measured. Impact investments are typically private transactions rather than widely available managed funds (meaning none of our funds target this strategy).

## The strategies our funds use

Below sets out which responsible investment and ethical strategies apply to our Funds:

| | *ESG integration* | *Engagement* | *Norms based* | *Sustainable theme* | *Exclusions* |
|---|---|---|---|---|---|
| ***Global Water Fund*** | *Yes* | *Yes* | *Yes* | *Yes* | *Yes* |
| ***Global Property Fund*** | *Yes* | *Yes* | *Yes* | --- | *Yes* |
| ***Global Responsibility Fund*** | *Yes* | *Yes* | *Yes* | --- | *Yes* |
| ***World Equity Fund*** | --- | --- | *Yes* | --- | *Yes* |
| ***Responsible Investment Fund (wholesale only)*** | *Yes* | *Yes* | *Yes* | --- | *Yes* |
| ***Commodity Plus Fund*** | --- | --- | --- | --- | *Yes*[1] |

*[1] The Commodity Plus Fund invests in commodity futures. It is a specialised fund and accordingly it's exclusions are relatively narrow: (1) it does not invest in the shares of commodity producers, extractors or refiners and (2) it will not invest in commodities related to nuclear weapons (i.e. uranium) or thermal coal.*

## United Nations Principles for Responsible Investment (UNPRI)

Pathfinder is a signatory to the UNPRI. This expresses our commitment as a fund manager to embed responsible investment into our business and investment processes. We believe implementing the UNPRI will lead to better investment outcomes for our investors and better outcomes for society generally.

There are 6 UNPRI principles which can effectively be broken into 2 groups. *The first 2 Principles set the scope for behaviour of fund managers as asset owners:*

1) incorporate environmental, social and governance (**ESG**) issues in investment analysis
2) be an active owner and incorporate ESG into ownership practices

*The next 4 Principles are about promoting wider acceptance and implementation of ESG:*

3) seek entities invested in to disclose on ESG issues
4) promote acceptance of the Principles within the investment industry
5) work with others to effectively implement the Principles
6) report on activities and implementation of the Principles

## Our providers and other key organisations

Implementing the UNPRI requires specialist skills and access to in-depth and constantly updated research. We work with our global partners (*Sustainalytics and CGI Glass Lewis*) to ensure that the responsible investment practices we explain to our investors are effectively embedded in our funds. We also informally engage with key organisations involved in responsible investment (*such as the Responsible Investment Association of Australasia and the NZ Super Fund*) to promote responsible investment in NZ and to better understand how this area of investment is evolving.

Some short notes on each of these organisations are below:

***Sustainalytcs:*** For the Global Water Fund, Global Responsibility Fund and Global Property Fund we have engaged Sustainalytics (a global environmental, social and governance (**ESG**) and corporate governance research and analysis firm) to assist our research process by:

- identifying company involvement in areas such as controversial weapons, thermal coal and others (based on revenue sources and business activity)
- monitoring and reviewing levels of current “controversy” (ESG related incidents) from company activities
- rating companies on environmental, social and governance criteria

Headquartered in Amsterdam, Sustainalytics has 12 offices around the world.

***CGI Glass Lewis (CGI):*** CGI are a leading independent provider of global governance services. They help institutional investors (like Pathfinder) understand and connect with the companies invested in. CGI provide research recommendations and proxy voting services for our Global Water Fund, Global Responsibility Fund and Global Property Fund. Headquartered in San Francisco, CGI has 9 offices around the world.

***Responsible Investment Association of Australasia (RIAA):*** RIAA is the peak industry body representing responsible and ethical investors across Australia and New Zealand. Its members manage more than $1 trillion in assets and include super funds, fund managers, consultants, researchers and financial advisers. John Berry (CEO of Pathfinder) is a member of RIAA. Pathfinder is a sponsor (and actively participates in) RIAA's annual NZ conference.

***NZ Super Fund:*** The NZ Super Fund is a long-term, growth-oriented, global investment fund. Its mandate includes best practice portfolio management and avoiding prejudice to NZ's reputation as a responsible member of the world community. This has led the NZ Super Fund to become a leader of promoting awareness and debate around responsible investment in New Zealand. The NZ Super Fund is regarded as having adopted a best practice approach, including integrating ESG into investment decisions and engagement with companies. Pathfinder uses the published list of companies excluded by the NZ Super Fund as a reference point for developing our own exclusion lists for our equity funds.

## Final points

Pathfinder strives to help promote awareness and ideas around socially responsible investment. Part of this is to encourage investors and investment professionals to consider a range of views and perspectives. There is no single objective right answer and ideas may evolve over time.

Some of our "high level" views, and how these relate to our investment process, are below:

| | What we believe | How we apply it |
|---|---|---|
| **Social impact** | Investors should consider the impact of their investments on society and on the environment. | This is a basic premise that we incorporate into our funds. |
| **Exclusions** | We believe there are some industries that are harmful to society and/or the environment and we should avoid investing in them. | We apply exclusions to our equity funds. We believe fund managers should offer investors strategies that go further than just exclusions – we do not believe that exclusions alone go far enough. |
| **Engaging with companies** | Investors working collectively have an opportunity to influence the direction of companies. | Where possible we include engagement in our funds (we have contracted with CGI Glass Lewis for this purpose). |
| **"G" (*governance*)** | Better governed companies will do better over the long term. | In several of our funds maximising the "ESG" factor is a crucial part of the investment process. |
| **"E" and "S" (*environment and social*)** | Considering all operational risks over a long-term horizon means investors must include environmental and social factors (as well as governance factors) in their investment process. | This isn't simply a "values" or "ethical" judgement – it also makes good investment sense to maximise return and minimise company specific risk. |