

Exclusion Policy

April 2018



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.

Embedding responsible investment principles and practices into Pathfinder's business and investment process is key.

We believe that some investments should be avoided due to their significant negative impact on society and the environment, irrespective of their potential short-term investment returns. There are a handful of sectors or industries that face major Environmental, Social and Governance issues and we believe this will make poor long-term investments. Because of these risks, we choose to avoid investing in companies with revenue sources from (or activities in) these industries.

We implement a range of negative screens and exclusions to achieve our investment objectives. We currently avoid investing in adult entertainment, controversial weapons, gambling, oil sands, thermal coal and tobacco. Please note the specific exclusions apply to our World Equity Fund, Global Responsibility Fund, Global Property Fund, and Global Water Fund.

Specific exclusions

1. Adult Entertainment

Adult entertainment has been linked to domestic and international human trafficking, sexual exploitation and underage pornography. Pathfinder uses Sustainalytics research to screen against:

- *Production or owning adult entertainment:* Companies involved (or those who own a significant percentage of a company) in the production of adult entertainment and/or own/operate adult entertainment establishments; and
- *Distribution of adult entertainment:* Companies involved (or those who own a significant percentage of a company) in the distribution of adult entertainment.

2. Controversial Weapons

Pathfinder deems controversial weapons to be anti-personnel mines (APM), biological and chemical weapons, cluster weapons, depleted uranium ammunition, nuclear weapons and white phosphorus weapons. In line with our commitment to responsible investment, we have

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chosen to support the national and international legislation below and not invest in controversial weapons.

- Cluster Munitions Prohibition Act NZ (2009)
- Nuclear Disarmament & Arms Control Act NZ (1987)
- Convention on Cluster Munitions (2008)
- South Pacific Nuclear Free Treaty (1986)
- Nuclear Non-Proliferation Treaty (1970)

We will not knowingly hold any security that derives revenue from or provides funding for controversial weapons. Pathfinder uses Sustainalytics research to screen against:

- *Tailor made and essential*: Companies involved (or companies who are involved via corporate ownership) in the core weapon system, or components/services of the core weapon system that are considered tailor made and essential for the lethal use of the weapon.
- *Non-tailor made or non-essential*: Companies involved (or companies who are involved via corporate ownership) in the core weapon system which are either not considered tailor-made or not essential to the lethal use of the weapon.

3. Gambling

An assessment on the Social Impacts of Gambling in New Zealand reported that those who had higher levels of participation in gambling activities (based on time spent and losses relative to income) perceived themselves to have significantly worse physical health, worse mental health and lower satisfaction with life (Centre for Social and Health Outcomes Research and Evaluation, December 2008 reported to the New Zealand Ministry of Health).

Pathfinder uses Sustainalytics research to screen against:

- *Gambling operators*: Companies that own and/or operate (or own a significant percentage of a company owning or operating) a gambling establishment; and
- *Gambling equipment manufacturers*: Companies that manufacture (or own a significant percentage of) specialised equipment exclusively for gambling.

4. Oil Sands

There are serious environmental and community risks associated with extracting oil from oil sands, which include deforestation, wildlife destruction and community displacement. The Green House Gas (GHG) emissions from oil sands extraction are highly carbon intensive and are significantly higher than those of conventional crude oil.

Pathfinder uses Sustainalytics research to screen against:

- *Oil sand extraction*: Companies who extract oil sands (or those who own a significant percentage of a company extracting oil sands).

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5. Thermal Coal

Emissions from burning thermal coal used for heat, energy and fuel have serious environmental impacts on our water, air and climate. Burning coal is the arguably one of the biggest sources of carbon dioxide emissions from human activity.

Note that we may not exclude investments in Metallurgical coal which is used in the process of creating iron and steel-making.

Pathfinder uses Sustainalytics research to screen against:

- *Thermal coal extraction*: Companies that extract thermal coal (or those who own a significant percentage of a company extracting thermal coal); and
- *Thermal coal power generation*: Companies that own 10-50% of another company with involvement in the generation of electricity from thermal coal.

6. Tobacco

Tobacco products are legal and the use and purchase of these is an individual's right. However, the negative health impact of tobacco is proven, and the industry's unethical business conduct has been highlighted on numerous occasions. We have chosen to support the WHO Framework Convention on Tobacco Control (2003) whose aim is to "protect present and future generations from the devastating health, social, environmental and economic consequences of tobacco consumption and exposure to tobacco smoke". We therefore have chosen to exclude tobacco related investments from our portfolio

Pathfinder uses Sustainalytics research to screen against:

- *Tobacco manufacture*: Companies (or those who own a significant percentage of a company) that manufacture tobacco products;
- *Tobacco supply*: Companies that supply tobacco related products/services; and
- *Tobacco distribution*: Companies that derives 10 per cent or more of its revenues from the distribution and/or retail sale of tobacco products.

Pathfinder can implement one-off portfolio reviews of themes or business operations that may result in further exclusions. For example, the March 2018 review of fossil fuel companies (which included reviewing arctic drilling and renewables investment) resulted in 9 companies being sold and excluded from the Global Responsibility Fund.