Our approach to Socially Responsible Investing (SRI)

Sustainability is integral to Te Ao Māori, and kaitiakitanga – guardianship or stewardship –is a core part of our investment advice approach.
Because of this, when we design our portfolios, we are looking for responsible investing and sustainability factors for our clients. These factors are environmental, social and governance, commonly shortened to "ESG" factors.
We believe our socially responsible models incorporate ESG to a higher degree than any of our peers, and in addition, have lower greenhouse gas emissions. Our approach has resulted in lower fees and better performance than most funds in the market that we compare ourselves with[1].

What are "ESG" factors?

Environmental

We look for how each business performs as a steward of our natural environment and focusses upon:

- Waste and pollution
- Resource depletion
- Greenhouse gas emissions
- Deforestation
- Climate change

Social criteria

For this factor, we look at how each company treats people, and concentrates on:

- Employee relations and diversity
- Working conditions, including child labour and slavery
- Local communities – looks for and funds projects and institutions that will serve poor and underserved communities globally
- Health and safety
- Conflict

Governance

This factor examines how a corporation polices itself and how the company is governed such as:

- its tax strategy
- executive remuneration
- donations and political lobbying
- corruption and bribery
- board diversity and structure

[1] According to our research partners MyFiduciary, November 2021, "ESG approach and integration"

Trustee Fiduciary Duty

IWIinvestor, and our research partner, MyFiduciary, have long believed that climate change factors will have an impact on investment outcomes.

Given this, we therefore believe that Trustees have a fiduciary duty to review, consider and understand how climate change could affect their organisation's investment strategy, and to make changes to their investment strategy if they assess climate risks as being material to their portfolio.

This view was confirmed in a legal opinion prepared by Chapman Tripp in August 2021. We recognise this duty in the portfolios that we offer our clients.

How our processes help you meet your fiduciary duty when it comes to climate change:

1. We will attempt to design portfolios that have superior ESG characteristics and reduced exposure to climate change risks. This approach is taken at the overall portfolio level, so not every product within a portfolio needs to meet these objectives, as there are several asset classes where ESG and/or low-carbon products are not available or feasible for our clients for example infrastructure funds.

2. We use managed funds to ensure client portfolios are efficient and highly diversified. In doing so we recognise that this may imply ownership shares in companies or activities that some people may not approve of. Generally, these positions will be a very small fraction of the portfolio. Often there is no cost-effective way of identifying and excluding these companies from the investment universe of several thousand companies. However, we continuously engage with fund managers and seek investment options that minimise the risk of investing in companies that do not meet our responsible investing standards.

3. Our due diligence will consider whether the fund managers' responsible investing and climate change policies and procedures and assess whether they are appropriate to their asset class and investment strategy.

4. We will also consider how fund managers actively vote their shares in line with principles of good corporate governance.

5. If you have higher SRI requirements, we will ensure that managers integrate ESG factors, including climate change, into their investment process and report on their Responsible Investment activities. This reporting will include how their portfolios are positioned with regards to climate change.

6. Where possible, we will prefer investment funds that have a reduced carbon exposure relative to the market.

7. We will consider fees, costs, tax efficiency and manager quality when deciding between low-carbon and traditional funds. A traditional fund would need to be materially better than a low-carbon equivalent before we would favour it.

8. We will actively monitor and review new investment products so that we are fully aware of the options available.

9. We will periodically review managers' SRI and climate change policies as part of our ongoing fund monitoring.

10. We will actively engage with fund managers to try to improve the products that are available.

11. We will work with fund managers to provide useful SRI and climate change reporting.

12. We will work with other investors and industry groups to better understand the financial impacts of climate change, and to encourage fund managers to provide products that are better suited to our investors' needs.

Our due diligence approach

We engage MyFiduciary to help perform due diligence of fund managers which includes qualitative and quantitative elements. This includes with regard to SRI where typically we will:

- Examine a firm's SRI policy for exclusions, ESG integration and how they engage with companies. We will then compare this to other managers SRI policies and discuss in person their approach with funds management staff.

- Seek evidence where a fund manager is seeking to grow and engage as an industry by being involved in various groups such as United Nations Principles for Responsible Investing, Responsible Investment Association of Australasia (RIAA), and other local groups.

- Ask for examples of how managers have positively engaged with companies and how they have exercised their proxy votes.

- Ask for evidence of how the integration of ESG (if relevant) impacts security selection (typically this involves evidencing spreadsheets or other systems managers have in place).

- Run the managers funds through our research databases to independently examine how their SRI approach flows through to a fund ESG ratings and carbon emissions.

MyFiduciary will monitor how a manager meets its SRI approach and how this flows through to client reporting includes:

- Regular in person or zoom calls with managers in which SRI is always a topic on the agenda.

- Periodic (at least annual) updating of our records of their SRI policies.

- Client reports (e.g., the quarterly reports that MyFiduciary provides to IWIinvestor) that for each fund manager summaries their SRI approach and any exclusions. In addition, we have recently begun to report on GHG emissions for select funds and have in train whole of portfolio reporting as part of our Carbon Zero commitment.

As at November 2021, MyFiduciary, our research partner, have produced this continuum to explain where IWIinvestor's ethical approach sits compared to KiwiSaver investments: