

Simplicity



Responsible Investment Policy

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Simplicity NZ Limited

Document Owner

Chief Operating Officer

Contributors

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Review Cycle

Annually - due for next review January 2024.

Document History

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1.0	21 November 2021	Approved Final Policy	COO	Final
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2.2	31 January 2023	Approved	Head of Product	Final
2.3	24 April 2023	Updated to include transition to DWS rather than Vanguard.	Head of Product	Final

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Introduction

This policy describes Simplicity NZ Limited's (Simplicity, us, we) approach to responsible investment. This policy is to be read alongside our scheme governing documents, including the Statement of Investment Policy and Objectives ("**SIPO**"), Product Disclosure Statement ("**PDS**") and Other Material Information ("**OMI**"). Any external manager that we engage is required to have a responsible investment approach that is consistent with our policy.

Our governing principles guide everything we strive to do. We believe in:

- Providing our investors with dignity in retirement.
- Offering New Zealanders effective, low-cost financial products.
- Giving the benefits of scale to investors.
- Being responsible investors.

Our purpose is to deliver market returns consistent with the risk profile of each Fund on a low-cost basis. Our investment philosophy is to take a passive approach and pass on fee savings to members.

We consider the term 'responsible investment' to be interchangeable with other terms in common use including 'ethical', 'sustainable', and 'ESG' that describe a similar approach to investing.

Simplicity NZ Limited is a non-profit company which is 100% owned by the Simplicity Foundation. We endeavour to conduct our business as a responsible corporate citizen. This policy specifically refers to how we manage and make decisions on the investments.

This policy is reviewed annually and approved by the Board. Key terms in this policy have the same meaning as in our SIPOs.

Negative Screening

Our passive investment approach applies a negative screening (exclusion) method to implement our responsible investment preferences. There are two components to how we apply negative screening: (i) a list of excluded business activities (see: Schedule 1); and (ii) behaviour-related exclusions (see: Schedule 2).

All portfolios, regardless of whether they are managed internally or by an external manager are required to comply with this policy without exception.

The policy and associated exclusions reflect Simplicity's values and take into consideration survey and anecdotal feedback from our members and investors. We believe the policy aligns well with consumer research performed by RIAA¹ and Mindful Money².

The policy does not consider relative investment performance over any timeframe between a screened or unscreened index.

Future exclusions

This policy, including the exclusions criteria, is subject to annual review to ensure that it remains fit for purpose, and may be updated from time to time to reflect any relevant changes to the business and investment environment, societal norms and investor attitudes.

Policy breaches

Compliance with this policy is monitored through our broader mandate (SIPO) compliance controls. For domestic portfolios the small number of exclusions are monitored by our investment team. Offshore portfolio mandates are subject to a pre-screened index, with our external manager applying both pre- and post trade compliance controls to ensure investments are confined to this index.

In the event of a passive breach of this policy (which may occur due to timing issues where the nature or classification of a company's activities change, rendering them excluded) or an unintentional breach (where an excluded security is traded in error by Simplicity or its external manager) our standard SIPO breach procedures will apply, and the breach will be remedied as soon as practicable. In the event that the investment that caused the breach is illiquid and can not be disposed of promptly, we will use voting rights where applicable until such time as the security has been removed or the issue has been resolved.

Where a breach occurs our incident response will include a review of the relevant processes and controls and where appropriate the implementation of process improvements to mitigate the risk of recurrence.

To promote transparency we publish a list of the securities in our funds each quarter via our website.

¹ <https://responsibleinvestment.org/nz-consumer-research/>

² <https://mindfulmoney.nz/news/category/reports/>

Stewardship

Voting

Where exposure to an asset class is achieved through an index fund managed by an external manager, they exercise voting rights in accordance with their policy. An annual report is provided to our Investment Committee on the external manager's voting activity and is publicly available.³

Where investments are managed by Simplicity we exercise shareholder voting rights by proxy where we consider it is in the interests of investors. Our Investment Committee evaluates whether and how to exercise voting rights on a case-by-case basis in line with the principles of good corporate governance and this policy. Any notable proxy voting actions are communicated to investors as appropriate..

Shareholder advocacy

Where we identify investee entity conduct that we consider to be contrary to the interests of our investors we may use the funds' position as shareholder to engage directly with the board and management of that entity to address the issue and promote positive change. The manner of engagement would be as we deemed appropriate in the circumstances and would prioritise the interests of our investors while considering the broader market and public good.

Governance

Governance

Simplicity's Investment Committee ("**Investment Committee**") is responsible for oversight of this policy. This includes receiving confirmation from management on a quarterly basis that:

- Negative screens as described in Schedule 1 and Schedule 2 have been applied appropriately; and
- Corporate governance functions as described in the SIPO have been performed appropriately.

Climate disclosures

³ See reports: <https://www.dws.com/solutions/esg/corporate-governance/>.

Climate change is an important issue for Simplicity. We are fully committed and supportive of the newly mandated sustainability standards by XRB as part of a climate-related disclosures framework. This implements recommendations that are structured around four key areas:

- Enhancing governance;
- Incorporating further how climate related risk will impact our broader strategy;
- Better risk management as it relates to climate; and
- Taking a proactive approach to metrics and targets across our business and investment holdings.

The new framework and standards are considered international best practice for climate-related financial reporting and are already being applied on a voluntary basis by some entities in New Zealand and other countries.

More information is available here:
<https://www.xrb.govt.nz/standards/climate-related-disclosures/>

Financial risks

There may be a difference in returns between a responsibly screened index and a corresponding unscreened index. We make no claim or representation that one or the other produces better or worse performance over any timescale, but acknowledge the risk that a screened index may underperform a corresponding unscreened index. This policy applies a negative screening (exclusion) methodology as a non-financial factor to enable our funds’ investments to represent our values and what we believe is important to our investors based on industry research and feedback we have received, as described above.

Information on the screened indices applied under this policy and what we have identified as the closest unscreened equivalent index is as follows:

Screened indexes	Closest unscreened equivalent index
<p>Simplicity Global Hedged Share Fund has a benchmark index of the Bloomberg DM ex NZ ESG Screened Index (NZD hedged).</p> <p>Simplicity Global Unhedged Share Fund has a benchmark index of the Bloomberg DM ex NZ ESG Screened Index (Unhedged).</p> <p>For more details, see: simplicity.kiwi</p>	<p>FTSE Developed ex Australia Index</p> <p>For more details, see: https://research.ftserussell.com/Analytics/Factsheets/Home/DownloadSingleIssue?issueName=FGCDXAU&IsManual=false</p>

<p>Simplicity Global Hedged Bond Fund has a benchmark index of the Bloomberg MSCI Global Aggregate SRI Exclusions Float Adjusted Index (hedged into New Zealand dollars).</p> <p>For more details, see: simplicity.kiwi</p>	<p>Bloomberg Global Aggregate Bond Index. Note, an appropriate comparison would be hedged to NZD.</p> <p>For more details, see: https://www.ssga.com/uk/en_gb/institutional/etfs/funds/spdr-bloomberg-global-aggregate-bond-usd-hdg-ucits-etf-acc-spfv-gy</p>
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External Managers

Our external managers must have an approach to Responsible Investment that aligns with this policy.

DWS

All international investments are managed by DWS International GmbH (DWS). DWS applies our exclusions described below (see: Schedules 1 and 2). DWS operates a series of controls across their end-to-end investment management process to ensure that investments held are consistent with the relevant screens.

Icehouse Ventures Limited

Icehouse Ventures Limited is contractually bound to maintain a responsible investment policy which is consistent with ours. Icehouse is required to formally monitor and report to us on their compliance with this policy on a quarterly basis (in addition to continuous disclosure obligations).

Schedule 1: Exclusions Related to Business Operations

Investments in companies that earn over a certain percentage of its revenue from any of the following sectors, will be excluded from all funds. A summarised version is available in the SIPO.

Sector	Product Involvement	Involvement Threshold for Exclusion
Non-Renewable Energy	<p><i>Nuclear</i></p> <p>Companies that generate 5% or more revenue from the production of nuclear power are excluded from the Index.</p>	5% or more of revenues
	<p><i>Oil & Gas</i></p> <p>Companies that generate 5% or more revenue from the production or supporting products/services of oil & gas or electricity generation from oil & gas are excluded from the Index.</p>	5% or more of revenues
	<p><i>Unconventional Oil & Gas</i></p> <p>Companies that generate 5% or more revenues from extracting oil sands, shale energy exploration, and production or oil and gas exploration in the Arctic regions are excluded from the Index.</p>	5% or more of revenues
	<p><i>Thermal Coal</i></p> <p>Companies that generate 5% or more revenue from the extraction or supporting products/services of thermal coal or generating electricity from thermal coal are excluded from the Index.</p>	5% or more of revenues
Vice Products	<p><i>Adult Entertainment</i></p> <p>Companies that generate 5% or more revenues from production of adult entertainment and/or owns/operates adult entertainment establishments, or distribution of adult entertainment materials.</p>	5% or more of revenues

	<p><i>Alcoholic Beverages</i></p> <p>Companies that generate 5% or more revenue from manufacturing alcoholic beverages, or supplying alcohol related products/services to alcoholic beverage manufacturers, or distribution and/or retail sale of alcoholic beverages.</p>	5% or more of revenues
	<p><i>Cannabis</i></p> <p>Companies that generate 5% or more revenue from development and/or cultivation of medical cannabis or cannabis for recreational purposes, or distribution and/or retail sale of medical cannabis or cannabis for recreational purposes.</p>	5% or more of revenues
	<p><i>Gambling</i></p> <p>Companies that generate 5% or more revenue from owning and/or operating a gambling establishment, or manufacturing specialized equipment used exclusively for gambling or providing supporting products/services to gambling operations.</p>	5% or more of revenues
	<p><i>Tobacco Products</i></p> <p>Companies that generate 5% or more revenue from the production of tobacco products or supplying tobacco-related products and services or the distribution and/or retail sale of tobacco products are excluded from the Index.</p>	5% or more of revenues
Weapons	<p><i>Controversial Weapons</i></p> <p>Companies that have any involvement in the core weapon system or components and services of the core weapon system, including significant ownership, tailor-made, and non-tailor made, are excluded from the Index.</p>	0% or more of revenues
	<p><i>Civilian Firearms</i></p> <p>Companies that have any involvement in the manufacture and sell assault weapons to civilian customers, military and law enforcement, or manufacture and sell key components of small arms, or generate any revenue from the retail and/or distribution of assault weapons or small arms.</p>	0% or more of revenues

	<p><i>Military Contracting</i></p> <p>Companies that, in aggregate, generate 5% or more revenue from the manufacturing of military weapon systems, components of these weapons, or tailor-made components of these weapons are excluded from the Index.</p>	<p>5% or more of revenues</p>
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Schedule 2: Exclusions Related to Behaviour

Our investments also exclude companies that are non-compliant with the UN Global Compact guidelines (www.unglobalcompact.org).

Behaviour	Exclusion	Threshold
Controversies	<p><i>Human Rights</i></p> <p>Controversies related to Principles 1 and 2 of the UN Global Compact, which is derived from the Universal Declaration of Human Rights.</p> <ul style="list-style-type: none"> • Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and • Principle 2: make sure that they are not complicit in human rights abuses. 	All companies that are non-compliant
	<p><i>Labour</i></p> <p>Controversies related to Principles 3, 4, 5, and 6 of the UN Global Compact, which is derived from the International Labour Organization's Declaration on Fundamental Principles and Rights at Work.</p> <ul style="list-style-type: none"> • Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining; • Principle 4: the elimination of all forms of forced and compulsory labour; • Principle 5: the effective abolition of child labour; and • Principle 6: the elimination of discrimination in respect of employment and occupation. 	
	<p><i>Environment</i></p> <p>Controversies related to Principles 7, 8, and 9 of the UN Global Compact, which is derived from the Rio Declaration on Environment and Development.</p> <ul style="list-style-type: none"> • Principle 7: Businesses should support a precautionary approach to environmental challenges; • Principle 8: undertake initiatives to promote greater environmental responsibility; and • Principle 9: encourage the development and diffusion of environmentally friendly technologies 	

	<p><i>Anti-Corruption</i></p> <p>Controversies related to Principle 10 of the UN Global Compact, which is derived from the United Nations Convention Against Corruption.</p> <ul style="list-style-type: none">• Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.	