

Socially Responsible Investment Policy

August 2018



Signatory of:



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 positively engage with) companies that cause harm to individuals, society or indeed the planet.

We believe investing in a socially responsible manner will lead to better investment outcomes for our investors and better outcomes for society generally.

Considering all operational risks over a long-term horizon means investors should include Environmental, Social and Governance (ESG) factors in their investment process. We believe that companies that score highly on ESG metrics will likely perform better than low scoring companies over long time periods. 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.

The strategies our funds use

Our socially responsible investment (SRI) process involves different steps which are tailored to each fund. The table below sets out applicable responsible investment and ethical strategies:

	<i>Exclusions</i>	<i>Controversy ratings</i>	<i>ESG integration</i>	<i>Engagement</i>	<i>Norms based</i>	<i>Sustainable attributes</i>
Global Water Fund	Yes	Yes	Yes	Yes	Yes	Yes (Sustainable Theme)
Global Property Fund	Yes	Yes	Yes	Yes	Yes	---
Global Responsibility Fund	Yes	Yes	Yes	Yes	Yes	---
World Equity Fund	Yes	---	---	---	Yes	---
Responsible Investment Fund (wholesale only)	Yes	Yes	Yes	Yes	Yes	---
Commodity Plus Fund	Yes	---	---	---	---	Yes (Green bond investment)

Ethical and socially responsible investment strategies

Below is a short summary of different types of socially responsible or ethical investment.

Strategy	Description
Exclusions	This is also known as "negative screening" and is avoiding companies with revenue sources from (or activities in) certain industries. This could include, for example, tobacco, land mines, adult entertainment and gambling. Pathfinder operates a separate exclusions policy to team exclusions up with other strategies where possible.
Sustainable theme	Investing in ideas that aim to make the planet a better place. These include clean energy and water treatment.
Norms-based	This investing is guided by international treaties and government policies 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	This is not excluding companies but rather voting, engaging and lobbying as a shareholder for change. Shareholders may also engage and encourage change for companies that are already compliant or leaders in their field.
Controversy ratings	This is 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 be related to some form of 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 is likely to encourage investment into business practices that we support, such as:

	<ul style="list-style-type: none"> ▪ Promoting clean energy ▪ Creating sustainable products ▪ Recycling of waste ▪ Energy efficiency <p>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:</p> <ul style="list-style-type: none"> ▪ lowering reputational risk; ▪ raising employee satisfaction (meaning greater productivity); ▪ increasing consumer engagement (meaning greater customer loyalty); and ▪ stronger corporate governance and oversight.
Green Bonds	Green bonds fund projects that provide positive environmental benefits or climate change solutions. Although proceeds are used for specific green projects, the Green Bonds are backed by the issuer's entire balance sheet (like a normal bond).

The table below includes examples of what we expect ESG scoring to capture:

Environmental	Social	Governance
Water stress	Health and safety	Bribery & corruption
Climate change	Consumer protection	Board diversity & structure
Waste and pollution	Labour & working conditions	Shareholder protections
Resource sustainability	Supply chain transparency	Business ethics
Renewable energy	Local communities	Tax strategy
Deforestation	Privacy & data security	
	Innovation	

United Nations Principles for Responsible Investment (UNPRI)

Pathfinder is a signatory to the UNPRI which is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and supports investors in incorporating these factors into their investment and ownership decisions. The PRI have more than 1,800 signatories, from over 50 countries, representing approximately US\$70 trillion.

Being a signatory to the PRI expresses our commitment as a fund manager to embed responsible investment into our business and investment processes.

There are six UNPRI principles of responsible investment, these can effectively be broken into two groups.

	UNPRI Principles	How Pathfinder implement these principles
The first two Principles set the scope for behaviour of fund managers as asset owners.	1) Incorporate environmental, social and governance (ESG) issues in investment analysis.	We see ESG data and financial data as equally important. These are assessed using both internal and external resources. In several of our funds maximising the “ESG” factor is a crucial part of the investment process.
	2) Be an active owner and incorporate ESG into ownership practices.	We believe that 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 to assist us in exercising our voting rights and have joined the Investors Group

		on Climate Change to actively collaborate with other investment managers).
The next four Principles are about promoting wider acceptance and implementation of ESG.	3) Encourage entities we invest in to disclose on ESG issues.	We will support and vote with other shareholders encouraging investments to disclose additional ESG information.
	4) Promote acceptance of the Principles within the investment industry.	We communicate our ESG expectations to our investment service providers and where appropriate include PRI related requirements in the external agreements.
	5) Work with others to effectively implement the Principles.	We are involved in the peak industry body representing responsible and ethical investors across Australia and New Zealand, Responsible Investment Association Australasia (RIAA).
	6) Report on activities and implementation of the Principles.	We regularly communicate with our stakeholders and clients regarding ESG issues and our ESG principles.

Exclusions

The Commodity Plus Fund will not invest in:

- commodity futures related to nuclear weapons (i.e. uranium), thermal coal, palm oil, timber, livestock or animal products, and
- the shares of commodity producers, extractors or refiners.

For Pathfinder's **equity funds** a separate Exclusion Policy applies.

Voting

For a fund manager, active ownership refers to the practice of share voting and engagement with companies invested in.

We undertake proxy voting as our broadest form of engagement and use a third-party organisation (*CGI Glass Lewis*) to support us with this. Our votes are conducted in the best interests of shareholders and our investors.

We aim to engage with management where we have concerns prior to the annual general meeting.

Our providers and other key organisations

Implementing the UNPRI principles 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 (*NZ Super Fund* and *the Responsible Investment Association of Australasia*) 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:

Sustainalytics: 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 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.

NZ Super Fund: The Fund is a long-term, growth-oriented, global investment fund. The fund 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 has adopted a “norms based” approach to investing, ESG integration and engagement with companies. We use the list of companies excluded by the NZ Super Fund as a starting point for our exclusions process.

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. Pathfinder is a member of RIAA and is a sponsor (and actively participates in) RIAA’s annual NZ conference.

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.

This policy will be reviewed at least once each calendar year (or earlier there are material changes to the investment strategy).

John Berry
CEO of Pathfinder

