

Responsible Investment Policy & Processes

Policy

Introduction

The Simplicity NZ Ltd purpose is to give New Zealanders more dignity by making them wealthier and giving them greater choice. Our guiding investment principles are:

- Providing our investors with dignity in retirement
- Offering New Zealanders high quality, low cost financial products
- Giving profits back to members
- Being socially responsible

These principles are important to our members and we are committed to investing with a conscience. Simplicity NZ Ltd believes taking environmental, social and governance factors into account will achieve better long term, risk adjusted returns for our members.

Our investment committee is responsible for monitoring our adherence to our Responsible Investment Policy and reporting to our Board.

Policy Statement¹

Our business is ultimately a social enterprise, thus investing responsibly is an important issue for us and our members. We specifically exclude investments in companies with significant involvement in the following activities:

- Fossil fuel exploration and extraction
- Alcohol
- Tobacco
- Gambling
- Military weapons
- Civilian firearms
- Nuclear power
- Adult entertainment

Our investments also exclude companies that have contravened the principles of the UN Global Compact (www.unglobalcompact.org), under the following categories:

- Anti corruption
- Human rights
- Environment
- Labour

We believe in social responsibility and seek areas where we can be constructive. We do this by being an active shareholder advocate and through the 15% of our fees that we donate to charity.

¹ KiwiSaver and Investment Funds Statement of Investment Policy & Objectives (SIPO) (page 8)

Additional information

Each of the Diversified Funds has a strategic asset allocation to the major asset classes i.e. shares (including listed property) and fixed interest (bonds).

We believe in socially responsible investment and also we believe that markets are efficient. So we have adopted a predominantly 'passive' index approach to investing. In the major markets we do not actively pick or select securities, because we believe that using index funds where possible and having very low costs will return investors more money over time.

Each major asset class is represented by an index fund where possible. These funds are designed to track the investment return of a particular market index. For offshore investments, the scheme invests in funds managed by Vanguard Asset Management Limited (Vanguard), a subsidiary of the Vanguard Group, Inc.²

The Investment Committee is responsible for the ongoing analysis and monitoring of the environmental, social and governance (ESG) factors within our portfolio and reports to our Board.

All off-shore investments are managed by Vanguard and we rely on analysis by the index providers Bloomberg Barclays and FTSE Russell to monitor our responsible investment obligations. Each index provider monitors the companies in the index against its definition of significant involvement. Their analysts collect product and activity involvement data from publicly available information. The FTSE Russell analysts also use external sources to supplement the data including Sustainalytics. Bloomberg Barclays uses MSCI research.

Investments that are outside of a major index are made within New Zealand for diversification purposes and/or to provide long term annuity income for our members funds.

Our Investment Committee completes appropriate due diligence and analysis on all NZ securities and funds.

Complementing our Responsible Investment Policy

- Simplicity NZ's commitment to do more by donating 15% of the management fee paid by members to charity (via its shareholder, the Simplicity Charitable Trust).
- Being an active shareholder within New Zealand by advocating and voting for the long-term benefit of investors
- Being a responsible and sustainable business by proactively working to minimise the environmental impact of its office and activities. This includes recycling and composting, purchasing environmentally friendly cleaning products and Fair Trade or equivalent products where available, and operating a nearly paperless office environment. Travel is minimised and technology utilised where possible for meetings and contact with customers.

²SIPO (page 4)

Process

All Simplicity NZ Ltd funds follow a passive management style (as defined above) and invest in the same underlying assets which means the responsible investing 'overlay' applies to each asset class rather than investment products.

Off-shore Funds

For offshore investments, the scheme invests in funds managed by Vanguard Asset Management Limited (Vanguard), a subsidiary of the Vanguard Group, Inc.

Simplicity has worked with Vanguard to develop three ethically conscious funds, which exclude investments in the eight sectors outlined above and where companies breach the UN principles noted.

The Vanguard ethically conscious funds invest in international shares, Australian shares and international bonds. They are all incorporated into our diversified funds. In most cases we were the initial seed investor and now they are open to other wholesale investors.

The indexes tracked by these funds are:

- Bloomberg Barclays MSCI Global Aggregate SRI ex ESG Exclusions Index
- FTSE Australia Choice Index
- FTSE Developed ex Australia Choice Index

Bloomberg Barclays and FTSE respectively maintain the relevant indices and analyse the research necessary to maintain the list of companies and weightings. Should Simplicity have questions about a specific underlying investment, Vanguard is able to query the index provider on our behalf and provide the response to us.

If no suitable Vanguard index fund is available for a particular asset class, we have established our own sector funds that hold a portfolio of securities, designed to generate the respective market return. Although these funds are not index funds, we invest as closely as practically possible to the chosen market index and minimise costs wherever practicable by keeping transaction and holding costs low.

Investments Managed by Simplicity

Cash and Cash Equivalents

Cash on call at a registered bank (ANZ). No monitoring required.

New Zealand Fixed Interest

Invests in government and local government bonds. No monitoring required.

New Zealand Shares

Our Chief Operating Officer manages directly held NZ investments and monitors publicly available information (required under continuous disclosure obligations) to ensure the conduct of the companies is not known to have breached the UN Global Compact Principles referenced in the Simplicity Responsible Investment policy.

First Home Mortgages



Invests in loans to members secured by residential mortgages. No monitoring required.

Private Equity

Our Private Equity strategy gives explicit consideration to ESG at all stages of the investment process: initial review and assessment of a potential opportunity; the preliminary paper to the investment committee; due diligence; the investment committee paper; legal documentation; and ongoing monitoring. Where possible, the foundation documents will have an agreement for the investee business to be consistent with the UN Principles for Responsible Investment (UN PRI).

The quarterly valuation process includes an assessment of ESG as part of each individual business review and each company is required to adhere to continuous disclosure in the interim. Simplicity has an option to sell the investment should there be a breach of the agreement (although there may not be sufficient liquidity to realise fair value).

External Managers

Vanguard

Simplicity has performed extensive due diligence on Vanguard, and the index providers tracked by the Vanguard Funds (MSCI and FTSE Russel), and is confident each has sufficient resources to adhere to its stated policies and procedures.

The Vanguard Group, Inc. has established a formal procedure to identify and monitor portfolio companies whose direct involvement in crimes against humanity or patterns of egregious abuses of human rights would warrant engagement or potential divestment.

In addition, Vanguard publishes an Annual Investment Stewardship report (available on request) which details the steps taken by Vanguard to be a responsible investor. Details can also be found on the website [here](#). This gives Simplicity confidence in the ongoing work undertaken by Vanguard in this area.

Icehouse Ventures (Icehouse)

Icehouse has a responsible investment policy. Simplicity invests directly in Icehouse itself and in funds managed Icehouse. All are covered by the Icehouse responsible investment policy which explicitly adheres to UN PRI. ESG issues are monitored formally by way of a standing item in the relevant quarterly governance meeting and a requirement for continuous disclosure in the interim. For both Icehouse and its funds, Simplicity has an option to sell the investment should there be a breach of the agreement (although there may not be sufficient liquidity to realise fair value).

Vanguard Funds

International Fixed Interest

We invest in the Vanguard Ethically Conscious Global Aggregate Bond Index Fund (Hedged) – NZD Hedged

This fund seeks to track the return of the Bloomberg Barclays MSCI Global Aggregate SRI Exclusions Float Adjusted Hedged into New Zealand dollars Index before taking into account fees, expenses and tax.

The fund provides exposure to high-quality, income-generating securities issued by governments, government-owned entities, government-guaranteed entities, investment-grade corporate issues and securitised assets from around the world.

In constructing the Index, using MSCI research, Bloomberg Barclays (the Index provider) excludes the securities of issuers that engage in activities in, and/or derive revenue (above a threshold specified by the Index provider) from, fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons and adult entertainment.

This index methodology also excludes the securities that have a controversy score above a threshold specified by MSCI. Where MSCI has insufficient or no data available to adequately assess a particular security relative to the ethically conscious criteria of the Index, these securities may not be excluded. MSCI conducts quarterly index reviews and ongoing event-related maintenance of ESG exclusions.

Australian Shares

Vanguard Ethically Conscious Australian Shares Fund seeks to track the return of the FTSE Australia 300 Choice Index before taking into account fees, expenses and tax.

The FTSE Australia 300 Choice Index comprises securities (shares) listed on the Australian Securities Exchange (ASX). The index contains securities included in the FTSE Australia 300 Index but excludes companies with significant business activities involving fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons, adult entertainment and a conduct related screen based on severe controversies.

The index is maintained by FTSE Russell. FTSE Russell analysts collect product and activity involvement data from publicly available information. The analysts also use external sources to supplement the data including Sustainalytics.

International Shares

Vanguard Ethically Conscious International Shares Index Fund seeks to track the return of the FTSE Developed ex Australia Choice Index (with net dividends reinvested)

The Fund provides exposure to many of the world's largest companies listed in major developed countries. It offers access to a broadly diversified range of securities that excludes companies with significant business activities involving fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons, adult entertainment and a conduct related screen based on severe controversies.

The index is also maintained by FTSE Russell in exactly the same way as the FTSE Australia 300 Choice Index.