

Generate

Responsible Investment Policy

JULY 2024

[GenerateWealth.co.nz](https://www.GenerateWealth.co.nz)



PRI | Principles for Responsible Investment

Product disclosure statements for the Generate KiwiSaver Scheme and Generate Unit Trust Scheme are available at [GenerateWealth.co.nz](https://www.GenerateWealth.co.nz) or by contacting us on 0800 855 322. The issuer is Generate Investment Management Limited.

Table of Contents

1. Policy Statement	3
2. Background	3
3. Our approach	4
4. ESG considerations	6
5. Stewardship	7
6. Data	7
7. Reporting	8
8. Responsibilities	8

1. Policy Statement

Investing in a way that incorporates environmental, social and governance (**ESG**) issues, manages risk and generates sustainable long-term returns is an important consideration in Generate Investment Management Limited's (**Generate**) investment decision making process. This policy describes the values based excluded investments and some of the most important ESG issues considered for direct investments and investments made via Underlying Funds. This policy supplements the Statement of Investment Policy and Objectives (**SIPO**).

Generate believes that proactively managing ESG issues will deliver stronger long-term investment returns.

2. Background

Generate became a signatory of the United Nations Principles for Responsible Investment (**UNPRI**) on 9 May 2018. As an investment manager signatory we have declared our commitment to UNPRI regarding responsible investment.

Generate has committed to:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Be an active owner and to incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of the UNPRI within the investment industry.
- Work with the PRI Secretariat and other signatories to enhance the effectiveness in implementing the UNPRI.
- Report on our activities and progress towards implementing the UNPRI.

We are also a member of the Responsible Investment Association of Australasia (**RIAA**). As a RIAA member we commit to promoting and supporting responsible investment that aligns capital with achieving a sustainable society, environment, and economy.

3. Our approach

The Investment Committee is responsible for overseeing investment decisions of the Generate KiwiSaver Scheme and the Generate Unit Trust Scheme (Schemes) that are made by the Investment Executive and supervising compliance with the SIPO. As part of this remit the Investment Committee is responsible for ESG oversight and maintaining the Schemes' Approved Issuer List (**AIL**). The Investment Executive report to the Investment Committee on material ESG matters. Generate's responsible investment approach includes negative screening and ESG integration. Generate's initial and ongoing due diligence activities are described below.

Negative screening for excluded investments

Investment decision-making first involves an assessment of whether the investment must be excluded on the basis that it is inconsistent with certain values-based criteria. Specifically, direct and Underlying Fund investments into companies that are directly involved in the following activities are excluded:

- The manufacture of cluster munitions;
- The manufacture of anti-personnel mines;
- The manufacture or testing of nuclear explosive devices¹;
- The processing of whale meat; or
- The manufacture of tobacco.

An investment will not be eligible for inclusion on the AIL if it is an excluded investment. The Investment Executive undertakes screening of direct and indirect holdings to ensure there are no excluded investments within our holdings. This screening typically takes place four times a year. If a directly held investment is discovered to contravene our excluded investments, we will sell the investment in an orderly fashion to protect members' interests.

We recognise and accept some risks associated with investing in Underlying Funds. There is a risk that Underlying Funds may hold excluded investments from time to time. As we are not part of the Underlying Funds investment making decision process, we are unable to know exactly what Underlying Funds are investing in on an ongoing basis. If an investment in an Underlying Fund is discovered to contravene our excluded investments, we will first engage with the Underlying Fund manager to recommend this investment is sold. If this engagement is unsuccessful, we will then dispose of our investment in the Underlying Fund in an orderly fashion to protect members' interests.

In addition to the above listed excluded investments, we will avoid investing directly in companies that have displayed behaviour that we determine shows a complete disregard for our approach to responsible investing. We will take into account any evidence of change in company activities or behaviour when making these exclusion decisions.

ESG integration

The Investment Executive conducts due diligence on all investments before they are included on the AIL which includes consideration of broader ESG issues as part of their on-going investment management activities. Examples of the factors considered are set out in section 4.

ESG integration promotes consideration of investments that are expected to have a positive real-world impact. This means we will prefer investments that have positive findings regarding ESG issues where all other factors are equal. Investments will not be excluded from the AIL solely based on negative findings regarding ESG issues. However, as we rely on boards and management to make positive decisions regarding ESG issues, we may engage with organisations who we consider have high risk ESG issues or concerning behaviour as identified during our investment analysis. This engagement will be to encourage the organisation to adopt better ESG practices and encourage disclosure of these practices.

Initial due diligence includes consideration of ESG issues as part of the qualitative research conducted for our investment analysis. The focus of our analysis differs depending on what we judge to be the key issues facing a company. For ESG factors we use the SASB materiality map as a starting point to identify the key factors to focus on. Analysis typically includes reviewing ESG ratings or scores from third party data providers.

Although fixed income investments follow the same principles of exclusion and ESG integration, certain issuers have limited data availability. In this case we rely on a solely qualitative approach to identifying ESG risks and opportunities.

There are some ESG specific features embedded in certain fixed income instruments. Bonds in which the proceeds are used to finance renewable energy or sustainable buildings are known as Green Bonds. Sustainability linked bonds (SLB's) target specific goals, such as a reduction in carbon emissions and wellbeing bonds finance social housing.

¹ A nuclear explosive device is any nuclear weapon or other explosive device capable of releasing nuclear energy, irrespective of the purpose for which it could be used, whether assembled, partly assembled, or unassembled, but does not include the means of transport or delivery of such a weapon or device if separable from and not an indivisible part or it.

Third-party underlying funds

For third-party underlying funds, ESG integration involves understanding the third-party underlying fund's Responsible Investment Policy (when available). Ongoing due diligence is conducted by a review of reporting information issued by the underlying fund (when available).

Our manager selection process includes:

- An assessment of the quality of the investment policy and its reference to ESG.
- A review of the investment approach and a review of how ESG objectives are implemented in the investment process.
- When available, a review of their Responsible Investment Policy.

Unlisted Assets

When dealing with unlisted assets, in cases where these private companies do not have a formal and comprehensive ESG framework in place, analysis relies on judgment and expertise to evaluate the suitability of these opportunities in alignment with our investment objectives and RI principles.

Impact investments

In addition to ESG integration we make impact investments. These are investments that have specific positive impact outcomes associated with them, such as the provision of social housing, education, or healthcare.

4. ESG considerations

Generate incorporates ESG considerations into the investment process. We believe ESG integration enhances our investment process in that:

- Managing ESG risks can increase shareholder value.
- Strong governance is related to strong environmental, social and economic outcomes.

ESG issues include but are not necessarily limited to:

Environment

Environmental considerations, such as climate change, are an evolving part of our ESG integration. Improving data and company disclosures is enabling more in-depth analysis. We expect this trend to continue.

Environmental issues for consideration relate to the quality and functioning of the natural environment and natural systems. These include excessive and harmful factors: pollution, resource depletion, use of toxic chemicals, and the endangerment of animal species.

Our ESG analysis may include:

- Greenhouse gas emissions, trends and targets.
- Whether or not the company has been involved in any environmental controversies and what to guard against it happening again.
- Energy use.
- Water use.

We also consider environmental opportunities, such as renewable energy, sustainable building, and advances in waste management.

Climate related risks and opportunities

Generate recognizes the potential for climate related risk to adversely affect the financial performance of our investments if not managed well.

Starting from 2024, we will produce annual climate related disclosures. These disclosures will provide details on how we navigate risks and opportunities presented by climate change.

Climate-related risks can be divided into two major categories:

- Risks related to the transition to a lower-carbon economy, and
- Risks related to the physical impacts of climate change.

Opportunities include efforts aimed at mitigating and adapting to climate change, such as renewable or low-emission energy sources, and climate related technologies.

Fossil fuels

We retain the ability to invest in fossil fuel companies because energy is an essential resource for modern life. Should we decide to invest we avoid what we deem to be the sector's ESG laggards.

We take a holistic approach to assessing a fossil fuels company's ESG credentials, and typically analyse: the carbon intensity of current oil production facilities, initiatives to reduce this carbon intensity to help meet net zero goals, capital allocation policies including for green energy initiatives, and ESG scores on both the MSCI and Sustainalytics ratings scales.

Social

A company's social responsibility involves its relationships with employees, suppliers and communities. Companies that take its social responsibilities seriously stress the importance of protecting human health and well-being by implementing high-quality safety systems and human rights procedures, especially when evaluating companies that operate and/or source in developing countries. Companies can face serious reputation loss if they handle these social issues poorly.

Social issues for consideration relate to the rights, well-being, and interests of people and communities. These may include:

- Health and safety.
- Supply chain and labour standards.
- Community outreach activities.

Governance

Governance issues for consideration relate to the governance of companies. These include strong governance structures, appropriate executive control and high levels of transparency. Governance is concerned with the way organisations are governed, as distinct from the way businesses within those companies are managed on a day-to-day basis.

Governance factors may include:

- Board experience.
- Remuneration.
- Ownership.
- Controversies.
- Business ethics.
- Anti-competitive practices.
- Corruption.

Impact investment

Impact investments target specific positive outcomes such as:

- Provision of housing.
- Provision of education.
- Provision of healthcare.
- Climate change mitigation & environment protection.

These positive ESG impacts, which are classified by the UN Sustainable Development Goals (SDGs) are achieved alongside the goal of earning attractive financial returns. Where available, impact reports provide measurable metrics of the outcomes of impact investments.

5. Stewardship

Generate is an Active owner. Active ownership is about exercising our rights and using our influence as an investor. We consider that our constructive and effective active ownership approach to ESG issues regarding direct investments can encourage companies to improve their ESG-related behaviour. This is likely to provide greater benefits than divestment alone. Engagement is undertaken pragmatically and subject to Generate's size of investment, resource and ability to influence positive outcomes.

Engagement

Direct equities

Direct engagement with company management is an integral part of our investment process. This can overlap with responsible investment. Direct engagement includes meetings with management and directors during the initial investment analysis, and during ongoing monitoring.

For larger global companies upon which we have less influence, our key method of engagement is via proxy voting.

Third-party underlying funds

For third-party underlying funds we will engage directly with the manager on issues relating to underlying portfolio holdings when necessary. This typically involves requesting information on their analysis regarding the ESG issues of a given company. This could result in the third-party underlying fund removing the position from the portfolio.

Voting

We believe proxy voting is an important engagement tool in communicating our expectations and concerns with a company's board of directors. We vote on resolutions for all our directly held listed equity investments. We record our voting decisions, whether they were for or against the board recommendation and our reasoning.

6. Data

We acknowledge that reliable and accurate ESG data is still evolving. When we use external data for ESG scores, emissions, or company targets, we are aware that there may be gaps in coverage or the quality of the data.

In undertaking ESG analysis we typically utilize multiple data sources, which can include:

- Company annual reports and sustainability reports.
- MSCI ESG ratings.
- MSCI Climate and emissions data.
- Sustainalytics.
- Bloomberg.

In addition to this, when available, we have direct meetings with management which as part of our analysis or ongoing engagement we typically discuss ESG relevant to the specific company.

Some impact investments provide annual impact reports. These reports detail the impact outcomes of the investment and form part of our on-going monitoring.

7. Reporting

Details of portfolio holdings are accessible by clients via their online accounts including the Generate app. This information is regularly updated and contains a breakdown of direct investments and Underlying Funds. Information on investments held by Underlying Funds and respective responsible investment policies are available on the Underlying Funds' own websites (which can be accessed via links from our website).

Generate publicly reports on responsible investment activity to the UNPRI on an ongoing basis. This reporting is conducted in accordance with the UNPRI reporting framework.

Details of what is expected is available at:
www.unpri.org/signatories

8. Responsibilities

The following bodies are responsible for the execution, management and oversight of the Responsible Investment Policy.

Investment Committee – Policy approval, reviews of the policy in concert with the Investment Executive and supervises policy execution.

Investment Executive – Execution of the policy and reviews of the policy in concert with the Investment Committee.

The Responsible Investment Policy will be reviewed regularly.

During this review, the persons responsible will consider developments in responsible investing practices. This policy is subject to change at any time.

Generate[™]
Together.