

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS AND THE INVESTMENT PROCESS

The Board of Trustees of the National Provident Fund (“the Board”) is a body corporate continuing under Section 12 of the National Provident Fund Restructuring Act 1990 (“the NPF Act”). The Board is trustee of the now 11 separate National Provident Fund superannuation schemes (“NPF”) and the Global Asset Trust (“the GAT”). Under the NPF Act the NPF superannuation schemes can only invest in the GAT.

The Board acts in the best financial interests of members

The Board acts in the best financial interests of members, taking into account the financial interests of the Crown as guarantor.

The Board administers the NPF schemes and the GAT in a manner that is both ethical and to a high standard of governance. We invest responsibly for our members by:

- Implementing and maintaining a diversified and well managed investment portfolio.
- Holding the assets in independent custody.
- Applying best practice portfolio management.
- Ensuring clear determination of responsibilities and delegations and decision making on the basis of informed judgement.
- Establishing sound operational procedures, such as investment management evaluation and selection processes.
- Ensuring compliance with legal requirements as trustee of the NPF Schemes and transparency of process.
- Ensuring all stakeholders in NPF are well informed about its activities.
- Carefully monitoring NPF’s investment managers to ensure that portfolios comprise investments permitted by the mandate criteria.
- Maintaining an internal governance framework for appropriate fiduciary oversight, performance management and control of functions carried out by the Board and the organisation.
- Focusing on ESG factors which are likely to have a positive impact on investment performance.

The Board may incorporate ESG factors into its investment processes where supported by a robust business case

The Board believes it is well established that higher quality corporate governance (defined broadly as market and institutional features that align shareholder and management interests) has a positive impact on share values.

The Board's investment managers may integrate analysis of corporate governance factors and/or engage with companies as part of their investment process where it adds value.

The Board recognises its responsibilities as shareholder and has policies and procedures in place to exercise its voting rights on its investments. The Board will disclose its voting history on request.

With regard to social and environmental factors:

- The Board acknowledges recent developments suggesting that social and environmental issues can affect the performance of individual companies and investment portfolios to varying degrees across companies, sectors, regions and asset classes, and through time.
- Where the inclusion of social and environmental factors is supported by a robust investment case, is capable of implementation and cost effective, the Board will seek to reflect these issues in all or parts of its investment processes.
- The Board may support initiatives to determine the benefits of integrating social or environmental issues into investment processes, and to develop tools for implementation.
- The Board is monitoring relevant literature and research and the steps that other retirement funds are taking with respect to social and environmental practices.
- The Board's policies will be reviewed with regard to environmental and social factors as analysis and research clarifies their impact.

The Board's consideration of New Zealand and International Law

The Board may take other factors into account in its investment processes, including whether a material part of the operations of an international company would be contrary to New Zealand law if conducted in New Zealand; or contrary to international law or to international treaties, particularly those relating to international security and disarmament and human rights, to which New Zealand is a party, provided that taking those factors into consideration:

1. does not conflict with its legal and fiduciary duties as trustee of the NPF Schemes, and
2. can be implemented in a practicable and cost effective way.

Further information on the Board, the GAT and the NPF schemes can be found at www.npf.co.nz.

- Background material

- The National Provident Fund (**NPF**) was established in 1910 to provide pensions to low income earners. Later, it became the statutory provider of superannuation schemes to local government. The NPF schemes were closed to new members in 1991. The governing legislation for NPF the National Provident Fund Restructuring Act 1990 (the **NPF Act**), but it is also covered by other legislation such as the Trustee Act and the Securities Act. Under the NPF Act, the Board is trustee of the now 11 NPF Schemes and the Global Asset Trust (the **GAT**). Section 19 of the NPF Act and clause 4.2 of GAT trust deed set out the Board's power to invest the assets of the NPF Schemes. Investment assets are held by the Board, as trustee of the GAT or the NPF schemes, on behalf of the members of the schemes.
- The Minister of Finance appoints the members of the Board and has the power to direct the Board on matters which affect the Crown's risk as guarantor of the benefits payable by the NPF Schemes. It is important to note the funds are held on behalf of the members of the schemes and not the trustee or the Government.
- The Board's duties in relation to investments are clearly set out in the NPF Scheme trust deeds and in its governing legislation.