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Ethical Investment Policy

Rangatira Limited

Policy owner	Mark Dossor, Chief Executive
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1. Purpose

- 1.1 The purpose of this Ethical Investment Policy (**Policy**) is to ensure Rangatira Limited (**Rangatira, we or us**) gives due consideration to ethical investment principles when considering investing and managing its investments.
- 1.2 This Policy sets out Rangatira's Responsible Investment (**RI**) policy which summarises Rangatira's ethical investment beliefs including the commitment to the UN-backed Principles for Responsible Investment (**PRI**), as well as an implementation strategy to foster the integration of environmental, social, and governance (**ESG**) issues into the investment process and across Rangatira entire activities.
- 1.3 The ethical criteria outlined in this Policy may be amended from time-to-time and applies to all of the Rangatira's capital.

2. Background

- 2.1 Rangatira was founded on 14 December 1937 by Sir John McKenzie and set up in a way to enable its shares to be gifted to a series of charitable trusts, who now form the majority of shareholders. Sir John divided the management and creation of capital to Rangatira, and the allocation of the funds to the trustees – a model that still carries on today.
- 2.2 As at 1 September 2018 Rangatira's capital is invested in private equities, public equities and cash.

3. ESG Investment Beliefs

- 3.1 Rangatira believe that ESG factors impact the environment in which we invest and thus our core business. As a result, it is of paramount importance that we explicitly recognise and evaluate the ESG-related risks and opportunities and manage these in a prudent and methodical manner.
- 3.2 We recognise our responsibility as an investor in New Zealand businesses to contribute to a more sustainable financial system by taking a long-term, responsible approach across the private companies and assets in which Rangatira invest.

- 3.3 We pay attention to how our investment process can positively contribute to promoting greater RI outcomes both in terms of our due diligence process and how we manage and monitor our investments over time.
- 3.4 We are stewards of money entrusted to us by our founder over 80 years ago who we in turn manage money on behalf of our shareholders – the majority being charitable trusts. As active investors, we play an important role in ensuring that our investments uphold commonly accepted standards of environmental protection, human rights, and good governance in a way that will enhance and underpin the financial returns that our shareholders expect of us over the long-term.
- 3.5 Finally, Rangatira believes that successful and responsible investments with comprehensive consideration of ESG-related risks and opportunities ultimately depend on the knowledge, convictions, and beliefs of the people running the investment process.

4. Integration of ESG into Rangatira Investment Approach

- 4.1 Our overarching approach to incorporate ESG considerations into our investment process is guided by the **6 principles of the PRI framework** and the relevant guidance reports therein. These principles are integrated into our investment process in the following 6 ways:

The PIR's 6 principles:¹

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the principles.
- We will report on our activities and progress towards implementing the principles.

¹ www.unpri.org (last accessed 2 September 2018).

- 4.2 Based on the PRI framework a number of key principles underpin this Policy. Rangatira operate within the legal framework of the Companies Act 1993 as such, it owes its legal and fiduciary duties to shareholders.
- 4.3 The primary objective of Rangatira is to act in the best interest of shareholders all the while exercising the same degree of care, skill and diligence that a prudent director would exercise. Further, Rangatira focus is on maximising long-term investment returns given our permanent capital base, Rangatira is able to take a long-term view, investing on trends rather than cycles. We look for ambitious, highly talented business owners and managers to partner with to grow the next great New Zealand business.
- 4.4 Against this context of maximising long-term investment returns for shareholders, it is acknowledged that there can be diverse individual views as to the content of ethical investment principles. What may be imperative (ethically-speaking) for one individual may not be a concern for another. Further, it is noted that distinguishing between companies in legitimate businesses and those acting unethically is inherently subjective. For example, Rangatira believes that investing in supermarket companies which derive only a small proportion of their income from the sale of tobacco products may not go against our ethical considerations and that a substantial majority of the New Zealand public would not view this as unethical investing.
- 4.5 While there will generally be no conflict between ethical and legal obligations, sometimes they can and do arise (i.e. an actively may be legal in one jurisdiction, but illegal in another jurisdiction). Therefore, Rangatira must decide how best discharges its duties when ethical and legal obligations conflict.
- 4.6 Rangatira has an irreducible degree of responsibility for what it chooses to do, or not do, how it invests the shareholder capital and that under rare or extreme circumstances it may be appropriate to sell a shareholding in business or assets for purely ethical reasons.

- 4.7 Therefore, Rangatira endeavours to identify New Zealand business or other assets that do not invest in activities that are contrary to New Zealand Law, would be contrary to New Zealand Law if carried out in this jurisdiction, or are otherwise likely to be regarded as unethical by a substantial majority of the New Zealand public, recognising that the views on what is unethical by a substantial majority of the New Zealand public may change from time-to-time.
- 4.8 Rangatira takes the laws of New Zealand to be a reflection of those principles that are widely held by the New Zealand public. ESG policies have become a commonly accepted framework in the investment community for incorporating ethical principles into the investment decision-making process. For example, it is a well-established corporate principle that good management of ESG factors – including governance, employee relations, safety, and environmental risks – is material to the long-term successful performance of any business.
- 4.9 The Rangatira Board provides overall guidance as to the types of activity that are considered unethical. In providing guidance for Rangatira’s day-to-day investing, the Rangatira Board has highlighted that the following should be part of Rangatira investments ethical considerations:

Excluded Activity	Rationale
Anti-Personnel Mines	Actual or potential investment (directly or via subsidiaries) in the production of landmines is not compliant with the Ottawa Mine Ban Treaty and the intent of the Anti-Personnel Mines Prohibition Act 1998
Cluster Munitions	Investment (directly or via subsidiaries) with the development and/or production of cluster munitions, or key components, are not compliant with the Convention on Cluster Munitions and would be contrary to the Cluster Munitions Prohibition Act 2009
Mercenary Activities	The intentional funding of or knowing that funds are to be used, to enable a mercenary to take part in hostilities in an armed conflict or a concerted act of violence is not compliant with the Mercenary Activities (Prohibition) Act 2004

Excluded Activity	Rationale
North Korea Munitions	Knowingly dealing in assets, money or securities owned by, or sending, transferring or delivering any asset, money or security to, any person designated by the United Nations as being involved in the Democratic People's Republic of Korea's nuclear, weapons of mass destruction or ballistic missile programmes that is inconsistent with the United Nations Sanctions (Democratic People's Republic of Korea) Regulations 2006
Nuclear Explosive Devices	Investment (directly or via subsidiaries) with the design, testing, assembly and/or refurbishment of nuclear explosive devices would be contrary to the South Pacific Nuclear Free Zone Treaty and of the New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987
Tobacco	Investment (directly or via subsidiaries) in any tobacco companies given the desire for a smoke-free New Zealand and the health impacts smoking has on New Zealanders
Whale Meat Processing	Investment (directly or via subsidiaries) in the processing of whale meat is not compliant with New Zealand law and is not consistent with the International Convention for the Regulation of Whaling

4.10 Rangatira will not directly invest in companies involved in the above activities. Paragraph 6 describes how Rangatira implements this Policy.

5. Direct Investment Exclusion List

5.1 In line with the principles outlined in section 4, Rangatira aims to identify all listed entities issuers – that Rangatira are considering investing capital - which:

- Undertake any of the activities outlined in the table in paragraph 4.9; or
- Undertake activities which are believed by Rangatira to be considered unethical by a substantial majority of the New Zealand public; or
- Exhibit corporate behaviour which Rangatira believes seriously breaches ethical / responsible investment standards and where engagement with a company is likely to be futile.

- 5.2 All entities that Rangatira believes continue to undertake any of these activities or behaviours will be included in Rangatira's 'Direct Investment Exclusion List', as well as entities that have a controlling interest in such entities.
- 5.3 Rangatira may also exclude investment in entities that don't directly undertake any of the activities above if they hold significant investments in entities that themselves engage in those activities. What level of investment constitutes 'significant' is inevitably subjective, but as a guideline, Rangatira will seek to avoid investing in such entities engaged in activities referred to in the table at paragraph 4.9.

6. Implementation Guidelines

- 6.1 Rangatira has more control over how investment decisions are made when Rangatira manages or invests in assets directly. However, Rangatira also recognises that there may be circumstances in which precluding investment in collective investment vehicles would compromise risk adjusted returns and therefore be inconsistent with its fiduciary obligations.
- 6.2 Where Rangatira has a direct (majority or minority) ownership in a company or a contracting relationship with an external manager, Rangatira seeks to influence the behaviour of the manager in accordance with Rangatira's ethical principles.
- 6.3 In implementing this approach, Rangatira takes into account the form of investment as follows.

Implementation Approach Where Rangatira Invests Directly

- 6.4 In this case:
- a) We develop our investment strategies taking into account ESG risks and opportunities
 - b) Rangatira requires purchases and sales of investments to be transacted in accordance with this Policy
 - c) We undertake detailed pre-investment due diligence of potential investment, their management and underlying assets, before making an investment decision. The ESG assessment is an important component of Rangatira's due diligence process for any potential investment

- d) We assess ESG factors not only at the manager level but also at the underlying company and asset level. The outcome of this assessment is documented in due diligence reports and reviewed by the Rangatira Board prior to an investment decision being approved
- e) Cast votes in a manner that is consistent with principles of good governance and with this Policy.

Implementation Approach where Rangatira Invests in Wholesale Investment Funds or Exchange Traded Funds

- 6.7 Rangatira has limited (or no) control or influence over the investment decisions of the investment managers of the wholesale investment funds or Exchange Traded Fund (hereafter **Investments Funds**) that invest the Rangatira's assets, except to the extent of what is disclosed in their offer documents. This can prove difficult when balancing Rangatira legal and fiduciary duties to shareholders against ethical investment principles.

Monitoring Guidelines of Investment Funds

- 6.8 Rangatira will monitor the securities held by each of its Investments Funds on a six-monthly basis to determine if any of the investment managers of the Investment Funds invested or invests in activities on Rangatira's Excluded Activity List during the period.
- 6.9 Where an investment manager of the Investment Fund is found to have held or holds securities that participate in activities on Rangatira's Excluded Activity List during the period, Rangatira will formally write to the investment manager to influence the investment manager to sell the securities where possible and/or seek assurances the investment manager will not purchase similar securities in the Investment Fund in the future.
- 6.10 Rangatira will also evaluate whether continuing to invest Rangatira capital in the Investment Fund is appropriate based on the following factors:
- Significance of the breach
 - Significance of the Investment Fund's holding in the security
 - The nature of securities (for example, if a parent company was engaged in an excluded activity (i.e. the manufacturing of tobacco packaging) and a subsidiary

- company was not engaged in an excluded activity it would be appropriate to invest in subsidiary company)
- Potential effectiveness of engagement (given context and responsiveness)

6.11 If it is determined the investment decisions of the investment manager of the Investment Fund are inconsistent with this Policy a formal review of the Investment Fund will be undertaken based on the assessment guidelines - see paragraph 6.12.

Assessment Guidelines for investing in new Underlying Investment Funds

6.12 When Rangatira is considering investing capital in a new Investment Fund or reviewing an existing Investment Fund the following factors are taken in to account:

- When considering whether to initiate or retain an investment in an Investment Fund, Rangatira must take into consideration the extent to which the investment manager of the Investment Fund invests in a manner that is in line with or contrary to this Policy.
- In making this assessment, Rangatira will look at the extent to which the investment manager has made investments (or seems likely to invest) in activities set out in Rangatira's Excluded Activity List. If Rangatira assesses that the investment manager of an Investment Fund does not fully adhere to the same ethical standards in this Policy, this will not necessarily preclude Rangatira from investing, or continuing to invest, in the Investment Funds, but must be taken into account and weighed up as a negative factor in the decision as to whether or not to initiate or retain the investment. Factors relevant to this evaluation include:
 - whether or not the manager is a signatory to the PRI; or
 - whether or not the investment manager of the Investment Fund is a signatory of any other responsible investment organisation; or
 - whether or not the investment manager of the Investment Fund has adopted its own ethical standards and policies (including procedures for excluding activities) and if so the extent to which these are in accordance with this Policy; or
 - the extent to which Rangatira is able to determine the holdings within Investment Fund through time; or

- where Rangatira is able to determine the holdings of the Investment Fund:
 - the total proportion held in companies engaged in activities subject to investment restrictions under New Zealand legislation (for example, companies engaged in the manufacture of cluster munitions) not exceeding 1.00% of the Rangatira total; and
 - whether the Investment Fund has provided new capital or lending to entities involved in unethical activities, or whether the investment in unethical activities has only involved the purchase of existing securities in the secondary market.

- In making the final decision whether to invest (or continue investing) in an Investment Funds, Rangatira needs to, based on an objective assessment, weigh the negative ethical investment factors against Rangatira's legal and fiduciary duties to shareholders. In other words, based on an objective assessment, if there are no suitable and readily available alternative Investment Fund (with the similar investment returns characteristics and fees) would a reasonable shareholder object to the level of unethical activities in the Investment Fund being considered versus their investment return were those assets not held in the Investment Fund.

5. Reporting and Monitoring

- 5.1 Management monitor Rangatira investments on a six monthly basis to ensure compliance with the Policy and formally report to the Board or more frequently as required.

- 5.2 The Board reviews the Policy annually or on an ad-hoc basis as required. An ad-hoc review may come about as a result of any fundamental changes in the investment environment or any changes to any of Rangatira's investment objectives.

- 5.3 The Board can make changes to the Policy at any time and any material changes will be outlined in the scheme's annual report.

Appendix One: Monitoring Guidelines of Investment Funds

