



## **Socially Responsible Investing (SRI) Policy**

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**Dates:** Policy Takes Effect: June 2017

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**Responsible Officer:** Head of Investments

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**Relevant To:** All Mint employees - this includes fixed term and temporary or contract employees and contractors and Directors of Mint

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Version	Date	Modifier	Document Changes
1	June 2017	Simon Haworth	This policy consists of material previously contained in the Risk Framework. It was considered appropriate to move this material into a standalone policy
2	July 2018	Rebecca Thomas	Updated for changes to CIO / Head of Investments roles
3	January 2020	Anthony Halls	Updated Exclusions and added specific Climate Change wording
4	January 2021	Anthony Halls	Added comments on Modern Slavery

## Introduction

This Socially Responsible Investing (SRI) Policy sets out Mint’s control policy relating to certain investment related matters.

Mint believes that environment, social and governance (ESG) considerations<sup>1</sup> enhance long-term risk-adjusted returns, through improving the risk analysis of a company.

Key areas addressed in this policy are:

- Mints overarching SRI Philosophy
- Mints Environmental, Social and Governance (ESG) negative screening process
- Mints integrated ESG investing process
- External ESG resources
- Voting Policy
- Engagement Policy
- Risk oversight of SRI portfolios managed
- Review

The list of excluded sectors and activities is in Appendix 1.

## Mint’s SRI Philosophy

Mint is a signatory to the “Principles for Responsible Investment” established by the United Nations (‘UNPRI’) which aims to provide a consistent framework for reviewing business practices across industries and companies. Mint reports on its ESG investment process framework and its controls to the UNPRI annually.

Mint believes that investing in companies that incorporate ESG measures into their business can affect the performance of portfolios positively through reducing portfolio risk. Therefore, Responsible Investing is a critical element to achieving our investment objective of maximising returns per unit of risk. Mint has an exclusion screen for unacceptable sectors, activities and securities (see Appendix 1). Beyond the exclusion screen, we embed ESG factors into our company research process (our Conviction scorecard).

Mint’s approach is to engage with companies rather than excluding a large range of companies or sectors, unless they are deemed to be outside an acceptable ESG framework (our exclusion screen). In order to deliver superior risk adjusted returns, Mint believes in being able to deploy its skill in the widest possible universe of investment opportunities.

### Climate Change

Climate change is an increasingly large aspect of SRI, with increasing scientific and public acceptance of the phenomenon and consequent public and political attention on causes and mitigations. This rising awareness is likely to impact company cashflows – whether through explicit carbon costs, stranded assets, regulatory intervention or customer behaviour changes.

Climate change is specifically considered by Mint analysts in the Environment section of Mint’s investment process. The outcome of these factors in our investment process is that our portfolios, in aggregate, inherently tilt away from carbon intensive companies and we can measure the portfolios’ ‘E’ score relative to the market, with an expectation that it will be better than market – recognising that this output is based on our own internal scoring system and factors.

### Modern Slavery

Modern Slavery is a term used to describe a range of exploitative practices where offenders use coercion, threats or deception to exploit victims and undermine their freedom. New Zealand has no formal Modern Slavery requirements beyond the Slavery definition in the Crimes Act 1961 and the Supplementary Convention on the Abolition of Slavery. In Australia, the Modern Slavery Act 2018 took effect from January 2019. The Australian Act established a national Modern Slavery Reporting Requirement for businesses operating in Australia with revenue of at least A\$100 million.

Mint implemented its SRI approach several years ago before Modern Slavery was a widespread term; hence, our approach broadly covers the issues at question, but does not completely cover all aspects of what is now called

Modern Slavery. During the course of 2021 we will be adapting the Social component of our Conviction framework to include more specificity on Modern Slavery.

## Mint's ESG Negative Screening

Negative screening refers to the exclusion of businesses from the investable universe that we believe are involved in activities that are contrary to Socially Responsible Investing. Mint applies this negative screening to all its portfolios both domestic and international, in addition to the ESG factors integrated into our process.

We do not apply a moral judgement in determining the Exclusion List, as that approach could potentially be counter to the primary obligation of delivering superior risk adjusted returns. Rather, we exclude companies and sectors where we believe the ESG risks cannot be substantially mitigated. Predominantly, our exclusions are based on NZ Government law, bi-partisan policy and/or international treaties that NZ is a signatory to.

The majority of Mint's funds under management are invested in directly held securities, and the exclusion policy applies to all these holdings. A very small minority of funds under management may be invested in pooled vehicles / securities (e.g. exchange traded funds, futures and options) for the purposes of efficient execution and/or risk management. Mint recognises that our exclusions cannot be applied to such securities and the potential for indirect exposure to excluded activities is present when utilising these securities.

## Mint's integrated ESG investing

SRI investing refers to the concept of incorporating environmental, social and governance analysis into investment decision making in order to assess the long-term risks associated with underlying investments.

ESG factors are integrated throughout the Mint investment process, under the responsibility of the Head of Investments as Mint's designated SRI leader, and delegated through to the individual portfolio managers. Mint has a bottom-up stock assessment approach so the individual analysts are deeply involved in this process.

For domestic equities, Mint analysts build up a Conviction Score from the combination of quantitative and qualitative assessments of a company's growth potential, relative valuation, income sustainability, management and ESG factors. The Conviction Score is used to rank companies in the investment universe for potential inclusion in the portfolio.

The E, S and G factors make up a significant proportion of our Conviction Score. Each category includes a facility for the analyst to red flag a company on any specific issue (e.g. where a company has a high carbon impact risk). Red-flagged companies are not invested in until the issue is resolved or improved. Companies with strong ESG scores are promoted within the Conviction list (and vice-versa), from which the final portfolio is constructed. The final decision on this is the responsibility of the respective Portfolio Manager.

- Environment factors considered: environmental risk intensity, quality of management of environmental risks, tangible environmental efficiency improvements, production of goods and services that assist customers in managing their environmental needs.
- Social factors considered: social risk intensity, threats to the social license to operate, equality track record, industrial relations track record, privacy practice, labour standards in the supply chain.
- Governance factors considered: independence of the Board, Board skills and diversity, Board member tenure, Board responsiveness to investor engagement, Board and management dynamic.

Mint portfolios are monitored for their consistency with our ESG process at our regular Portfolio Review meetings, with the expectation that the portfolios will reflect better-than-market ESG scores. The Head of Investments reports on portfolio ESG matters to the Mint Board.

For domestic corporate bonds (held in the Mint diversified funds – note: Mint does not operate stand-alone bond funds), the same exclusion list applies and the portfolio manager relies on the ESG factors scored by the domestic equity analysts as well as data supplied by our external service providers (Sustainalytics and ISS).

For international equities, the same exclusion list applies and the portfolio manager relies on data supplied by our external service providers. Hitherto, the ESG factors in our domestic internal Conviction Score are not applied to the international equities as much of that data is sourced by direct company interaction (i.e. we can engage directly and regularly with domestic companies far more consistently than with companies based overseas). Hence, we place greater reliance on Sustainalytics and ISS services for ESG data on international equities.

## **External ESG resources**

Mint regularly evaluates access to the ESG databases and services offered by specialist providers. We currently are subscribers to the Sustainalytics and ISS services, predominantly for our international holdings. In the context of NZ/AU portfolios we rely primarily on our own research; however, we use the Sustainalytics and ISS services as sense-checks on our views and in some cases as data sources.

Periodically we engage an external agency for a review of a specific ESG factor. For example, in 2020 we engaged ISS for a Climate Impact Assessment on Mint portfolios.

## **Engagement policy**

All members of the investment team have long experience of active engagement with company management and boards in respect of governance and other issues that may affect near term investment performance and also long term risks that could arise from poor ESG awareness.

Mint is also a founder member of the New Zealand Corporate Governance Forum (NZCGF) and has previously acted as the Secretariat and Chair for Forum meetings. Mint staff also engage with the NZCGF working policy groups. Mint will work with groups such as the UNPRI, Australian Council of Superannuation Investors (ACSI), Philanthropy New Zealand (PNZ) the Responsible Investment Association of Australasia (RIAA, formerly known as the Ethical Investment Association) to achieve genuine, measurable and permanent improvements in the ESG performance of our investments.

## **Voting Policy**

We believe that as an institutional investor we should encourage companies in which we invest to adopt high standards of corporate governance. Mint acts proactively in communicating constructive views on company strategy and balance sheet issues to senior management or to the Board, as appropriate.

Our investment policy necessitates that we have a strong belief in the ability of a board to deliver returns and strategies, which are in the best interests of shareholders. Therefore, Mint regards voting on resolutions as a key responsibility as an institutional investor.

Mint utilizes ISS to record all votes. This ensures our audit trail of votes cast. Whilst ISS research views of NZ/AU stocks are available, Mint votes according to our own policy guidelines.

## **Risk oversight of SRI portfolios managed**

The Mint SRI fund is an ESG-slanted New Zealand-only equity portfolio. This portfolio also actively excludes sectors and stocks through negative screening as well as incorporating stocks for this portfolio using its proprietary ESG investing process.

Oversight of ESG-slanted portfolios is detailed in the respective Statement of Investment Policies and Objectives (SIPO) and the Mint Investment Risk Management (IRM) Policy.

## **Review**

This Policy is intended to be reviewed annually.

# APPENDIX 1

## Excluded Sectors and Activities

Sector	Rationale
Tobacco production	Social impact; WHO Framework Convention on Tobacco Control 2005; The Smoke-free Environments Act 1990, and subsequent amendments.
Armament production	Social Impact; Cluster Munitions Convention signed by the New Zealand Government in 2008
Uranium Mining	Treaty on Non-proliferation of Nuclear Weapons; New Zealand Nuclear Free Zone, disarmament, and Arms Control Act 1987
Pornography production	Social Impact; The Child Pornography Prevention Act 1996
Whaling	Environment Impact; NZ membership of the International Whaling Commission which has had a moratorium on commercial whaling since 1982.
Fossil Fuel Extraction, including: <ul style="list-style-type: none"><li>• Integrated Oil &amp; Gas</li><li>• Oil &amp; Gas exploration and production</li><li>• Coal Mining</li></ul>	Environment Impact; The Paris Agreement within the United Nations Framework Convention on Climate Change (signed and ratified by NZ in 2016). The Climate Change Response (Zero Carbon) Amendment Act 2019