Responsible Investment at Auckland Council

Input to the Review of Auckland Council's Responsible Investment Policy

A report prepared by

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Background

Auckland Council approached CAER to assist in the review and development of Auckland Council's Responsible Investment Policy. Auckland Council is reviewing its Responsible Investment Policy to further consider environmental, social and governance factors in their equity investments. The review comes following changes in the investment structure of Auckland Councils Diversified Financial Assets and broader community awareness around ethical screening and responsible investment.

CAER was engaged by Auckland Council to prepare a report prior to the Council considering changes to the Responsible Investment Policy. The report will provide a background on responsible investment and information regarding Auckland Councils responsible investment options to Council committee members. The different ways Auckland Council's current public stances and commitments to sustainability can inform the statements in the revised Responsible Investment Policy will also be explored.

The review will help Auckland Council to refine the revised Responsible Investment Policy in preparation for the implementation phase before it is formally adopted. The review of the current policy document and governance structures aims to ensure:

1. Appropriate criteria to be considered under the new Policy, including (but not limited to) controversial weapons, tobacco, fossil fuels and high-sugar content products (obesity risk). This will include a review of broader sustainability, social and environmental policies and initiatives the Council has. The review will then consider how these may or may not fit within a responsible investment policy context.

2. Continued focus on the fiduciary responsibilities of the Council.

3. A clear signal is sent to stakeholders about a genuine progress by the Council in the implementation of responsible investment considerations.

The policy document will form the foundation for future communication on the Council's responsible investment practices.

About CAER

CAER is a Canberra based independent ESG research house. CAER has worked with investors in Australia and New Zealand integrating ESG issues and supplying ESG data for over 15 years. We undertake in-house analysis of companies listed in Australia and New Zealand, and have access to global analysis through the Vigeo Eiris Global Network. The Vigeo Eiris Network includes regional organisations and offices in Brazil, France, Germany, Israel, Mexico, Spain, South Korea, the UK and the US.

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Auckland Council's Responsible Investment Policy and practices

Scope

The Responsible Investment Policy applies to the management and investment of the Diversified Financial Assets Portfolio (DFA) owned by the Council. The DFA includes investments in income assets and growth assets and is invested with a number of fund managers in equities, bonds, and other financial assets. The Auckland Council Treasury is responsible for the management of the DFA.

The DFA Is managed in accordance with The Statement of Investment Policy and Objectives (SIPO)[1] and The Operational Investment Policies and Objectives (OIPO).[2] The September 2013 SIPO for the DFA highlights that one of the primary goals of the Council's DFA is to provide a portfolio of assets held in reserve to meet 'any unforeseen liquidity or funding events that may prevent Auckland Council from borrowing to fund its activities (i.e. as a 'rainy day' fund)'.[3]

Background

Auckland Council has a shared decision-making model which consists of the Mayor, the governing body and the local boards. The governing body consists of the mayor, who is elected by all the Auckland voters, and 20 governing body members elected by voters from the ward they represent. The governing body focuses on 'the big picture and on region-wide strategic decisions'.[4] The Council has 21 local boards, which have between five and nine members elected by voters from the area they represent. Local boards make decisions on local activities and issues.

Auckland Council represents over 1.5 million residents, and exists to 'serve Auckland and build a more prosperous city, one that gives a voice to our citizens and makes it a great place to live, visit and invest'.[5] The value of the investments that Auckland Council owns is over NZ2.3 billion.[6]

Auckland Council's current investment policy involves the use of their DFA. The DFA was previously managed by Auckland Council Investments Limited (ACIL), a council controlled organisation, which manages assets on behalf of the council. ACIL was in charge of implementing the investment strategies, managing the investment portfolio as well as monitoring and reporting on the portfolio

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[1] Diversified Financial Asset Portfolio (DFA): Statement of Investment Policy and Objectives, 13 September 2013, *Auckland Council Website* <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Documents/siposeptember2013.pdf> [Accessed 22/02/2017].

[2] [2] Diversified Financial Asset Portfolio (DFA): Operational Investment Policies and Objectives, 13 September 2013, *Auckland Council Website* <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Documents/oiposeptember2013.pdf> [Accessed 22/02/2017].

[3] Diversified Financial Asset Portfolio (DFA): Statement of Investment Policy and Objectives, p3.

[4] How Council Works: Auckland Council Explained', *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/HowCouncilWorks/auckland_council_explained/Pages/Home.aspx> [Accessed 21/02/2017].

[5] Auckland Council Performance Plan – 2017-2019, *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/HowCouncilWorks/PerformanceAndTransparency/Documents/aucklandcouncilperformanceplan20172019.pdf > [Accessed 21/02/2017] .

[6] About us', *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Pages/council_investments.aspx> [Accessed 21/02/2017].

performance. ACIL relinquished their responsibility for the DFA on the 1st of March 2015, leaving Auckland Council Treasury Management to manage and report on the performance of the DFA.[7]

ACIL still owns and manages Auckland Councils major investment assets which include Ports of Auckland Ltd (100%), Auckland International Airport (22.4%) and Auckland Film Studios (100%).[8]

The Auckland Council will be required to act within laws set out by the Local Government Act 2002.[9] The Council must manage its investments in the best interests of the community and must make adequate and effective provision in its long term plan and annual plan to meet the expenditure needs of the Council identified in the plans. The funding needs of the Council must be met from those sources that the Council determines to be appropriate with consideration given to various factors, including the activities funded, the community outcomes of the activities and the distribution of the benefits.

The Local Government Act stipulates that the Council must prepare and adopt a financial strategy for all financial years covered by the Council's long-term plan. In order to provide predictability and certainty of funding levels, the Council must also adopt a range of financial policies including an investment policy. [10]The investment policy must state the Council's policies in respect to the mix of investments, new acquisitions; an outline of the procedures by which investments are managed and reported to the local authority and an outline of how risks associated with investments are assessed and managed. It is important that Auckland Councils' Responsible Investment Policy is consistent with the Auckland Investment Policy and the Local Government Act.

Review

A strong responsible investment policy is anchored in an organisation's own purpose and strategic orientation. CAER undertook a review of relevant documents, policies and public stances related to Auckland Council that could form a basis for the purpose and motivation of the responsible investment policy. The review of these documents, in conjunction with considerations of the current investment practices and policies, was used as a basis to revisit Auckland Council's current Responsible Investment Policy. Shaping the policy on existing commitments will help the policy become widely accepted within the Council and the wider community. Without a strong purpose a responsible investment policy runs the risk of becoming a marginal document with little impact. In addition to Auckland Council's own 2040 vision, the review also considered current practices and commitments of Council peers within New Zealand and Australia.

As highlighted above, Auckland Council Treasury is responsible for the management of the DFA. The Council adopted a Responsible Investment Policy in September 2013. The current Responsible Investment Policy highlights the levels of governance and responsibility for its implementation. The

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[7] *Auckland Council Investment Limited Annual Report,* 30 June 2015, p4, <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Documents/acilannualreport20142015.pdf> [Accessed 22/02/2017].

[8] Council-controlled organisations: Auckland Council Investments Limited, *Auckland Council Website* <http://www.aucklandcouncil.govt.nz/EN/AboutCouncil/representativesbodies/CCO/Pages/council_investments.aspx> [Accessed 20/03/2017].

[9] Local Government Act 2002, Reprint as at 1 March 2016, *New Zealand Legislation, Parliamentary Counsel office*, <http://www.legislation.govt.nz/act/public/2002/0084/latest/DLM170873.html> [Accessed 27/02/2017].

[10] Ibid.

Policy suggests that a Council Investment Adviser reports back to the council on their assessment of each fund manager to determine how the principles of Responsible Investment are integrated. The Fund Manager then implements the responsible investment policy by investing the council funds into portfolios that adhere to the responsible investment policy. Their performance is then reviewed by the Council Investment Adviser and reported back to by the council, who then reassess the responsible investment policy and the ensures the policy is still relevant to the council, and that the implementation of the policy is sound and adheres to the Councils objectives. See Figure 1 below which demonstrates the cyclical process of reporting and implementing the RI policy.

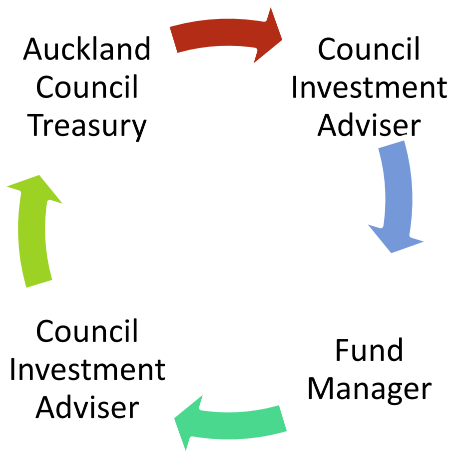

Figure 1 - Cyclical Process of Reporting and Implementation of RI Policy

Through this governance structure, Auckland Council will work with its advisers, investment council stakeholders to implement the Responsible Investment Policy. This includes the development and regular review of guidelines for implementation of the policy.

In practice this structure is likely to continue. However, the governance structure does not have to be outlined in the Responsible Investment Policy. The governance structure is then able to be changed to reflect developments to the investments and the demand for resources.

To ensure the Responsible Investment Policy remains relevant to the values and operations of Auckland Council, the document should be reviewed regularly. CAER suggests integrating the responsible investment policy to be reviewed in line with Auckland Council’s review of financial policies.

Appendix 1 is a revised draft version of the Responsible Investment Policy for consideration of the Council. The Responsible Investment Policy should state the high-level themes that are considered important to the Council. Appendix 2 includes suggested guidelines for the Council regarding the selection of Fund Managers. These guidelines include instructions to investment managers which state minimum thresholds. This way, the thresholds can be reviewed in a timely and effective manner, whilst remaining true to the Responsible Investment Policy.

Divestment and public communications

Companies that are subject of divestment campaigns can be particularly sensitive about their reputations. Therefore any public communication about divestment, or related changes to investment strategies excluding specific activities should be undertaken with appropriate diligence.

It should be recognised that activist organisations are likely to go to some lengths to identify the shape of the Auckland Council portfolio before and after implementation of the RI Policy, and indeed such groups have been known to publish lists that have been 'divested', even in circumstances where such information was not intended for release by the investor.

In these circumstances it would be wise for the Council to develop a public communications framework around the issue of divestment. Such a framework should consider or include guidelines such as:

- Not naming companies – "we don't hold shares directly, therefore it wouldn't be appropriate to comment on specific companies"
- Referring enquiries back to the RI Policy – "we have a clear set of investment criteria that reflect the Council's position on such matters" – and also referring to the governance structures in place re reviewing the results of the process
- Clarifying the role played by engagement with companies – "our RI Policy inform the investible universe that our service providers operate in – from time to time we may engage with companies on specific matters such as human rights performance, but such engagement is not a routine part of our RI Policy's implementation processes"

What is Responsible Investment?

Responsible investment describes a range of approaches taken within the investment process that account for environmental, social and governance (ESG) issues or include ethical and moral considerations. This is done either based on a belief that ESG factors form part of a company's risk profile; on the moral or ethical beliefs of an organisation; or a combination of both.

The Responsible Investment Association Australasia (RIAA) emphasises that the responsible investment industry utilises a diverse range of approaches, and notes that increasingly a combination of approaches is applied to investment processes.[11] This means funds classified as 'screening' could also apply sustainability themes or have a broader ESG assessment overlay to their investments.

Responsible Investment in New Zealand

It is estimated that as at the beginning of 2014 Responsible Investment represented US$21.4 trillion in funds under management globally.[12] In New Zealand, the NZ RIAA 2016 Benchmark Report found responsible investment constituted of 78.7 billion assets under management in New Zealand at 31 December 2015.[13] The most significant component of these investments involved large asset owners and asset managers undertaking an ESG integration approach across their entire funds. Other funds offer stand-alone ethical options.[14] Figure 2 notes Total Responsible Investment in New Zealand.[15]

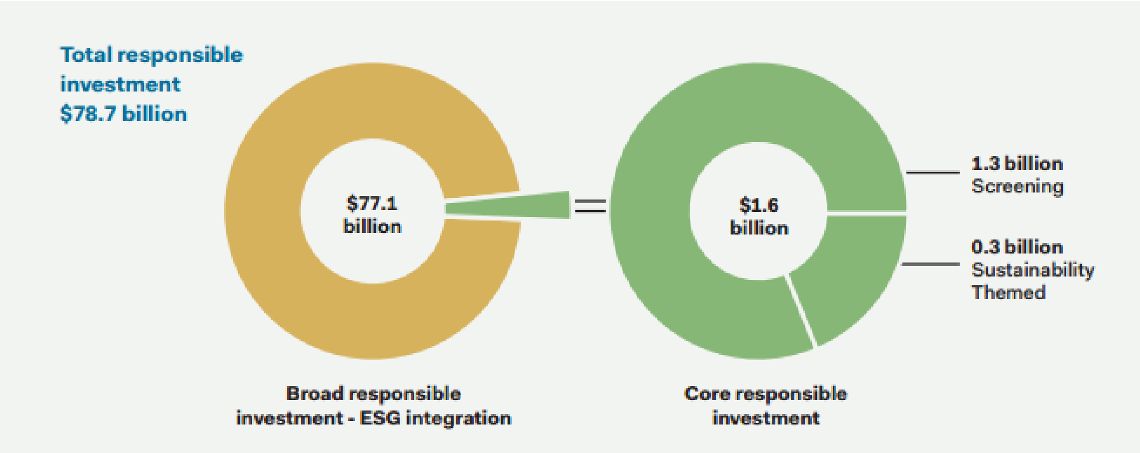

Figure 2 - Total Responsible Investment in New Zealand, RIAA Benchmark Report 2016

[11] *Responsible Investment Association (RIAA) website* <http://responsibleinvestment.org/what-is-ri/ri-explained/> [Accessed 17/02/2017].
[12] Global Sustainable Investment Alliance (GSIA), *2014 Global Sustainable Investment Review*, p7, <http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf> [Accessed 07/02/2017].
[13] RIAA Responsible Investment Benchmark Report 2016, New Zealand, p4 <http://responsibleinvestment.org/resources/benchmark-report/> [Accessed, 7/02/2017].
[14] Ibid.
[15] Ibid., p9.

According to the New Zealand 2016 RIAA Responsible Investment Benchmark Report the Accident Compensation Corporation is the largest responsible investment asset manager in New Zealand. This is closely followed by the New Zealand Superannuation Fund. See Figure 3 for more information.[16]

	AUM $million
Accident Compensation Corporation	31,406
New Zealand Superannunation Fund	29,366
HRL Morrison	8,450
Northern Trust	4,998
Government Super Fund Authority	3,990
Harbour Asset Management	2,143
National Provident Fund	1,814
Devon Funds Management	1,398
Foundation North	1,218

Figure 3 - Largest responsible investment asset managers and asset owners in New Zealand as at 30 December 2015

New Zealand Superannuation Fund and the Accident Compensation Corporation take a normative approach to their responsible investment strategy and have implemented screens across their entire funds.

The notion of responsible investment seems to have gained a reasonable amount of traction in New Zealand. Consumer polling was commissioned by RIAA in conjunction with Kiwi Wealth, to better gauge consumer attitudes towards responsible investment and understand the issues that matter most to New Zealanders. The results of the survey were published in October 2016 and demonstrate a high degree of importance attached to responsible investment by the respondents.

Some key findings are:

- 95% of respondents believe that it is of at least some importance that KiwiSaver funds consider environmental, social, governance and/or ethical factors, with 81% rating its importance as 5/10 or higher
- Fifty five per cent of respondents stated that they would be more likely to invest in a KiwiSaver fund that is certified by an independent body as a ‘Responsible or Ethical Investor’
- 42% of respondents stated a willingness to pay at least ‘a little more’ in fees for a fund that only invests in responsible investments, relative to a conventional fund[17]

The polling also highlights the Top five industries to avoid (in order of priority to New Zealanders) as:

[16] Ibid., p12.
[17] New Zealand Consumer Research, *Responsible Investment Association Australasia,* October 2016, <http://responsibleinvestment.org/wp-content/uploads/2016/11/20161107_Mobium_RIAA_KiwiSaver_FINAL.pdf> [Accessed 23/02/2017].

- Whaling
- Nuclear power
- Tobacco
- Gambling
- Weapons

Issues related to people and animals (slavery, child labour and animal cruelty) were prioritised above environmental issues such as environmental damage and carbon emissions.[18] The focus on social elements, above the environmental issues is important for the council to consider when implementing their revised Responsible Investment Policy. This focus also reflects New Zealand legislation with regards to controversial weapons, which is discussed in more detail in the 'Policy Purpose and Motivation' section and the normative approach taken to screening by government associated funds in New Zealand.

Responsible Investment and investment returns

Critics have traditionally characterised responsible investment as an investment approach that limits an investor's investible universe and therefore investment returns. This view has resulted in the suggestion that responsible investment compromises the ability of trustees with a fiduciary duty to properly fulfil their obligations to beneficiaries. More recently, an increasing body of research suggests that integrating a responsible investment approach offers financial benefits, supporting an argument that ignoring ESG issues as part of the investment process could in fact represent a breach of fiduciary responsibility.

RIAA's annual Benchmark Report has tracked the investment performance of 'core responsible investment' funds for over a decade. 'Core responsible investment strategies' are defined as strategies that apply screening (negative, positive or norms-based), sustainability themed investing, impact/community investing, or a strong corporate engagement programme. In practices most of these funds would be 'restricting' their investible universe based on sustainability or values considerations. RIAA's 2016 Benchmark Report provides data on the performance of responsible investment funds against mainstream equivalent funds and their benchmark index. As has been the case in past years, 2015 also witnessed 'very strong results'.[19]

The performance of core responsible investment funds for the year ending 31 December 2015 is displayed in Figure 4, with core responsible investment funds outperforming their respective peers over most time periods across almost all asset classes.[20]

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[18] 'Media Release: Consumer Polling: The clear majority of New Zealanders expect more than just financial returns from their KiwiSaver investments', *RIAA Website,*<http://responsibleinvestment.org/wp-content/uploads/2016/11/RIAA-Press-Release-Consumer-Polling-15Nov-FINAL.pdf> [Accessed 17/02/2017].
[19] RIAA Responsible Investment Benchmark Report 2016, New Zealand, p2.
[20] See RIAA Benchmark Reports 2002 through to 2016. Accessible via the RIAA website: <http://responsibleinvestment.org/resources/benchmark-report/#> [Accessed 17/02/2017].

Australian Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 16-30 funds sampled depending on time period)	8.3%	12.3%	10.5%	7.6%
	Large-Cap Australian Share Fund Average	3.2%	9.2%	6.5%	5.1%
	S&P/ASX300 Accumulation Index	2.6%	9.2%	7.0%	5.6%

International Share Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 2-13 funds sampled depending on time period)	9.0%	20.0%	15.2%	7.0%
	Large-Cap International Share Fund Average	10.7%	21.7%	13.7%	4.3%
	MSCI World ex Australia Index $A	11.8%	23.9%	15.5%	5.1%

Multi-Sector Growth Funds		1 Year	3 Years	5 Years	10 Years
	Average Responsible Investment Fund (Between 4-10 funds sampled depending on time period)	7.0%	11.5%	8.2%	6.4%
	Multi-Sector Growth Fund Average	3.7%	9.5%	7.5%	4.5%

Figure 4 - Performance of Australian Core Responsible Investment Funds,
Average returns over 1, 3, 5 and 10 years of core responsible investment funds based on the 2016 RIAA Benchmark Report[21]

In a White Paper released by Deutsche Bank's Global Financial Institute, European academic Andreas Hoepner explores the available evidence on the question of whether environmental, social and governance (ESG) data can indeed enhance returns and reduce risks.[22] Based on the review Hoepner establishes four key observations that relate to responsible investment:

1. The arena of ESG investment has been steadily growing over the past decade *"as financial markets have increasingly realised that integrating the environmental, social, and governance concerns of common people in investment decisions makes good business sense"*. This is in turn supported through the notion that Governments have increasingly begun to introduce policies and regulations for businesses that relate to ESG issues, which means companies can no longer ignore ESG issues in their operations.
2. Responsible investment is an attractive investment opportunity as ESG datasets are not widely available or covered in many professional finance degrees. Hence ESG issues are

[21] RIAA Responsible Investment Benchmark Report 2016, New Zealand, p15.
[22] Andreas G. F. Hoepner, Deutsche Bank Global Financial Institute, April 2013, *Environmental, social, and governance (ESG) data: Can it enhance returns and reduce risks?* <https://www.db.com/cr/en/docs/Whitepaper_ESG_422.pdf> [Accessed 7/02/2017].

insufficiently considered by the average investment manager, potentially offering an advantage for the ESG investor.

3. Empirical evidence confirms that ESG information provides attractive return enhancement opportunities. This can be attributed to the fact that portfolios with better ESG ratings display substantially less downside risk.
4. Firms with better ESG ratings experience higher credit ratings and lower cost of debt.

Based on the studies reviewed in Hoepner's paper, it is claimed that ESG integration is at least on-par with 'traditional' investment strategies (he refers to studies by Bauer et al., 2005, Bello, 2005, Hoepner and McMillan, 2009, Kreander et al., 2005, Renneboog et al., 2008, Schröder, 2007). He then refers to a study by Gil-Bazo et al. in 2010 that showed fund managers considered as 'high quality' for their ESG integration actually outperformed their peers. This, according to Hoepner shows that a level of sophistication in the process is necessary to gain the investment advantage.

A study undertaken by Kempf and Osthoff of the University of Cologne in 2007 modelled the performance of funds excluding companies based on a best of sector approach. The study found that their model portfolio, considering a combination of six ESG criteria, could outperform the benchmark to the tune of between 3% and 8.7% depending on underlying strategy changes (such as adjusting the threshold of short selling from 10% to 5%). Hoepner refers to a similar study two years later (Statman and Glushkov 2009) that tests the robustness of Kemp and Osthoff (2007), and achieved similar results on the same models.

Guiding investments with ESG principles lowers risk and offers better downside protection. In 2011 Hoepner, Rezec, and Siegl constructed hypothetical portfolios on the basis of EIRIS environmental ratings. The research found that high rating companies in relation to environmental indicators displayed reduced downside risks. Hoepner concludes that:

> "*the best-rated portfolio has by far the lowest worst-case risk despite it usually consisting of far fewer stocks than the alternative portfolios. This result is economically very meaningful (between 200 and 1,000 basis points) and is not driven by a lower systematic risk of the best rated portfolios. Hence, sophisticated ESG investment strategies seem to have strong downside risk management potential.*"[23]

A study carried out by Tessa Hebb, the managing director of Carleton University's Centre for Community Innovation found that funds that have been based on ESG principles have a stronger Sortino ratio.[24] The Sortino ratio measures the risk-adjusted return of investments.

Despite the mounting academic work that suggests ESG investing can result in investment returns that outperform peers or benchmarks, a long-held view that responsible investment impeaches the fiduciary duty of investors has proven difficult for the industry to shake off. As recently as September 2015, the PRI released a report that aims to de-bunk these concerns once and for all, and bring the

[23] Ibid, p12.
[24] 'ESG investing lowers risk and offers better downside protection', *IR magazine,* (June 2, 2015) <http://www.irmagazine.com/articles/sustainability/20827/esg-investing-lowers-risk-and-offers-better-downside-protection/> [Accessed 7/02/2017].

notion of fiduciary duty into the 21st Century.[25] The traditional interpretation of the "best interest test" refers to trustees being required to exercise their functions and powers in the best financial interest of beneficiaries. The report argues that failing to consider long-term investment value drivers, which include ESG issues, is a failure of fiduciary duty. Accordingly, the best interest test cannot be considered without reference to risks posed to a fund and its investments by ESG issues. The report does recognise, however, currently there is a lack of clarity around the extent to which best financial interests require asset owners to take account of ESG issues in their investment processes.

Responsible Investment practices and themes

There is no one way to implement a responsible investment approach. The approach or mix of approaches taken is guided by an organisation's commitments and guiding principles.

The sections below outline the most common approaches taken by responsible investors. Each of the approaches can be viewed as a tool that investors can use to achieve a specific outcome. The tool or approach taken largely depends on the investors' underlying investment beliefs and desired outcomes. The approach can also be influenced by varying stakeholders' demands and beliefs.

Activity-based exclusions

Applying exclusions, or negative screening, to an investment portfolio means that certain company activities, which are deemed inappropriate because of the values and/or investment beliefs of an organisation, are deemed inappropriate for investment.

While this approach appears to be simple, there are important considerations to be made, such as what is the exact definition of 'tobacco production', and what level of involvement is deemed material enough to exclude a company from an investment universe.

Negative screening has not been traditionally utilised in mainstream responsible investment practice in New Zealand and Australia, although this approach is being reconsidered as portfolio transparency leads to more questions being asked by the beneficiaries of the various funds. Globally, however, negative screening is a much more commonly-used tool. For example, in Europe according to the 2014 Global Sustainable Investment Review, exclusions cover around 41 per cent of European total professionally managed assets, with voluntary exclusion policies that single out cluster munitions and anti-personnel landmines affecting about 23% (US$5.5 trillion) of the overall European investment market.[26] Furthermore, in 2014 investors applying exclusions totalled US$14.4 trillion.[27]

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[25] Principles for Responsible Investment, September 2015, *Fiduciary Duty in the 21st Century*. <https://www.unpri.org/download_report/6131> [Accessed 7/02/2017].

[26] GSIA, *2014 Global Sustainable Investment Review*, p16, <http://www.ussif.org/Files/Publications/GSIA_Review.pdf> [Accessed 17/02/2017].

[27] Ibid., p7 and 8.

<u>Worked example for activity-based exclusion - tobacco:</u>

When applying a tobacco exclusion policy, one must consider diversified companies as well as activities along the industry value chain. This may include the retailing of tobacco products, or the engineering of machinery that assists the manufacturing of tobacco products.

For example, how does an investor view supermarkets and their involvement in retailing tobacco? The primary business model of supermarkets is to supply and sell everyday items such as groceries and household products - items people need on a day-to-day basis. As part of this, supermarkets also sell cigarettes in their stores. An investor may have the view that supermarkets are a major sales channel for cigarettes and therefore should be avoided if one is avoiding the tobacco industry. There is also the concern that by being big tobacco retailers, supermarkets may oppose public policy aimed at reducing community smoking rates. For example, supermarkets may oppose regulation such as plain packaging because reduced smoking will result in reduced sale of a high value product sold at their stores.

Alternatively, an investor may form the view that tobacco sold in supermarkets forms a small proportion of the company's overall revenue, and given the role of the supermarket is to provide customers with the products they want, it would be unreasonable to expect a supermarket chain to not sell cigarettes. In practice many investors form the view that retailing is an issue only if the retail activity constitutes a significant proportion of the company's overall sales.

The important issue here is to have a clear guideline as to when involvement in an excluded activity is considered serious enough to warrant an outright exclusion. This avoids confusion and allows for simple communication of the exclusion.

Most investors that have exclusion elements in their investment policy or procedures define 'thresholds' for issues deemed significant enough to warrant an exclusion from the investible universe.

Thresholds may vary depending on the type of involvement, with production of tobacco being considered a more serious involvement in the industry than retail (for instance). A practical example of a possible tobacco exclusion policy is the exclusion position NZ Super takes which is to directly exclude companies that are involved in the manufacture of tobacco from the fund.[28]

While in practice exclusions are often related to the ethical and moral positions of an investor, many investors will also point to the potential long-term financial impacts of regulatory intervention in a particular industry – for instance:

- Tobacco production and/or sale vs regulatory innovations such as plain packaging
- Alcohol production and/or sale vs regulatory intervention re alcohol consumption

[28] 'Exclusions', *NZ Super Fund Website* <https://www.nzsuperfund.co.nz/how-we-invest-responsible-investment/exclusions> [Accessed 22/02/2017].

- Gambling vs restrictions on the number of poker machines licenses

Other commonly used activity-based screens include pornography distribution, retail of fur products, old growth forest logging, armaments, nuclear weapons, uranium mining, animal testing, intensive farming and meat sale, and/or genetic engineering.

Whether and how such topics are applied to an exclusion screen depends on an organisation's underlying beliefs; a Christian investment fund is likely to apply different screens to an animal welfare focussed fund. Below are some examples on how thresholds can be viewed and applied.

Typical thresholds include:

Absolute avoidance - any involvement (often applied to issues such as controversial weapons)

5% - while not a major part of to the company's business activities, the involvement is a material business activity

10% - while not a major part of to the company's business activities, the involvement is a material business activity and often no longer justifiable as a side business but rather a specific business segment or division

33% - activities that generate over 33% are a main business, and therefore involvement in a 'negative' activity can be considered core to a company's activities.

While similar logic applies to the current fossil fuel divestment debate as for the more 'traditional' screening topics, it is particularly important to have a clear definition of what constitutes fossil fuels and why these are considered to be sufficiently harmful to warrant avoiding investment. The justifications for fossil fuel divestment range from moral and ethical considerations through to financial risks related to stranded assets. The stranded asset argument is based on the assumption that there will be a global policy scenario to address climate change where fossil fuel use will reduce to such an extent that companies currently heavily investing in the extraction of such fuels will sit on worthless assets in the future. Hence as a long-term investor in these companies the expected investment value may not be realised.

The financial risks of holding these stranded assets are being openly discussed by mainstream financial firms – one good example is a Citibank report entitled Energy Darwinism.[29] Many investors consider some fossil fuels worse from a climate change perspective than others - either for their overall greenhouse gas emissions, or the lack of suitable alternatives companies may pursue in their business model. A breakdown of fossil fuels may look as follows:

- Conventional oil and related fuel products
- Unconventional oil, i.e. shale oil, tar sands
- Conventional natural gas

[29] Citi Research, *ENERGY DARWINISM II - Why a Low Carbon Future Doesn't Have to Cost the Earth*, 2015 <https://www.citivelocity.com/citigps/ReportSeries.action?recordId=41> [Accessed 7/02/2017].

- Unconventional gas (shale gas, coal seam gas, also other technologies such as underground coal gasification)
- Coal production, which can be further broken down to:
    - Thermal coal
    - Coking coal

Other considerations include associated activities, such as fossil fuel specific transport infrastructure (e.g. pipelines, train networks) or services to company (e.g. mining contractors extracting fossil fuels).

Investors who are introducing a screening policy to an existing portfolio may choose a stepped approach to avoid a large sell-off of stocks at one point in time, including associated trading costs. An example of a stepped approach is the Uniting Church's ACT/NSW synods' decision to introduce a screen on fossil fuels:

> *"In October 2013, the Synod Standing Committee approved the following implementation strategy, prepared by Synod's Treasury and Investment Services (T&IS), for divestment from shares in companies engaged in the extraction of fossil fuels:*
>
> - *Instruct the managers to proceed with their divestment of all stocks that have a greater than 40% net exposure from direct fossil fuel extraction before 19th October 2014*
> - *Instruct the managers to proceed with their divestment of all stocks that have a greater than 25% net exposure from direct fossil fuel extraction before 19th October 2015*
> - *Instruct the managers to proceed with their divestment of all stocks that have a greater than 10% net exposure from direct fossil fuel extraction before 19th October 2016"*[30]

According to the NZ RIAA Benchmark Report, positive and negative screening is (and continues) to be the most popular strategy applied to core responsible investments in New Zealand. In 2016, the use of screening has increased by 17% compared to the last year. As shown in last year's published report, several core responsible investment funds have screened multiple industries from investment portfolios, principally being tobacco, alcohol, weapons (including specific exclusions of cluster munitions) and gambling.[31]

A 2015 survey shows that managers of core responsible investment portfolios are developing negative screening strategies to exclude industries beyond those most commonly screened.[32] For example, several funds now incorporate sophisticated strategies to screen out human rights related issues, obesity issues, adult entertainment as well as environmentally destructive products such as palm oil. The survey also showed that several major funds incorporate sophisticated strategies to

[30] Synod Resolutions – 49 NSW/ACT Synod divestment implementation strategy 2013, *Uniting Earth Web website* <http://www.unitingearthweb.org.au/synod-resolutions/49-nsw-act-synod-divestment-implementation-strategy-2013.html> [Accessed 7/02/2017].

[31] Ibid.

[32] RIAA Responsible Investment Benchmark Report 2016, Australia, p10. <http://responsibleinvestment.org/resources/benchmark-report/> [Accessed 17/02/2017].

screen out fossil fuels with various definitions covering coal, thermal coal, oil, gas, unconventional gas, oil sands, fossil-fuel based electricity generation, as well as mining and electricity. Large institutional asset managers and asset owners are increasingly incorporating exclusions into their ESG integration strategies. Faith-based organisations such as the NZ Anglican Church Pension Board and the Methodist Trust Association are examples of institutions that apply a screening approach across core responsible investments.

Norms-based screening

Norms-based screening refers to an approach that is largely informed by international norms, such as conventions to prevent the use of controversial weapons (nuclear weapons, cluster munitions and anti-personnel landmines) or prevent the abuse of basic human rights.[33] Companies who have been found to be acting in breach of such international conventions may be placed outside of the investible universe of an investor.

In the case of screening for cluster munitions, the law can be used as the basis to define what constitutes a cluster munition. For other international norms, such as conventions on human rights or environmental protection, exclusions may not be as straight forward. For instance, the convention may refer to corporate behaviour that could be interpreted as complicit but not intentional. Investors often consider such issues on a case-by-case basis.

One example is the case of Broadspectrum (previously named Transfield Services and now owned by Spanish company Ferrovial), the company contracted by the Australian government to run its offshore refugee detention centres. Several superannuation funds have publicly sold their shares in the Company. It has been interesting to note that some funds justifications for selling shares in the Company were focussed on essentially moral grounds and seeking to align with the views of their members, whereas other explanations were firmly based in the future financial risks to the shareholding associated with potential litigation against the company. In either case, international norms formed the basis of reviewing whether the investment in the company continued to be appropriate.

In 2016, there was media coverage regarding controversial assets held by Kiwi Saver Schemes. For example, reports criticised large KiwiSaver schemes that held shares in US companies with links to the arms industry.[34] A police investigation was carried out in response to a complaint from Amnesty International. The investigation focused on whether KiwiSaver providers had broken the Cluster Munitions Prohibition Act (2009). No companies or individuals were found guilty of breaching the act, however the investigation attributed the weak law for not establishing guilt. The investigation is another example of how international norms can shape the investment sector.

Best of sector approaches

When applying a best of sector approach, investors want to avoid excluding any specific activities or sectors from their investible universe, but apply a fundamental belief that companies responding

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[33] Convention on Cluster Munitions, 2008, <http://www.un.org/disarmament/convarms/clustermunitions/> [Accessed 7/02/2017].

[34] Rob Stock, 'No police action on KiwiSaver cluster munitions, weak law blamed', *Stuff.co.nz,* 8 September 2016, <http://www.stuff.co.nz/business/84043884/No-police-action-on-KiwiSaver-cluster-munitions-weak-law-blamed> [Accessed 7/02/2017].

well to a selected set of ESG or sustainability issues are preferable investments versus their sector peers.

The first step when applying a best of sector approach is to set out the underlying sustainability tenets of an organisation and how companies may best respond to them. Companies are then assessed based on their responses and compared to their peers.

Investment in sustainability indices or making use of sustainability ratings are typical applications for best of sector investors. Companies can be assessed and compared against a variety of indicators. Environmental management, climate change management, water risk management, human rights, board governance, bribery and corruption and stakeholder relations are examples of indicators that can be utilised to highlight a company's relative performance. Companies are then scored and ranked according to an agreed methodology.

Different sectors are accountable to different indicators dependent on the sectors materiality of involvement and exposure to risk. Companies are also exposed to different risks depending on the locations of a company's operations or where it is involved in a specific sub-set of activities that not every company in a sector may be exposed to. For example, if a company has water-intensive operations in water-stressed regions, their water risk exposure will be higher than a company that has operations in countries that are not considered to be in water-stressed regions. Furthermore, an electricity generator focussing on renewable energy in China will have a different set of sustainability risks to an electricity generator focussing on natural gas generation in Australia or New Zealand. While ESG risks and opportunities will vary across sectors, in a best-of-sector approach companies in the same sector are typically assessed for the same risks and compared to each other.

Broad ESG risk integration

Investors who take a broad ESG integration approach believe that ESG factors play an important role in the valuation of a company. The Principles for Responsible Investment (PRI) contend that properly sustainable financial markets factor in ESG issues:

> *Implementing the Principles will lead to a more complete understanding of a range of material issues, and this should ultimately result in increased returns and lower risk. There is increasing evidence that ESG issues can be material to the performance of portfolios, particularly over the long term.*[35]

ESG analysis provides additional insight for investors concerned about the broadest set of risks related to their investments. The PRI highlights how 'good corporate governance', such as director independence and a company's accountability, has strong links to credit strength.[36] ESG issues such as climate change or corruption are macro factors that could affect a company's profit and an

[35] About PRI – FAQs, *Principles for Responsible Investment website,* <http://www.unpri.org/about-pri/faqs/> [Accessed 7/02/2017].

[36] Principles for Responsible Investment, 2013, *Corporate Bonds: Spotlight on ESG Risks*, p15. Available online: <https://www.unpri.org/download_report/3829> [Accessed 7/02/2017].

issuer's ability to repay debt.[37] The PRI states that long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.[38]

In New Zealand, the concept of ESG integration has achieved significant traction among asset owners and investment managers, with eight major asset owners and nine asset managers being UNPRI signatories. 72% of total market funds under management are held by PRI signatories.[39] The PRI in New Zealand has been enthusiastically adopted by NZ Super, who state that 'Responsible investors must have concern for environmental, social and governance factors are material to long-term returns'.[40]

The strong adoption of the PRI principles in New Zealand appears to have moved the discussion from one that focusses on the reason for integrating ESG issues to one that is about how successfully investment managers are implementing their commitments in practice. To start answering this question, the Responsible Investment Association Australasia (RIAA), the industry body for responsible investment practice in Australia and New Zealand, developed a framework as part of its annual snapshot of the responsible investment industry, drawing on the core pillars of leading ESG integration practices. According to RIAA the core pillars of leading ESG integration practices include:

- Publicly stated commitment to Responsible Investment
- Responsible Investment Policy
- Commitment of transparency of processes and approach
- Systematic Process for ESG integration and evidence of how this process is applied within traditional financial analysis
- Evidence of activity in other areas of Active Ownership and Stewardship including voting and engagement
- Member of collaborative investor initiative
- Coverage of total AUM by responsible investment or ESG practices [41]

Sustainability themed investment

There are a number of funds who choose a specific sustainability theme for their investments, such as renewable energy, clean technology and sustainable forestry. Managers with specialist knowledge in the industry can be utilised to manage themed funds, which can be beneficial to the investments.

Examples of sustainability themed investment funds include green property funds that primarily channel their investments to resource efficient buildings. This may be done through established certification frameworks such as Green Star or NABERS ratings of buildings. A fund then may limit investments based on a minimum rating, or sets targets to improve invested building infrastructure to a specified standard. Property funds may also focus on specific themes such as medical and allied

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[37] Areas of work – Implementation Support – Fixed income, Principles for Responsible Investment website: <http://www.unpri.org/areas-of-work/implementation-support/fixed-income/esg-integration/> [Accessed 7/02/2017].

[38] Principles for Responsible Investment, September 2015, *Fiduciary Duty in the 21st Century*, p3, <https://www.unpri.org/download_report/6131> [Accessed 7/02/2017].

[39] RIAA Responsible Investment Benchmark Report 2016, New Zealand, p13.

[40] How We Invest White Paper, Why We Believe Responsible Investing Pays Off, November 2015, *NZ Super Fund* <https://www.nzsuperfund.co.nz/sites/default/files/documents-sys/White-Paper-ESG-Beliefs.pdf>

[41] RIAA Responsible Investment Benchmark Report 2016, New Zealand, p16.

health facilities, or other social infrastructure. The Southern Cross Renewable Energy Fund, a co-investment between the Australian Renewable Energy Agency and Softbank China Venture Capital, is an example of a fund that makes equity investments in early-stage renewable energy companies.[42]

In 2015, 18% of all core responsible investments are sustainability themed investments. In the 2016 RIAA Benchmark Report for New Zealand, the sustainability-themed investments recorded were Southern Pastures LP's sustainable agriculture fund and Pathfinder Asset Management's water fund. In 2015, the value of AUM held in sustainability-themed investments increased by 21%. The purpose of these funds is to invest in funds that have sustainability related goals. The type of funds that are commonly invested in include clean energy, green technology, sustainable agriculture, sustainable forestry, green property and water technology.

Proxy voting

Many investors with a responsible investment policy, consider proxy voting part of their 'active ownership' commitment. This commitment in turn sits at the heart of their approach when engaging with and influencing the management of companies they invest in. The process is also considered to have the power to protect investments and foster the link between good corporate governance and high returns.[43]

At annual general meetings investors may vote for or against resolutions the board of a company has forwarded. In Australia proxy voting decisions tend to focus on governance issues such as director remuneration or director re-election. There are a number of specialist organisations that provide investors with proxy voting services and advice.[44] These proxy firms in many cases assist in the actual casting of votes on the behalf of investors.

Shareholder resolutions

While not very common in New Zealand, shareholder resolutions are starting to become a more prominent tool in the responsible investor's toolbox. Although shareholder resolutions are somewhat related to proxy voting, shareholder resolutions tend to be about issues put to the company by investors, as opposed to confirming or rejecting resolutions put by a company's board of directors. Shareholder resolutions are therefore also often referred to as 'shareholder activism'.

Involvement can take different forms, from writing and filing resolutions, formally showing support for a resolution, through to voting for the resolution if it makes it to the vote.

In the US and more recently in the UK, shareholder resolutions are more common than in Australia. In the US a specialist organisation, the Interfaith Centre on Corporate Responsibility (ICCR), is instrumental to coordinating and drafting resolutions.[45] In Australia and New Zealand the

[42] Renewable Energy Venture Capital Fund, *Australian Renewable Energy Agency Website* <http://arena.gov.au/programmes/renewable-energy-venture-capital-fund/> [Accessed 7/02/2017].
[43] About MLC – Proxy Voting, *MLC website* <https://www.mlc.com.au/personal/nav_top/about-mlc/about-super-investments/proxy-voting> [Accessed 7/02/2017].
[44] Australian Council of Superannuation Investors Research Paper, 2012, Institutional Proxy Voting in Australia, *Australian Council of Superannuation Investors Website,* <https://www.acsi.org.au/images/stories/ACSIDocuments/detailed_research_papers/12%20Institutional%20Proxy%20Voting%20in%20Australia.Oct%2012.pdf> [Accessed 7/02/2017].
[45] About ICCR, *ICCR website*, <http://www.iccr.org/about-iccr> [Accessed 7/02/2017].

Australasian Centre for Corporate Responsibility (ACCR) is aiming to establish a culture of investors putting resolutions to company AGMs that relate to broader corporate responsibility issues.[46]

Company engagement and dialogue

Company engagement and dialogue is a tool that can be used either as a primary strategy, or used to assist in decisions that relate to other responsible investment approaches.

Engagement is about directly raising issues with companies, and through a dialogue, conveying concerns related to ESG or sustainability risks. Engagement can be about aiming to better understand how companies address ESG issues, or about asking for improvement in ESG practices. Often engagement happens in parallel with a broader ESG integration approach, or investors may have specific concerns that they want to raise with companies prior to taking further action such as exclusions, norms-based screening, proxy voting or shareholder resolutions.

Engagements may be undertaken directly by individual investors or as part of a broader collaboration or a joint engagement process. Such engagements may take place directly, through professional engagement providers, or through industry organisations such as the Principles for Responsible Investment (PRI). Direct engagement with companies on ESG issues can be a resource and time intensive process, indirect engagement, such as signing a joint initiative, is usually less time intensive and can be impactful.

A common challenge for investors using engagement as a core strategy is the measurement of success. When can corporate behaviour change be attributed to an investor engagement? Clear and achievable outcomes at the beginning of an engagement process are critical.

If companies don't respond to the engagement or the engagement has not lead to the intended result investors must decide what further action to take. Some investors may choose to take action by divesting their holdings, for example local fund manager Australian Ethical decided to exit its position in the automatic-sorting-machine producer Tomra when the company failed to adequately address their concerns around the acquisition of a tobacco sorting business.[47] In other cases investors decide to put resolutions at company meetings, support resolutions or change broader voting behaviour around director re-election. Before such action is taken, investors consider the appropriate timeframe and assessment of responses by companies.

Other related approaches

There are a range of alternative investment approaches that could be used to diversify your asset allocation as a responsible investor. These include 'green' and 'social' bonds; bonds that are issued with specific environmental or social impacts as part of the activities they finance. Social themed products are also often referred to as impact investing. While green and social bonds are priced in the same manner as vanilla bonds, a positive social or environmental outcome is attached to the issue in addition to the financial return.

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[46] About, *ACCR website*, <http://www.accr.org.au/about> [Accessed 08/02/2017].

[47] News – Tobacco investment engagement Tomra, *Australian Ethical Investments website,* <https://www.australianethical.com.au/news/tobacco-investment-engagement-tomra/> [Accessed 08/02/2017].

Focus areas for green bonds may include sectors such as solar, geothermal and wind energy as well as water, low carbon buildings and low carbon transport. An example of this is the 2016 FlexiGroup AUD $50 million bond issuance which focused on Solar Energy. Social impact bonds involve the raising of capital to combat pressing social issues for example the 2013 AUD10 million bond issued by The Benevolent Society to launch The Resilient Families preservation service.

Participation in broader responsible investment initiatives

Many responsible investors also actively participate in a range of initiatives or organisations that help inform or support their responsible investment goals. Below is a list of the most prominent organisations in the Australian responsible investment space.

- *Principles for Responsible Investment* (PRI) - A United Nations-backed initiative that sets out core principles for responsible investment, largely focussed on ESG integration, but also about connecting responsible investors through their 'clearing house', working groups and a global annual conference. The PRI is also a key organisation globally in thought leadership and contributes to wider education around responsible investment. The PRI has an academic network, and supports business education on responsible investment through the PRI Academy.
- *Responsible Investment Association of Australasia* (RIAA) - Australia and New Zealand's industry body for responsible investors and service providers. RIAA publishes separate annual Responsible Investment Benchmark Report for Australia and New Zealand. The reports track the growth and performance of the responsible investment industry in the respective countries. RIAA has an annual responsible investment conference, one in Australia and one in New Zealand. RIAA hosts a range of RI events throughout the year, and has a number of working groups for its members. RIAA also manages a certification program for providers of responsible investment products and services through the Responsible Investment Certification Program.
- *Investor Group on Climate Change* (IGCC) - A high-profile coalition of large investors supporting greater disclosure and action by companies on reducing greenhouse gas emissions. The group supports the Carbon Disclosure Project (CDP) and has a number of working groups focussing on company and public policy issues.
- *CDP* - The CDP is a group supported by institutional investors that annually surveys companies on their data and underlying strategies in relation to greenhouse gas emissions, water usage and deforestation risks.

Responsible Investment for Auckland Council

Responsible Investment Policies

The cornerstone for successfully applying a responsible investment approach is to set out an organisation's overarching responsible investment beliefs in a policy statement. Such a statement clearly sets out an organisation's expectations and understanding of how Responsible Investment is applied across its investments. It serves as an important basis for communicating the approach and expectations to stakeholders internally and externally.

A responsible investment policy can be included in an existing investment policy or be a stand-alone document that underpins the investment policy. Policies can range from high-level generic statements through to including detailed processes to implement the policy.

A suggested revised Responsible Investment Policy for Auckland Council to consider is included in Appendix 1. Guidelines to aid the implementation of the Responsible Investment Policy are detailed in Appendix 2.

Responsible investment policies and practices for Council Peers that were reviewed are summarised in a table displaying stated investment approaches and themes applied in Appendix 3.

Based on a review of international council and institutional investors' Responsible Investment policies and general guidelines set out by the PRI[48] and RIAA[49], CAER considers the following aspects core to a responsible investment policy:

- **Statement of purpose and motivation** – why does the organisation need this policy?
- **Scope** – what part of the organisation and which investments are covered by the policy, e.g. asset classes included/covered by the policy?
- **Context** – where does the policy sit within the broader context of the organisation and the broader investment policy or strategy, what are other important documents that relate to this policy, for example a specific statement on climate change, implementation process documents.
- **Role of asset consultants and investment managers** – how are asset consultants and investment managers impacted by the policy?
- **RI approach** – what does Responsible Investment and/or ESG integration mean to the organisation, how does it translate, for example are there any exclusions, pure ESG integration? Possible to refer to any underlying implementation guidelines.
- **Transparency and reporting** – how does the organisation disclose responsible investment actions and measure achievements?
- **Responsibility** – who is responsible for overseeing policy, and for implementation?
- **Review of the policy** – how regularly is the policy reviewed and who reviews the policy?

[48] Areas of Work – Implementation Support – Guidance for New Signatories*, Principles for Responsible Investment website* <http://www.unpri.org/areas-of-work/implementation-support/guidance-for-new-signatories/> [Accessed 08/02/2017].

[49] RI Certification – Responsible Investment Certification Programme Overview, *Responsible Investment Association of Australasia website* <http://responsibleinvestment.org/program-overview/> [Accessed 08/02/2017].

The following sections will explore each of the policy issues by reviewing existing policies and strategies set out by Auckland Council, and considering responsible investment policies of other Councils and institutional investors.

Policy purpose and motivation

A strong responsible investment policy is anchored in an organisation's own purpose and strategic orientation. Possible documents and public stances related to Auckland Council that could form a basis for the purpose and motivation of the Responsible Investment Policy have been set out in the information below. Basing the Responsible Investment Policy on existing commitments will help the policy become an integral and widely accepted part of the Council. Without a strong grounding a responsible investment policy runs the risk of becoming a marginal document with 'add-on' characteristics. CAER proposes to align The Auckland Council Responsible Investment Policy to align the Councils broader sustainability values and the Auckland Plan for 2040.[50]

Creating the World's Most Liveable City

The Council has a goal of making Auckland the world's most liveable city in 2040. This goal comes with seven outcomes to affordable manage growth and achieve this vision. These outcomes include:

- A fair, safe and healthy Auckland
- A green Auckland
- An Auckland of prosperity and opportunity
- A well connected and accessible Auckland
- A beautiful Auckland that is loved by its people
- A culturally rich and creative Auckland
- A Maori identity that is Auckland's point of difference in the world

The Council discloses some 'transformational shifts' in order to achieve this vision by 2040. This includes a statement to 'strongly commit to environmental action and green growth.'[51] In this commitment the Council acknowledges that the health of the environment, and its biodiversity is deteriorating and a 'fundamentally different approach to the way Auckland will grow and develop is required'. This plan also includes an aspirational target to make a 40% reduction in greenhouse gas emissions (relative to 1990 levels) by 2040.[52]

Low Carbon Auckland

A Steering Group was established in 2012 to help transition Auckland to a low-carbon city. This includes working to the target of reducing greenhouse gas emissions by 40 per cent by 2040. The Steering group represents industry, NGO's, academia and is supported by officials from Auckland Council.

The Steering Group stated:

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[50] 'The Journey to 2040', *Auckland Council Website,* <http://theplan.theaucklandplan.govt.nz/the-journey-to-2040/> [Accessed 22/02/2017].
[51] Ibid.
[52] Ibid.

The multi-faceted, multi-player and multi-action nature of the transformations outlined in this action plan will require ongoing stewardship if they are to happen. It must continue to grow and develop through time.[53]

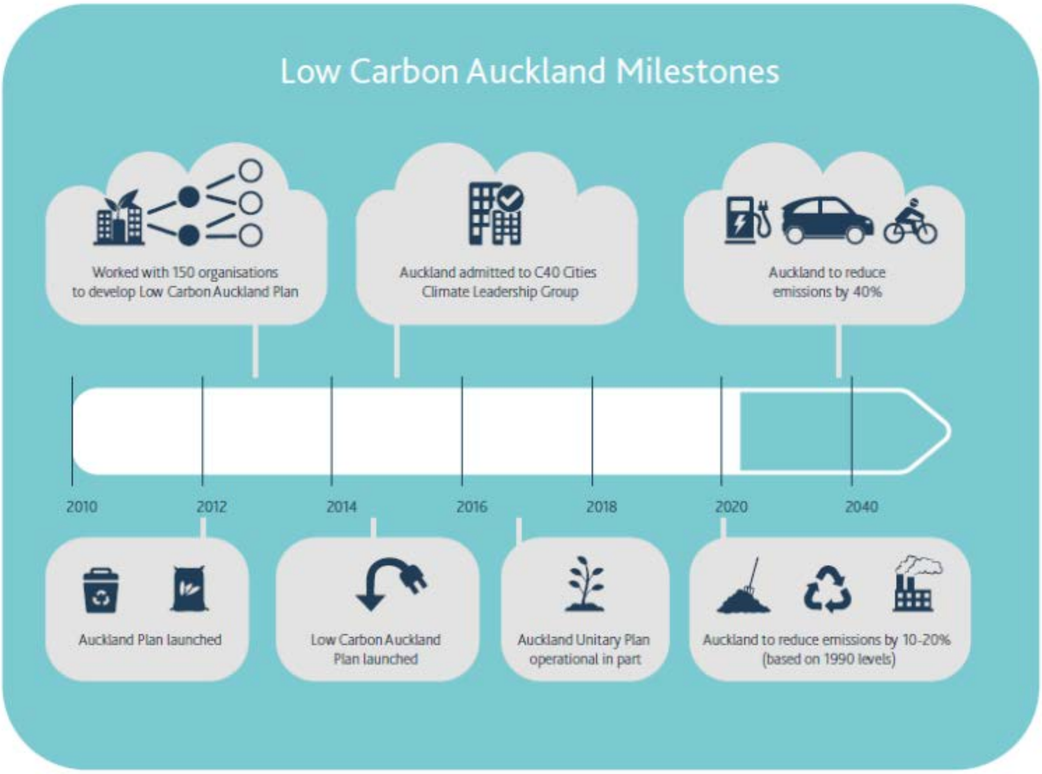

Figure 5 - Low Carbon Auckland Milestones and Goals

The Council releases a Low Carbon Auckland Annual implementation update. The update reports yearly on the progress for implementing the plan for an Auckland. See Figure 5 for a breakdown of Auckland Council's milestones and targets set for a Low Carbon Auckland. The Council has also set targets for transport, energy, built environment and green infrastructure, zero waste, forestry agriculture and natural carbon assets. These targets have three stages: 2020, 2030 and 2040.[54]

Auckland's Responsible Investment Policy should draw upon these targets and the Councils investments should reflect the long-term vision of the Auckland 2040 plan.

[53] [Full version] Low Carbon Auckland: Auckland's Energy Resilience and Low Carbon Action Plan, July 2014, p3 <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/theaucklandplan/Documents/lowcarbonauckactionplanfullversion.pdf> [Accessed 16/02/2017].

[54] [Shortened Version] Low Carbon Auckland: Auckland's Energy Resilience and Low Carbon Action Plan, July 2014 <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/theaucklandplan/Documents/lowcarbonauckactionplancoverandapp.pdf> [Accessed 16/02/2017].

Sustainability Leadership

Building Resilient Cities

A key theme of being a resilient city to Climate Change is energy resilience. Auckland Council has outlined how securing sustained access to clear, efficient and affordable energy and reducing greenhouse gas emissions is key to ensuring energy resilience.[55]

Auckland joined the C40 Cities Climate Leadership Group (C40), a strategic global network of over 75 leading cities working together to reduce climate risks and greenhouse gas emissions.[56] Member cities engage in a dialogue to share knowledge, best practice, research, commitment to leading globally on climate change. C40 cities aim to collaborate, innovate and reduce emissions and in turn create healthier more prosperous and liveable cities.[57]

A RI policy that incorporates these values could include either a negative screen to identify companies either involved in Fossil Fuel productions, which can then be further classified and defined, or high carbon emitters. The Council could also calculate the carbon footprint of the DFA, and publicly disclose this information.

The way the RI policy is implemented is fluid, and can be flexible and responsive to changes in the Companies goals for a Low Carbon Auckland.

Demographic Advisory Panels

The council has a number of different demographic panels to provide the Council will advise on policies that would affect the livelihoods of specific demographics. These include a Disability Advisory Panel, Ethnic Peoples Advisory Panel, Pacific Peoples Advisory Panel, Rainbow Communities Advisory Panel, Senior Advisory Panel and Youth Advisory Panel.[58]

The Council could engage with these Advisory Panels on issues that could be embedded in the Responsible Investment Policy or broader investment policy.

Public Health and Community Wellbeing

Stance Against Sugar

Auckland Council has a strong stance against obesity and high sugar, low nutrient products.

In 2016, as a show of leadership the Council dropped sugar-sweetened drinks from vending machines at council-run leisure centres.[59] The Council operates 21 leisure centres that are community-led. The exclusion of sales of sugary drinks in these places will eliminate 340kg of refined sugar from its vending machine sales.

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[55] ' Low Carbon Auckland', Auckland's Energy Resilience and Low Carbon Action Plan, p4.
[56] 'Low Carbon Auckland' *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/plansstrategies/theaucklandplan/energyresiliencelowcarbonactionplan/Pages/home.aspx> [Accessed 16/02/2017].
[57] C40 Cities Climate Leadership Group <http://www.c40.org/> [Accessed 27 February 2017].
[58] 'Your mayor and representatives: Advisory panels', *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/ABOUTCOUNCIL/REPRESENTATIVESBODIES/ADVISORYPANELS/Pages/aboutadvisorypanelshome.aspx> [Accessed 16/02/2017].
[59] 'Sugary drinks dropped from leisure centres', *Auckland Council Website,* 27 July 2016 <http://ourauckland.aucklandcouncil.govt.nz/articles/news/2016/07/sugary-drinks/> [Accessed 22/02/2017].

Auckland Council is also a lead partner in the Healthy Families Manukau, Manurewa-Papakura movement which aims to address the growing health inequities and increasing number of people impacted by preventable chronic disease in New Zealand.[60]

Other Councils around the world have also pushed for action against sugar, for example in the United Kingdom the Local Government Association, which represents more than 370 councils, are pushing for soft drinks to have child-friendly labels to tell consumers how many teaspoons of sugar they contain.[61]

Platinum Asset Management's Managing Director and investor Kerr Neilson declared that sugar is the 'new tobacco'.[62] Furthermore, Credit Suisse research supports the thesis that obesity is an investment risk, finding that an increasing focus on the sugar-obesity link and 'negative noise' surrounding this issue will have a negative impact for soft drink companies and sugar manufactures and a positive impact for companies that manufacture natural sweeteners.

In an article titled 'Auckland Council won't say if it holds tobacco investments' in the NZ Herald on the 1st August 2016, Auckland Council was criticised for having investments in soft drink, alcohol and tobacco companies. Zoe Hawke, the Manager of Hapai Tobacco Control states in the article:

> *'Being a supporter of Coke and tobacco through investments, as well as trying to protect our communities from the same products is confusing for communities. Time to show Auckland and the rest of the country that change from the inside is going to happen and that creating healthy spaces for communities isn't just for show.'*[63]

The growing 'negative noise' means that having a screen on high-sugar products in their Responsible Investment Policy is a potential option for Auckland Council which could be seen to further substantiate their commitment to drive changes that positively affect public health.

Stance Against Tobacco

In New Zealand around 5,000 people die each year because of smoking or second-hand smoke exposure.[64] 17% of New Zealand adults currently smoke. People are considered to be current smokers if they smoke at least monthly, and have smoked more than 100 cigarettes in their lives.[65] It is important to note that this figure has dropped from 25% of adults in 1996/97.[66]

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[60] 'About us', *Healthy Families Manukau Manurewa-Papajura Website,* <http://www.healthyfamilies-mmp.org.nz/about> [Accessed 23/02/2017].

[61] 'Fizzy drinks SHOULD have sugar teaspoon content on labels, say council bosses', *Express,* 20 February 2016, <http://www.express.co.uk/life-style/health/645744/fizzy-drinks-sugar-content-labels-council-bosses-tax-obesity> [Accessed 27/02/2017].

[62] Vesna Poljak, 'Platinum: Sugar's tobacco moment demands innovation', Sydney Morning Herald, 11 September 2015 , <http://www.smh.com.au/business/platinum-sugars-tobacco-moment-demands-innovation-20150910-gjje8z> [Accessed 23/02/2017].

[63] 'Auckland Council won't say if it holds tobacco investments', *NZ Herald,* 1 August 2016, <http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11685294> [Accessed 27/02/2017]

[64] 'Tobacco Smoking', *Statistics New Zealand: NZ social indicators,* <http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/nz-social-indicators/home/health/tobacco-smoking.aspx> [Accessed 16/02/2017].

[65] Ibid.

[66] 'Facts and Figures', *Smoke Free Website* <http://www.smokefree.org.nz/smoking-its-effects/facts-figures> [Accessed 27/02/2017].

Former Mayor Len Brown stated that Auckland Council has New Zealand's most comprehensive smokefree policy.[67] In 2013 the Council adopted a smokefree policy which aimed at making public outdoor spaces smokefree across the Auckland region.[68]

To further reduce smoking in the city, Auckland Council made a decision to investigate a bylaw to make smoking in designated open spaces in Auckland illegal. This investigation could determine the outdoor spaces where smoking would be banned.

A smokefree city is part of the Auckland Plan, and it aligns with the government's goal of becoming a smoke-free nation by 2025.[69] Adopting a Responsible Investment Policy that excludes tobacco production and/or retail would further consolidate the Council stance against smoking.

New Zealand is a signatory to, and has ratified, the World Health Organisation (WHO) Framework Convention on Tobacco Control (FTC). The WHO FTC is the first global public health treaty which was developed in response to the globalization of the tobacco epidemic.[70]

Through their Responsible Investment Framework, NZ Super has an exclusion on the manufacture of tobacco.[71] NZ Super justifies the decision to implement a screen on tobacco with the following statement:

> The Guardians [Board] consider the Fund's investment in tobacco stocks to be inconsistent with the Government's international commitment under the FCTC to reduce continually and substantially the prevalence of tobacco use and exposure to tobacco smoke.[72]

The Board also concludes that the actions from the FCTC may have a material negative impact on the long-term growth and profitability of the tobacco industry. This further substantiates their decision to lower their exposure to tobacco stocks.

Stance Against Gambling

Auckland Council has a TAB policy, which allows the Council to approve or disapprove the establishment of new TAB venues if they are owned by the New Zealand Racing Board. If the Council chooses to approve the establishment of a new TAB venue, they have the power to influence where the venues are located.[73] The Council also has a Pokie Venue policy which allows the Council to

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[67] 'Council to investigate smoking bylaw', *Auckland Council Website* <http://ourauckland.aucklandcouncil.govt.nz/articles/news/2016/07/council-to-investigate-smoking-bylaw/> [Accessed 27/02/2017].

[68] 'Smokefree policy', *Auckland Council Website* <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/councilpolicies/Pages/smokefreepolicy.aspx>

[69] Ibid.

[70] 'The WHO Framework Convention on Tobacco Control: an overview', *The World Health Organisation,* <http://www.who.int/fctc/WHO_FCTC_summary_January2015_EN.pdf?ua=1> [Accessed 22/02/2017]

[71] 'Exclusions', *NZ Superfund* <https://www.nzsuperfund.co.nz/how-we-invest-responsible-investment/exclusions> [Accessed 22/02/2017].

[72] 'Background information for Tobacco Stocks Divestment', *NZ Superfund* <https://www.nzsuperfund.co.nz/sites/default/files/documents-sys/Responsible%20Investment%20Background%20Information%20Tobacco%20Divestment%20231007.pdf> [Accessed 22/02/2017].

[73] 'Frequently asked questions- Gambling Policies' *Auckland Council Website* <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/councilpolicies/gamblingvenuepolicies/Documents/gamblingpoliciesfaq.pdf> [Accessed 22/02/2017].

approve or disapprove the establishment of new pokie venues. However, it is important to note that if the Council says yes to a new venue, it has no power to review that decision again. Furthermore, the Council does not have authority to be involved in decisions about where and to whom proceeds of gambling are distributed or regulate casinos, internet gambling or Lotto outlets.

The Problem Gambling Foundation of New Zealand disclosed that four out of every five adult New Zealanders gamble, and one in five gamble weekly or more.[74] The organisation highlights pokies as being the most harmful form of gambling.

The Economist released a chart on the 9th of February 2017 highlighting the biggest gamblers per capita around the world.[75] New Zealand has been ranked as 6th worst with regards to the biggest losses per resident adult. The majority of these losses come from gaming machines (non-casino). See Figure 6 for further details.

Figure 6 - Countries with the biggest loss of money per resident adult

Online gambling is also the fasted-growing sector in the Gambling industry, and accounted for 11% of gambling profits posted in 2016.[76] There are movements in Australia to encourage ASX-Listed Gambling Companies to implement maximum bet limitations, credit-card limitation, pre-commitment policies and other tools to control problem gambling. New Zealand differs from Australia as by law, a minimum of 37.12% of the revenue generated from slot machines in New

[74] Problem Gambling Foundation of New Zealand <http://www.pgf.nz/uploads/7/1/9/2/71924231/fs01-gambling_in_new_zealand.pdf> [Accessed 27/02/2017].
[75] 'The worlds biggest gamblers', *The Economist,* 9 February 2017, <http://www.economist.com/blogs/graphicdetail/2017/02/daily-chart-4> [Accessed 27/02/2017].
[76] Ibid.

Zealand must be returned to the community.[77] However, gambling as an industry is noted as having significant harm on the public and is highly exposed to government regulation.

The Auckland Plan also identifies the issue of concern regarding concentration of pokies venues, in particular in low socio-economic areas.[78] A Responsible Investment Policy that screens companies' percentage of turnover from gambling would be in line with the Auckland Plan vision of addressing gambling related harm.

Stance Against Alcohol

According to the Council Alcohol bans are implemented in specific areas of Auckland to:

- encourage a safe and welcoming environment in public places
- reduce the negative impact alcohol consumption has
- provide the police with an appropriate tool for dealing with antisocial behaviour caused by drinking alcohol in public.

The Council issues special alcohol licences for events.[79] The Council also renews and issues alcohol licences. Furthermore, when alcohol is sold or supplied to the public on a licensed premise, a manager with a managers certificate must be on duty at all times.[80] Manager certificates are also issued and renewed by the Council.

It has been estimated that between 600 and 800 people in New Zealand die each year from alcohol related causes. Alcohol is also often linked with crime and injury-based emergency department presentations.[81] Considering the social harm alcohol presents, a screen on the production/manufacturing of alcoholic beverages could be considered by the council. However, the Councils association with alcohol licenses should be considered when considering this screen.

Broader Global Norms

New Zealand voted in favour of the United Nations Declaration of Human Rights. New Zealand has also ratified seven of the nine core human rights treaties. These include:

- Convention on the Elimination of All Forms of Racial Discrimination
- International Covenant on Civil and Political Rights
- Convention on the Elimination of All Forms of Discrimination against Women
- Convention on the Rights of the Child

[77] 'NZ Pokies Laws', *Safe Pokies,* <http://safepokies.com/nz-law/> [Accessed 01/03/2017].
[78] 'Gambling venue policies', *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/planspoliciesprojects/councilpolicies/gamblingvenuepolicies/Pages/home.aspx> [Accessed 17/02/2017].
[79] 'Alcohol: Special Licence for events', *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/licencesregulations/alcohol/sellandsupplyalcohol/Pages/applyforspeciallicence.aspx> [Accessed 17/02/2017].
[80] 'Alcohol: Apply for or renew a manager's certificate', *Auckland Council Website,* <http://www.aucklandcouncil.govt.nz/EN/licencesregulations/alcohol/sellandsupplyalcohol/Pages/applyfororrenewmanagerscertificate.aspx > [Accessed 17/02/2017].
[81] 'Alcohol' Quick Facts*, Alcohol.org.nz Website* <http://www.alcohol.org.nz/sites/default/files/documents/Alcohol%20Quickfact%20Facts_0.pdf> [Accessed 17/02/2017].

- Convention against Torture and Other Cruel Inhuman or Degrading Treatment or Punishment
- International Covenant on Economic Social and Cultural Rights
- Convention on the Rights of Persons with Disability

New Zealand has signed, but not ratified the other two of the core human rights treaties which include:

- International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families
- International Convention for the Protection of All Persons from Enforced Disappearance

New Zealand has also adopted the Human Rights Act 1993, and the Bill of Rights Act 1990 into national legislation.[82] Although New Zealand has ratified and adopted these policies, this does not necessarily translate into trusting that asset managers construct portfolios with consideration of these broader global norms and New Zealand legislation. In order to minimise the risk of being embroiled in controversies relating to the breach of these global norms, it is beneficial for Auckland Council to outline their commitment to avoid investments that may breach these norms.

Controversial Weapons and Slavery are two issues that could be highlighted in the Auckland Responsible Investment Policy, which were both issues highlighted by the RIAA NZ Consumer Polling Survey.[83]

Controversial Weapons

Some weapons are classified as controversial because they do not discriminate as to who they target and have long-lasting negative impact on civilian populations. Asset owners and asset managers who invest in companies which produce controversial weapons, or banks which offer credit to such companies, may find themselves exposed to significant reputational and potentially legal risks. New Zealand has also signed many international treaties that relate to controversial weapons that should be considered by Auckland Council. Examples of Controversial Weapons are nuclear weapons, anti-personnel landmines and cluster munitions.

Nuclear Weapons

Under the New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987, airspace, land a sea of New Zealand are Nuclear Free Zones.[84] The legislation has placed New Zealand at the forefront of opposing nuclear weapons and supporting disarmament internationally.

Anti-Personnel Land Mines

Landmines come in two varieties: anti-personnel and anti-vehicle mines.[85]Anti-personnel landmines kill and main individuals long after a conflict is over. The International Community adopted the 1997

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[82] 'Human Rights Legislation – New Zealand', *Human Rights Commission,* <https://www.hrc.co.nz/your-rights/human-rights/human-rights-legislation-new-zealand/> [Accessed 22/02/2017].

[83] 'Media Release: Consumer Polling: The clear majority of New Zealanders expect more than just financial returns from their KiwiSaver investments', *RIAA Website,* <http://responsibleinvestment.org/wp-content/uploads/2016/11/RIAA-Press-Release-Consumer-Polling-15Nov-FINAL.pdf> [Accessed 24/02/2017].

[84] 'New Zealand Nuclear Free Zone, Disarmament, and Arms Control Act 1987', Reprint as at 1 July 2013, *New Zealand Legislation,* <http://www.legislation.govt.nz/act/public/1987/0086/latest/DLM115116.html> [Accessed 24/02/2017].

Mine Ban Treaty banning anti-personnel landmines.[86] The Mine-Ban Convention (also known as the "Ottawa Treaty") concerned the prohibition of the use, stockpiling, production and transfer of Anti-Personnel Mines and on their destruction.[87] More than 150 countries, including New Zealand, have jointed this treaty. In 1998 New Zealand put the Anti-Personnel Mines Prohibition Act 1998 into New Zealand Legislation as an Act to implement the law of New Zealand.

Cluster Munitions

In the case of cluster munitions, the New Zealand Government signed the Convention on Cluster Munitions in 2008, which was then ratified in 2009.[88] The ratification of this convention made it illegal to trade with suppliers of such munitions within New Zealand. Following the convention, the Cluster Munitions Prohibition Act of 2009 legislation was enacted which has, among other things clearly stipulated that investment in cluster munitions is illegal.

Other Controversial Weapons which can be screened for include biological weapons, laser-blinding weapons, chemical weapons, depleted uranium ammunition, and incendiary weapons.[89] Services to screen controversial weapons can check companies' compliance with norms and conventions on controversial weapons. The Council could consider subscribing to such a service, or encourage their fund-managers to do so.

Slavery

Article 4 of the United Nations Declaration of Human Rights (UNDHR) states:

> No one shall be held in slavery or servitude; slavery and the slave trade shall be prohibited in all their forms

Monitoring companies supply chains is the best way to ensure that the Council is not exposed to issues relating to slavery. There are certain industries that are more exposed to slave-labour issues, such as the apparel, fishery and agricultural industries. Furthermore, there are certain countries that have been highlighted as having high exposure to issues relating to slavery, and companies with operations in these countries should implement the appropriate human rights due diligence processes. Such processes and best practice has been highlighted by the Corporate Human Rights Benchmark.[90]

Implementing a negative screen with regards to slavery would be impractical for the Council and limit the investable universe of the DFA. However, third-party ESG research can highlight human rights best practice and controversies relating to slavery, which could be a potential option for the Council.

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85 'Treaties, States Parties and Commentaries', *International Committee of the Red Cross* <https://ihl-databases.icrc.org/applic/ihl/ihl.nsf/INTRO/580> [Accessed 27/02/2017].

86 'Anti-Personel Landmines', *International Committee of the Red Cross* <https://www.icrc.org/en/war-and-law/weapons/anti-personnel-landmines> [Accessed 27/02/2017].

87 'Treaties, States Parties and Commentaries', *International Committee of the Red Cross.*

88 United Nations, Convention on Cluster Munitions, Signatories and Ratifying States, *United Nations website* <http://www.unog.ch/80256EE600585943/(httpPages)/67DC5063EB530E02C12574F8002E9E49?OpenDocument> [Accessed 27/02/2017].

89 ' Global Controversial Weapons Watch', *EIRIS,* <http://www.eiris.org/pension-funds/products-and-services/controversial-weapons-watch/> [Accessed 28/02/2017].

90 'Corporate Human Rights Benchmark', *Business and Human Rights Resource Centre*, <https://business-humanrights.org/en/corporate-human-rights-benchmark> [Accessed 27/02/2017].

Responsible Investment Themes for Auckland Council

Through this review of public sustainability actions and commitments by the Auckland Council and existing investment policies the themes to be addressed in the reviewed Responsible Investment Policy include:

- Climate change
- Tobacco
- High sugar-low nutrient products
- Gambling
- Controversial Weapons

Reporting and review of the Responsible Investment Policy

While it is not recommended that detailed commitments on the type of reporting is referred to in the policy document, the document should set out some minimum standards for reporting on the implementation of the Responsible Investment Policy.

Transparency in relation to a responsible investment approach can take different forms. Some funds may decide to disclose the companies they hold through a regular disclosure practices. However, such disclosures may not be possible for the Council depending on the agreements and reporting processes it has in place with its investment managers. This does not mean that the Council cannot be open about its approach and report to its core stakeholders how it implements its investment practices.

Areas the Council can be reporting against on an annual basis could include the carbon intensity of its investment portfolio, the steps undertaken by the Council and information regarding the investment advisers and investment managers to implement its R. These components could form part of the annual reporting process or become a stand-alone disclosure report to the Auckland Council.

Appendix 1. Draft Revised Auckland Council Responsible Investment Policy

The Statement of Investment Policy and Objectives (SIPO) that guides Council in managing the Diversified Financial Assets Portfolio (DFA) states:

> Council will implement a Responsible Investment policy. The Responsible Investment policy integrates Environmental, Social and Governance considerations into the investment and operational policies of the DFA, where possible.

The main principles of Council's Responsible Investment (RI) Policy are:

- Council believes that Environmental, Social and Governance (ESG) issues can affect the performance of investment portfolios and that applying the RI policy aligns the interests of Auckland Council as an investor with Council's and their constituents broader values.
- Council believes that a portfolio of investments selected and managed based on ESG issues will, over time, deliver superior risk adjusted returns.
- When Council chooses fund managers with the help of its investment advisers, special consideration will be given to the ESG aspects of their investment process. Preference will be given to a fund manager that can demonstrate a higher degree of alignment with the Council's RI Policy.
- The investment adviser will report quarterly on the activities of the fund managers on RI.

In addition to expecting its investment managers to integrate ESG issues to the investment process, Council will seek investment products and managers that monitor and restrict exposure to companies with core business operations that involve:

- The manufacturing or development of controversial weapons
- The manufacturing of tobacco
- The production of fossil fuels
- Generating revenue from the operation of gambling machines

Council will also seek that investment managers monitor exposure to companies that manufacture and sell high-sugar, low-nutrient products. The monitoring of these issues of concern ensures that Council investments are aligned with the broader initiatives brought forward with the Council's Auckland 2040 Vision.

Appendix 2. Draft Auckland Council Guidelines for the Selection of Fund Managers

This document sets out guidelines for the practical implementation of the Auckland Council Responsible Investment Policy.

Council's investment adviser will assess each fund manager and determine how responsible investment practises are integrated in their decision making processes. When making the assessment the investment adviser will consider whether the fund manager:

- matches the fund to the RI policy
- is able to report against issues highlighted in Auckland Council's RI policy
- exercises their governance obligations by consistent implementation of their proxy policies
- is signatory to the United Nations Principles of Responsible Investment
- monitors investments for environmental, social, governance risks and is able to report on these risks

In the assessment of investment products for the Council, funds invested in should at a minimum exclude activities

- the manufacturing of controversial weapons, specifically cluster munitions, landmines and nuclear weapons;
- the manufacturing of tobacco, subject to a materiality threshold of 10% of the company's revenue;
- thermal coal and oil sand extraction activities, subject to a materiality threshold of 10% of the company's revenue, and substantial fossil fuel (specifically oil, coal and gas) reserves;
- gambling operators, subject to a materiality threshold of 10% of the company's revenue.

Companies that have core business activities are associated with the manufacturing of high-sugar, low-nutrient products will be screened by the Fund Manager. Fund managers must have a suitable explanation as to why they invest in these companies which would include an assessment on how the company responds to the risk of obesity through actions such as recognising their position of responsibility for obesity, committing to developing healthier products, nutrition labelling and/or responsible marketing to children.

Appendix 3. Overview and comparison of Responsible Investment approaches across Councils and other institutional investors

Organisation	Approach	Application
Councils		
Sydney City Council[91]	Negative Screening Positive Screening	Sydney Council avoids investment in activities considered to be environmentally and socially harmful. Environmentally harmful activities are considered to be production of pollutants, toxins and greenhouse gases (coal, oil and gas), habitat destruction, especially destruction of forests and marine eco-systems, nuclear power and uranium mining. Socially harmful activities are considered to be the abuse of Human Rights and Labour Rights, involvement in bribery/corruption, production or supply of armaments, manufacture of alcohol tobacco or gambling products. Sydney Council targets direct investment in activities considered to be environmentally and socially productive. Environmentally productive activities are considered to be resource efficient, renewable energy, production of environmentally friendly products, recycling, and waste and emissions reduction Socially productive activities are considered to be fair trade and provision of a living wage, human health and aged care, equal opportunity employers, provision of housing.
Newcastle City Council[92]	Negative Screening Positive Screening	Newcastle City Council avoids investment in activities considered to be environmentally and socially harmful. Environmentally harmful activities are considered to be: production of pollutants, toxins and greenhouse gases (either in Australia or abroad), habitat destruction, nuclear power and uranium mining Socially harmful activities are considered to abuse

[91] Investment Policy, *City of Sydney Council website* <http://www.cityofsydney.nsw.gov.au/__data/assets/pdf_file/0011/136496/Investment-Policy.PDF> [Accessed 27/02/2017].

[92] Investment Policy, *Newcastle City Council website* <http://www.newcastle.nsw.gov.au/getmedia/fe3a3e3b-3e9f-4cbb-9f35-c1a1fa805f04/NCC-Policy-Investment-Policy-August-2016-Version-6.aspx> [Accessed 27/02/2017].

Organisation	Approach	Application
		Human Rights and Labour Rights, involvement in bribery/corruption, production or supply of armaments, manufacture of alcohol tobacco or gambling products. Newcastle City Council targets (where rates of return is favourable) direct investment in activities considered to be environmentally and socially productive. Which are defined in the same manner as Sydney City Council.
Leichhardt City Council[93]	ESG risk integration	Leichhardt City Council's investments will be made in consideration of the principals of ethical investment management. Preference will be given to institutions rated highly by recognised ethically responsible investment screening processes, provided the financial return and risk rating of investment products being considered at the time are otherwise equivalent.
Yarra City Council[94]	Negative Screening Positive Screening Company engagement	The Yarra City Council will, where appropriate, undertake a process of engagement with companies involved in unacceptable activities to attempt to drive improved practices. The Yarra City Council will, wherever possible avoid investing in companies whose products, services or practices cause or perpetuate injustice and suffering, infringe human rights, specifically slave or child labour or cause unacceptable damage to the natural environment. Industries included are armaments, uranium, gambling, thermal coal, offshore and onshore immigration processing, unconventional oil and gas production, tobacco manufacturing and pornography The Yarra City Council seeks to invest in and procure from companies which promote human welfare, dignity and respect, and the general benefit to the community. Examples include companies that produce goods or services which enhance the health and welfare of individuals and communities, and companies which produce goods or services which preserve the environment.

[93] Investment Policy, *Leichhardt City Council website* <http://www.leichhardt.nsw.gov.au/ArticleDocuments/724/investment-policy.pdf.aspx> [Accessed 27/02/2017].
[94] Ethical Investment and Procurement Commitment - Yarra City Council website: http://www.yarracity.vic.gov.au/DownloadDocument.ashx?DocumentID=15226 [Accessed 27/02/2017].

Universities		
Australian National University	Exclusion	Excluding companies based on 'social harm'. In practice based on an ESG ranking that weighs a company's ESG risk profile against management of these risks. ANU aims to achieve a significant reduction in the overall carbon intensity of the investment portfolio relative to industry benchmarks.
Swinburne University	ESG integration Exclusion Engagement	Responsible Investment Charter outlines integration of environmental and social impacts in investment choices. Particular consideration given to companies that generate significant revenues from Fossil fuels extraction or coal power generation, Tobacco production and Cluster munitions and anti-personnel landmines. Companies associated with breaching of accepted human rights norms may be excluded from portfolio after a process of review and engagement.
University of Otago	Negative Screening ESG Risk Integration	The University has an Investment Policy which states that 'The University should not invest directly in companies that are primarily involved in the production or distribution of alcohol, tobacco or munitions, or in the exploration and extraction of fossil fuels. A measured approach is taken with materiality issues considered'. The University of Otago has a commitment to ethical, or socially-responsible, investing. Therefore any investment made must consider social good as well as financial return.
Superannuation Funds		
Australian Ethical Super	ESG risk integration Positive Screening Negative Screening Company engagement	Integration of ESG issues in ethical charter. Active inclusion of companies in areas such as clean energy, sustainable products, medical solutions, innovative technology, responsible banking, healthcare, recycling, energy efficiency, education, and aged care. Exclusion of companies involved in coal, coal seam gas, oil, weapons, tobacco, logging, exploitation, gambling, human rights abuses, and harmful products.
Australian Super	ESG risk integration Company	General ESG integration approach, participation in collective investor initiatives: CDP, and Investor Group on Climate Change (IGCC), ACSI, ESG Research

	engagement Proxy Voting	Australia, PRI Sustainability options are managed by external managers. Exclusions are not clear.
Booster socially responsible KiwiSaver Funds	Negative Screening	Booster offers two explicit SRI fund options to Booster Kiwi-saver Scheme members. These funds exclude directly-held companies and managed fund investments with more than an accidental proportion of revenue generated from alcohol production, gambling operations, tobacco production, distribution supply and retailing, military weapons manufacturing, civilian firearms production, distribution supply and retailing, nuclear power production, uranium mining, fossil fuels exploration extraction refinement, distribution, supply and retailing, adult entertainment content production, genetically modified organisms (GMOs), excluding Research and Development.
SuperLife Ethica fund	Negative Screening	'Ethica' is a balanced investment Fund that invests on a 'socially responsible basis' by excluding investments that do not meet the investment principles. The Fund places emphasis on social, environment, community and sustainability factors. The Investment Principles include excluding investments that have an overall negative impact on social and community outcomes, would be illegal in New Zealand, are inconsistent with the United Nations' policies on health and safety, child rights or human rights or are expected to result in long-term, permanent, detrimental change to the environment.
Craig Investment Partners KiwiSTART	ESG risk integration Positive Screening Negative Screening	Responsible Investment considerations are taken for the QuayStreet Balanced SRI Fund. As part of the positive screening process. The Company has a final assessment done for each company's performance or impact on ESG factors. The fund excludes companies from the investment universe involved in Tobacco and alcohol production, Fossil fuel mining and extraction, Gambling, Nuclear power, toxic waste and production, involvement in military activities and armaments manufacture, adult entertainment.
First State Super	ESG risk integration Company engagement	Investment manager ESG integration actively monitored, acknowledges that adequate ESG considerations may not always be taken to account. Proxy voting governed through separate proxy voting

	Proxy voting	policy. Company engagement based on ESG performance of companies held in portfolios, engagement through external providers and through investment managers. Collaborative engagement through PRI and other initiatives.
Future Super	ESG risk integration Positive Screening Negative Screening	Positive and negative screening. Exclusion of fossil fuel companies, or companies that provide services or finance to significant fossil fuel projects. Screening for negative and harmful activities like tobacco, gambling, live animal exports, armaments, next to fossil fuels. Active inclusion of companies with activities with positive impact.
HESTA	ESG risk integration Negative Screening (limited) Company engagement Proxy Voting	Defines 'ESG' and mentions it as an important part of their fiduciary duty to act in the best interests of their members. HESTA's ESG approach is guided by the United Nations Principals for Responsible Investment (PRI). The Company states that in 'very limited circumstances' HESTA may exclude investment in a particular company or a particular group of companies. As part of the Active Ownership Policy[95] the Company states that it will take part in company engagement when 'the company's ESG policies or practices are deficient relative to standards established by government, regulators, industry, peers or society at large, or that the company's conduct threatens its reputation and value'. The importance of shareholder voting to the engagement process is also mentioned.
Local Government Super	ESG risk integration Positive Screening Negative Screening Company engagement	ESG risk integration part of eternal asset consultant and manager selection process, requires ESG component in their investment reports, highlights climate change risks as a specific risk expected to be addressed. Engagement through collaborative initiatives: PRI; ACSI; Asset Owners Disclosure Project; Investor Group on Climate Change.

[95] Active Ownership Policy – HESTA Company website: https://www.hesta.com.au/content/dam/hesta/Documents/03-16-Active-Ownership-Policy-13873254-519a-4ec4-8466-43e68fa3eaf6-4.PDF [Accessed 27/02/2017].

	Proxy Voting	Company engagement is undertaken through direct engagement with board members, via fund managers and through collaborative initiatives. Proxy Voting is also mentioned as a key element to company engagement. Exclusions are applied based on their own screen for direct mandates, covering the following themes with what appears to be a 'no-tolerance' threshold: for Controversial weapons (landmines, cluster bombs and nuclear weapons) and Tobacco (manufacture and/or production of tobacco products). 10% revenue threshold for: Armaments production, Gambling (manufacture of gambling machines and/or ownership of outlets housing gambling machines) and Old growth forest logging 33% revenue threshold applied for Fossil fuels, defined as Coal mining, oil tar sands, coal fired electricity Also excludes companies assessed to have a high ESG risk profile and poor management of these risks.
UniSuper	ESG risk integration Negative Screening Company engagement Proxy Voting	ESG risk assessment conducted when UniSuper considers investing in a company. Exclusion of tobacco industry. UniSuper collaborates with peers, other investors and industry groups to ensure appropriate standards are in place regarding ESG at a market-wide level. Policies regarding sustainable investment, proxy voting, company engagement and climate change position statement can be found on website. UniSuper participates in PRI, Australian Council of Superannuation Investors, Asian Corporate Governance Association, International Corporate Governance Network, Investor Group on Climate Change, Carbon Disclosure Project, CDP Water Project, ESG Research Australia and Extractive Industries Transparency Initiative.
Vic Super	ESG integration Company engagement Proxy Voting	ESG integration in investments via active ownership. Vic Super does not do ESG screening, ESG factors are integrated into fundamental investment analysis. Vic Super proactively engages with companies regarding ESG considerations and exercises proxy voting rights.

Other Institutional Investors		
NZ Super[96]	ESG risk integration Negative Screening Company engagement Proxy Voting	NZ Super will maintain and adhere to a Responsible Investment Framework. This Framework is based upon the Standards set by the UNPRI. The Fund is committed to considering investments which provide positive social and environmental benefits in addition to the required financial return. In some cases the Fund will exclude securities issued by companies that are involved in certain activities or breaches of standards. NZ Super will engage with companies that are found to breach RI standards. For the New Zealand equity holdings, the Fund will consider the recommendations of both their proxy voting agency and their New Zealand investment managers in their New Zealand voting decisions.
VFMC	ESG risk integration Negative Screening (limited) Company engagement Proxy Voting Company engagement	The Company states that 'although VFMC's investment approach generally avoids exclusion or divestment, the exclusion of a particular investment does remain an option where there is a legal requirement, or where the overall investment analysis or board direction supports such a decision.' Where relevant and appropriate VFMC will engage with companies and investment managers on their approaches to ESG. The Company aims to take part in Collaborative engagement to do with ESG and also promotes the use of Proxy Voting to contribute to the engagement process.

[96] Responsible Investment Framework – NZ Super Fund website: <https://www.nzsuperfund.co.nz/sites/default/files/documents-sys/2016-Responsible_Investment_Framework.pdf> [Accessed 24 February, 2017].