

KiwiSaver Socially Responsible Investing Continuum

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Summary

In August 2016 the KiwiSaver landscape changed. Few KiwiSaver Schemes had in place responsible investment policies which directed their investment activities. But once it was unearthed that KiwiSaver providers had exposure to cluster bombs and land mines, and the resulting public outcry, this led to some fundamental changes to how KiwiSaver Providers invest.

Responsible, ethical or sustainable investing has been getting a significant amount of media coverage since this time. And for good reason, it brings the conversation of investing to the dinner table. Few people sit on the fence when it comes to this topic, and most have specific views about how they want to invest their hard-earned money.

To help inform this debate we have put together a clear guide showing where KiwiSaver Schemes sit on the Socially Responsible Investing (SRI) Continuum (see figure at the end of this article). Most KiwiSaver schemes have some consideration for SRI, but only a few go the extra mile of skewing all investments made to companies with superior environmental, social and governance practices.

Introduction

The investment industry loves jargons and acronyms as much as anyone, so it's easy to see why many are confused about investing. For those seeking out ethical or green investments, there are a myriad of terms. To keep this simple, we will refer to any form of ethical, responsible, or sustainable investing (commonly referred to as ESG¹) as Socially Responsible Investing or SRI. This catch-all term covers the full spectrum of options.

What is SRI? The most common form of SRI is to exclude certain sectors or companies due to religious or moral beliefs. For example, an investor may exclude all tobacco companies because of the long-term health problems that smoking causes. This way they won't support these companies by investing into them. Exclusions are a relatively straight forward approach for KiwiSaver Providers investing in a responsible manner. But it's also a very one-dimensional approach.

A more comprehensive approach to investing responsibly is to seek out companies who have measurably superior environmental, social or governance (ESG) practices. Most KiwiSaver Schemes don't include ESG analysis in how they select fund managers or investments, although some individual schemes do (more on this later).

Companies that better manage water, waste and their carbon footprint (usage of fossil fuels) than comparable companies score well on environmental practices. Social factors take into account the

¹ ESG stands for Environmental, Social and Governance. It provides a framework to analyse and compare companies by scoring companies on these three factors. Investors who consider ESG may also engage with companies directly or use their voting power to try and change company behaviours.

impact companies have on the communities they operate in, the diversity of the workforce, how well workers are treated. The latter can be an important factor for companies with factories in developing countries, where worker rights are often weaker than what we enjoy in New Zealand. Finally, governance factors analyse how a company is being managed and the diversity, transparency and accountability of its Directors to shareholders, customers and communities. The social media giant Facebook has been downgraded in this dimension in recent times given rising concerns on user data privacy, and the responsiveness of its Board and senior executives to these concerns.

Responsible Investment KiwiSaver Schemes Analysis

We have scanned the responsible investment policies of the 16 major KiwiSaver Schemes and checked this against actual investments in the portfolios they manage. From this we developed a KiwiSaver SRI continuum that ranges from minimal or no exclusions of companies on SRI criteria through to comprehensive exclusions and increased investment into companies with relatively good ESG practices. This is shown in the figure below.

Cluster munitions are excluded from 14 out of 16 KiwiSaver Providers, with Aon KiwiSaver and SuperLife the only two who do not exclude them across all their investment options.

Nuclear Weapons and Tobacco investments are excluded across the entire portfolio for the vast majority (13 out of 16) of KiwiSaver Providers.

Three KiwiSaver schemes have more comprehensive exclusions, and also exclude one or more of the following: adult entertainment; alcohol; factory farming; firearms; gambling; and thermal coal.

Finally, there are four KiwiSaver schemes which have an ethical or socially responsible investment charters and as a result have very broad-based exclusions and by nature of their process seek out companies with good ESG practices. These options are the AMP KiwiSaver Responsible Investment Balanced, Booster Socially Responsible Investment Balanced and Growth, and the SuperLife KiwiSaver Ethica scheme.

With regards their SRI policies all 16 KiwiSaver providers have some form of exclusions or responsible investment framework in place. But while many KiwiSaver providers say they incorporate ESG analysis across their full portfolio, we only found a handful which can explicitly outline how they do this.

Final Thoughts

Socially responsible investing has become part of mainstream over the last few years as evidence has mounted SRI at least does no harm and can improve returns, and as more investment choices have come to the market. The vast majority of KiwiSaver providers have listened to their investors and changed their investment approach accordingly. However, our analysis shows that there are still only a few options for investors that want a comprehensive approach across all their investments.

This is an evolving place and it's something that we will be updating on an annual basis to see how each KiwiSaver provider is developing their responsible investment process. If you're interested to learn more, the government mandated NZ Super Fund is a world leader in this area and have a very clear [overview of how they invest responsibly](#). Another good resource is the Responsible Investment Association Australasia.

For more information visit our website www.myfiduciary.com or contact Chris@myfiduciary.com

KiwiSaver Responsible Investing Continuum

Minimal / No Exclusions

Minimal or no exclusions across the full portfolio

Some Exclusions

Excludes a number of sectors across the portfolio

Comprehensive Exclusions

Thorough exclusions policy which omits a number of sectors across the portfolio

Positive Inclusions

Broad exclusions policy and also seek out companies having a positive impact on society

Exclusions:

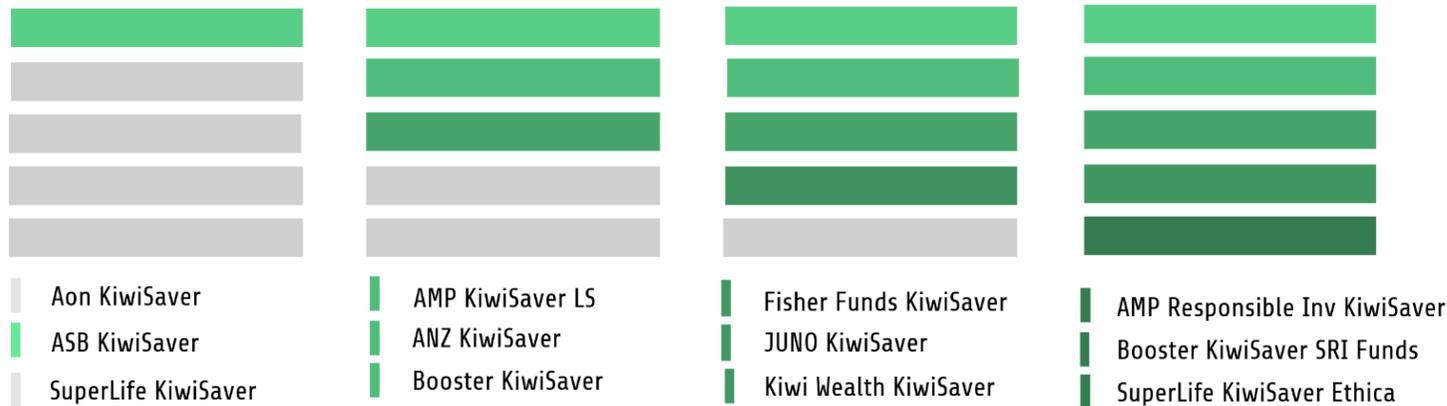
Cluster Bombs

Nuclear Weapons

Tobacco

Other¹

ESG Integration



Aon KiwiSaver

ASB KiwiSaver

SuperLife KiwiSaver

AMP KiwiSaver LS

ANZ KiwiSaver

Booster KiwiSaver

BNZ KiwiSaver

Mercer KiwiSaver

Milford KiwiSaver²

Simplicity KiwiSaver³

Summer KiwiSaver²

Westpac KiwiSaver²

Fisher Funds KiwiSaver

JUNO KiwiSaver

Kiwi Wealth KiwiSaver

AMP Responsible Inv KiwiSaver

Booster KiwiSaver SRI Funds

SuperLife KiwiSaver Ethica

¹ Other exclusions may include:

- Adult Entertainment
- Alcohol
- Factory farming
- Firearms
- Gambling
- Thermal coal
- NZ illegal drugs

² These KiwiSaver Schemes also exclude whale meat processing.

³ Simplicity KiwiSaver has a comprehensive exclusion policy, but it is not across the full portfolio.