



Responsible Investment Policy

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Policy purpose and overview

This policy sets out Auckland Council's (the council) principles and guidelines for responsible investment, including Environmental, Social and Governance (ESG) and climate change considerations.

Policy background

The Responsible Investment Policy was previously defined within the Self-insurance Fund (SIF) Statement of Investment Policy and Objectives (SIPO). With the establishment of the Auckland Future Fund (AFF), this section of the SIF SIPO has been extracted and expanded in order to be a standalone policy that will be approved by the Governing Body.

The SIPO for the AFF, SIF and any subsequently formed investment funds will reference this document for their Responsible Investment policies.

Policy details

This Responsible Investment Policy will provide guidance to any investment manager involved in the management of the council's investment fund with respect to the following considerations:

- ESG issues
- Climate change
- Active ownership
- Portfolio exclusions

Environmental, Social and Governance (ESG)

The Responsible Investment Policy integrates ESG and climate change considerations where possible. The main principles are that:

- ESG and climate change issues can affect the performance of investment portfolios and applying the policy aligns the interests of the council as an investor with the community's broader values
- a portfolio of investments selected and managed with consideration paid to ESG and climate change issues will, over time, deliver superior risk adjusted returns
- when selecting investments for any of the council's investment funds, special consideration will be given to the ESG aspects of the investment.

Investment manager will report no less than annually to the Fund Governance on their ESG activities and the overall ESG characteristics of the investments.

Climate change risk

Auckland Council adopted Te Taruke a-Tawhiri: Auckland's Climate Plan in July 2020. The council identifies climate change as a top risk and a material issue and is working to better understand and manage its exposure. Within any investment programme, the council is committed to supporting the transition to a more resilient and lower carbon economy.

Consistent with this commitment, the council's global equity investments will be invested through strategies which reduce exposure to carbon emissions and fossil fuel reserves and increase exposure to companies that are participating in the transition to a net-zero future.

The council, with advice from the investment managers, will aim to understand the impact of its investments on the climate through measuring the total portfolio carbon emissions, initially within the global equity portfolio, but over time across all of the asset classes in which they invest.

Collective investment vehicles

The council recognises that there are challenges in the implementation of a responsible investment policy when investing globally. For efficiency, operational and cost reasons, the council's funds may be invested in pooled funds known as collective investment vehicles (CIVs). Where this is the case, there may be limits on the ability to exclude securities from investment portfolios. In such instances, Fund Governance will ensure the manager of the CIV is aware of the council's Responsible Investment Policy and should be satisfied that there is broad alignment with the policies applied in the management of the CIV.

Active ownership

It is expected that the investment manager of any council investment fund will seek to improve the ESG practices of the companies that they invest in on the council's behalf through share voting and through engagement. Fund Governance expects to receive an annual report on the active ownership activities of the investment managers they appoint.

Exclusions

Any appointed investment manager will avoid, where practical, investing on the council's behalf in any company whose activities would be deemed to be unlawful under New Zealand law, notwithstanding that the investment might be domiciled in another country.

The council's funds, therefore, would not be expected to be invested in companies that either directly or indirectly:

produce components that are key and dedicated to the production of anti-personnel mines and/or cluster munitions

are involved in the production of core nuclear weapon systems or components/ services of the core nuclear weapon system that are considered tailor-made and essential for the lethal use of the weapon.

In addition, while not considered unlawful, the council would not expect their funds to be invested in companies that are directly involved in the manufacture of tobacco products, the production of fossil fuels, and generating revenue from the operation of gambling.

Selection of investment managers

When selecting investment managers, special consideration should be given to the responsible investment aspects of their investment process. Preference will be given to investment managers who can demonstrate a high degree of alignment with the council's Responsible Investment Policy.

Performance management and reporting on the council's investments

All investment managers responsible for managing the council's investment funds will report no less than annually on fund activities that relate to this Responsible Investment Policy.

Adoption and amendment of this policy

This policy will be reviewed and adopted by the Governing Body every three years in line with the Long-term Plan process or as required from time to time.