

# Te Whakahoutanga ki ngā Haumitanga Matatika me te Pūrongo Kaitiakitanga

Ethical Investment Update + Stewardship Report

August 2024



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Published on 14 August 2024, this report is signed on behalf of the Board of Directors by Rachael McDonald.

Rachael McDonald

Pachael McDonald

**Chief Executive** 



### Who we are | Ko wai mātou

#### Our Purpose | Tō mātou koronga

Standing with you to deliver community good.

Our clients include for-purpose organisations, charities, not-for-profits, iwi/hapu, trusts, and foundations.

#### Our Mission | Tō mātou wawata

At the heart of our mission, we believe that by empowering individuals and communities with the financial products, support and knowledge they need to succeed, we can **create a more equitable and prosperous society for all**.

#### Our Vision | Tō mātou moemoeā

Our vision is to **be a catalyst for good in the charitable and for-purpose sector**, leveraging our expertise and products to strengthen the impact of organisations dedicated to making a difference. By being a recognised leader, we aim to inspire, enable, and support this sector, **driving collective action towards a better and brighter future for all.** 

### Our Values | Ō mātou uaratanga



#### **PEOPLE FIRST**

Unlock Brilliance: Inspire Limitless Potential in Every Individual.



#### TRUST + INTEGRITY

Forge Unbreakable Bonds: Recognising Trust as Our Most Precious Asset.



#### **MUTUAL RESPECT**

Embrace Kaleidoscope Perspectives: Fostering Diversity and Inclusion, Nurturing Curiosity.



#### **CLIENT COMMITTMENT**

Dream, Dare, Deliver: Pursue the Extraordinary with Purpose



#### **INNOVATION + LEADERSHIP**

Embrace Change, Embody Excellence: Always Pursuing Progress.



#### **SUSTAINABILITY**

Walking Lightly: Shaping a Better Future through Sustainable Practices

# At a glance achievements | He tirohanga iti

~\$2b

#### **ASSETS UNDER MANAGEMENT**

Total assets under management and advice (31 March 2024), returning profits to support community outreach.

\$25.7m

#### **DISTRIBUTIONS**

Distributions by the Trust Management funds to unitholders doing good in our communities in the year to 31 March 2024



#### **TOITU NET CARBON ZERO CERTIFICATION - PROPERTY FUND**

15 tonnes Co2 emissions offset. Measurement, audit and offset of landlord-controlled emissions for the Property Fund to achieve Toitū Net CarbonZero certification.

\$2m

#### **INVESTMENT IN SOCIAL IMPACT BONDS**

Investment in social housing impact bonds by the ESG NZ Bond Fund to support the development of affordable housing in Waikato and Manurewa.

514

#### **MANAGER ENGAGEMENTS**

Engagements with industry bodies, and companies and issuers into which the Trust Management funds invest (or may invest in future), undertaken by our specialist managers.



#### **ESG INTERNATIONAL SHARE FUND ENHANCEMENTS**

New exclusions and climate strategy enhancement for our ESG International Share Fund.

### From our CEO | No to matou Tumuaki

Tēnā koutou and hello,

More than ever investors want to be reassured that their money supports businesses with a strong ethical compass. Not only does it mean an investor's capital is supporting making the world a better place, but at Trust Management we believe it also makes good financial sense.

Our client survey once again reinforced this: that trustees/ directors at most for-purpose organisations agree that it is important to include ESG considerations in portfolio management. This is backed by external research, with an article by global index provider MSCI in April this year. It showed that companies that scored well on ESG metrics delivered superior shareholder returns over the 11 year survey period, relative to those companies with low ESG metrics.

It is against this backdrop that we are pleased to update you on our ethical investment progress in 2024. We're making great strides and continue to deliver solid returns to our investors. The performance of our funds demonstrate that you can achieve competitive returns without having to compromise on ESG considerations.

Trust Management is a specialist financial services provider supporting for-purpose organisations, charities, not-for-profits, trusts, and foundations. We are a charity ourselves – returning the profits from \$2b assets under management and advice to support community good.

# "It is in these challenging economic times that the work of our clients in the community becomes even more vital."

We acknowledge the tough economic times that many of the people that rely on the services of our clients are facing. It is in these moments that the work of our clients, becomes even more vital. Your support for community good is an inspiration and it is our privilege to serve organisations that make such a profound impact.

We continue to make improvements as part of our commitment to align with your values. Our ethical investment practices have matured since publishing our inaugural Ethical Investment Update in April 2022. Continued investment in people, systems, technology, and future-readiness ensure we are in a strong position to deliver on our mission: Standing with you to deliver community good.

On this front, we have made several key appointments including new board member, Susan Huria ONZM, CFInstD, Ngāi Tahu, Ngāi Tūāhuriri, and General Manager of Risk and Compliance, Jen Grayson, as well as boosting our investment team with the addition of two highly capable individuals who we will introduce in the coming pages.

Our commitment to ESG continues to deepen, with a number of client presentations and portfolio sustainability reviews undertaken this year. Additionally:

- We're preparing our first climate report to provide transparency to investors and show our commitment to playing our part to support the climate transition.
- Sponsorships this year demonstrate our commitment to bettering the industry: Mindful Money Conference and Awards, Community Governance Aotearoa 'I love Community Governance' online event, and sponsorship of the Philanthropy NZ conference in late 2023.
- Cultural capability and ESG are more deeply embedded in the day to day operations of our business, and now forms part of the senior leadership team's key performance indicators.
- Trust Management has been accepted as a TupuToa partner for 2025. This is an exciting learning space for Trust Management as we continue to uplift our cultural capability over the coming years. We look forward to welcoming our first TupuToa graduate later this year.

As we look forward to the next year, we remain focussed on helping and growing our people and transforming our business through embracing new technologies and ways of working. This will enable us to continue to provide outstanding service and strong investment outcomes to our clients.

I'd also like to thank Trust Management stakeholders – our owner, board members, staff, and clients for their contribution to making the world a better place.

As always, please don't hesitate to reach out to myself or the team if you have any questions or feedback about anything in this report – I hope this provides you with some interesting insights.

Nāku iti nei, nā

**Rachael McDonald** Chief Executive Officer

Pachael McDonald

# Markets year in review | Arotakenga Mākete Pūtea

The last two years have delivered mixed performances for many asset classes. Matthew Goldsack, General Manager Investments, looks back on the year that was.

Inflationary pressure, interest rate expectations, and, in the case of international equities, the rise of artificial intelligence (AI) as a global force for change, have had a significant influence on market returns over the last two years.

International shares performed well over this period. Fears of a severe economic contraction for the US economy given rising interest rates failed to materialise. While growth in the world's largest economy still slowed, activity was sustained by a solid labour market and high consumer spending. In the meantime, the share prices of major listed AI players hit the stratosphere, supporting sentiment towards the technology sector.

The New Zealand stock market lagged most other global markets as firms suffered through the effects of the country's weakening domestic economy. The underlying manager of the Trust Management ESG Australasian Shares Fund navigated the environment well, generating better than market returns by biasing the portfolio towards well-funded businesses better able to cope with volatility in the current environment.

Meanwhile, bond markets delivered solid returns, bouncing back from weakness experienced in 2022 as inflationary pressure eased and central banks signalled an end to interest rate hikes. Long dated bond yields fell as markets reacted to the prospect of lower interest rates in the future.

The underlying manager of the Trust Management ESG NZ Bond Fund has positioned the fund in a way they believe will benefit when the Reserve Bank of New Zealand reduces interest rates, which looks increasingly likely before the end of this year.

Higher interest rates and low transactional volumes continue to dampen commercial property valuations, though asset prices are predicted to stabilise in the second half of 2024. Positively, income distributions have risen as rental yields have improved.

We have a positive outlook for the Trust Management Property Fund from here with high occupancy rates, long lease terms, and good income yields expected to support returns for unit holders. The strategy for the Fund continues to highlight modern, well-located buildings with reliable tenants, showing a dedication to sustainability and resilience in the face of environmental challenges.

Across the suite of Trust Management PIE Funds, we continue to incorporate ethical investment and environmental, social, and governance (ESG) considerations in the investment settings.

We believe ESG risks represent financial risks for companies and issuers and are likely to influence asset valuations. Entities that fail to manage material risks are likely to face unexpected costs and volatile asset prices.

We are cautiously optimistic about the year ahead. The Funds are well-positioned to capitalise on emerging opportunities, without over exposure to risks. The focus on stable income distributions puts investors in a strong position in the current economic environment.

Please contact me with your questions or for information about ESG considerations. We are always happy to provide a market update or ESG discussion at board or investment committee meetings.

Matthew Goldsack

Matthew Goldsack

GM - Investments

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## Trust Management People | Tāngata

Trust Management's ethical investment approach is strengthened by having the right people to implement it. We are delighted with the appointment of a new board member, general manager of risk and compliance, and two new investment team members, who all play key roles in the execution of our ethical investment approach.



Susan Huria Board Director ONZM, CFInstD, Ngāi Tahu, Ngãi Tūāhuriri

Susan brings a wealth of experience and expertise to Trust Management. She has spent two decades on the boards of private and public companies, lwi-owned enterprises, not-for-profit organisations, and community initiatives in diverse sectors, including infrastructure and property, aviation, agriculture, horticulture, FMCG, professional services, and primary healthcare. Her special interest in Māori governance will



**Jen Grayson** GM - Compliance & Risk

Jen is a senior compliance professional with a strong background in financial services regulation, operational compliance, and risk management. She spent a significant portion of her career working in London for several leading investment banks. Returning to Aotearoa New Zealand in 2018, Jen worked for a specialist private wealth advisory group and recently managed the compliance obligations for a newly established private credit fund manager. She is passionate about improving the financial well-being of women.



Catherine Bodnar Investment Analyst

Catherine joined Trust Management following a role with the community trust Foundation North, where she supported the executive team and board. Catherine holds a BSc majoring in Statistics and is working toward a GradDip in Actuarial Sciences. She also co-chairs a local working group of the Responsible Investment Association Australasia (RIAA). Catherine is currently working on Trust Management's first climate report and is also leading Trust Management's cultural capability journey.

strengthen our commitment to these principles and ensure we integrate the cultural values and

perspectives of Aotearoa New Zealand.



**Cindy Gao** Portfolio Analyst

Cindy joined Trust Management following three years at Jarden, where she specialised in client due diligence and portfolio maintenance. Earlier, Cindy spent three years at ANZ specialising in She offshore banking services. provides investment implementation and portfolio execution services for Trust Management clients, as investment reporting sustainability analysis. Cindy holds a Master of Finance and is a candidate for the CFA designation (we congratulate Cindy on recently passing the CFA L1 exam).

## ESG attitudes | Ngā Waiaro ESG

In 2023 Trust Management published the results of its annual client survey gauging client attitudes to ethical investing. We repeated the survey early 2024, with latest figures highlighting the keen consideration of ESG issues.

The feeling was less intense for avoiding fossil fuel production (61%) and alcohol (50%). The response to Genetically Modified Organisms (GMOs) was more neutral again (41%) agreed GMOs should be avoided.

# Why incorporate ESG into investment processes?

Most clients (85%) surveyed agreed that it was important to include ESG considerations in portfolio management.

Similarly, the majority (79%) of respondents agreed that incorporating ESG considerations aligned with their fiduciary duties. Furthermore, most respondents (82%) believed such alignment offered social/environmental benefits.

However, with fewer than six-in-ten (58%) respondents agreeing that incorporating ESG considerations could enhance financial performance, not everyone is in agreement that managing material ESG risks can improve future investment returns.

"Most clients (85%)
surveyed agreed that it
was important to include
ESG considerations in
portfolio management"

#### Areas of concern

In terms of avoiding investment in areas associated with social and environmental harm, most clients (over 90%) feel strongly about excluding investments related to controversial weapons, human rights issues, animal cruelty and adult entertainment.

There were also strong views (over 80%) on excluding gambling and tobacco.



#### Stewardship

With regard to stewardship, environmental impacts scored highest as the most important area for engagement with companies, closely followed by human rights, governance and the climate transition.

#### We appreciate your input

We had a good number of clients who are interested in Trust Management presenting to their investment committee and/or board on responsible investment, and a good few have received presentations already. We welcome these opportunities to discuss environmental, social and governance considerations in the investment approach with you directly and invite you to reach out to Matthew or Halie if this is something of interest to you.

We appreciate all respondents who took the time to complete the survey and provide input. We received feedback from 34 individuals this year.



# Ethical Investment Policy | Kaupapahere Haumitanga Matatika

#### **Ethical Investment Principles**

We have adopted three ethical investment principles which underpin and drive our approach to ethical investment. The three principles, which are embedded in the way we invest, broadly cover each of the environmental, social and governance themes and are linked to Māori tikanga (values). These are:



"Toitū te Marae o Tāne, o Tangaroa, o Rangi, Toitū tonu te whenua me te iwi" If the forest is well, if the sea is well, if the sky is well, the land and the people will thrive.

Manaakitanga: Care for the Community

"He aroha whakatō, He aroha puta mai"
If kindness is shown, then kindness you shall receive.

→ Kotahitanga: Care for Equality

"Me mahi tahi tātou mō te oranga o te katoa" We should work together for the wellbeing of all.

#### Investment approach

Our Ethical Investment Policy provides clarity and detail on how we, and our underlying investment managers, integrate ESG considerations when making investment decisions, undertake stewardship or engagement activities, and implement securities or sector exclusions within our investment funds.



A copy of our Ethical Investment Policy can be found here.

## PRI results Scorecard | Ngā Hua PRI

Established by the United Nations (UN) in 2005, the UN-supported Principles for Responsible Investment (PRI) brings together over 5000 investment firms from around the world to further the adoption of environmental, social and governance (ESG) factors into investment and ownership decision making with the aim of creating a more sustainable global financial system.

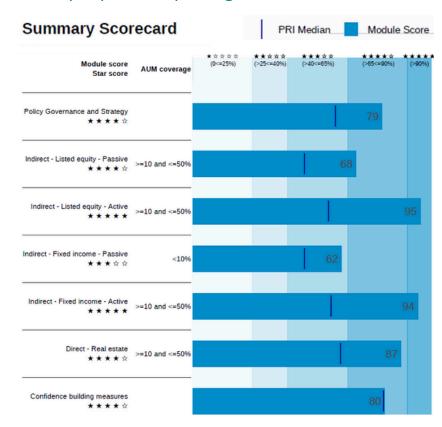
Recent years have seen a significant evolution in ethical and ESG investing. Investor expectations of their providers have shifted significantly in recent years and international norms created by the Paris Agreement, the Sustainable Development Goals (SDGs), the UN Guiding Principles on Human Rights, amongst other ESG-related norms, are being transposed into regulations, codes and reporting requirements, both globally and here in New Zealand.

Trust Management is a signatory to the PRI. Being a signatory requires us to submit to the PRI annually on our ethical investment practices; including activities, policies and engagements that help support the PRI goals. Responses to the PRI survey are reviewed and signatories are assessed across various metrics relative to other global signatories, many of which include the world's largest asset managers.

#### Principles for Responsible Investment (PRI) 2023 Reporting and Assessment

We are delighted to share the results of our latest PRI assessment, with a summary shown against other signatories. The dark blue bars represent Trust Management's assessed score for each module and the blue lines mark the global median manager score.

Overall, these results represent a very strong showing for Trust Management. We are very proud these scores industry leadership in our policy, governance and strategy and incorporate how we **ESG** considerations into management of each asset class. These results are a significant uplift and reflect our ongoing focus and attention to this area, and its importance to Trust Management and our clients.



You can review our PRI report in our public Transparency Report, and the full results in our **Assessment Report.** 

### Stewardship | Kaitiakitanga

Trust Management is a founding signatory to the Aotearoa New Zealand Stewardship Code. The investment industry developed the Code to strengthen engagement and active ownership practices for generating and preserving long-term sustainable value for current and future generations.

As a founding signatory Trust Management plays a role to encourage acceptance of the Code across the industry, including participation in working groups with fellow signatories, and involvement in broader collaboration across the industry.

We are delighted that Catherine Bodnar has been appointed as a co-chair of the Responsible Investment Association Australasia Aotearoa Collaborative Working Group. RIAA responsible investing champions sustainable financial system in Australia and New Zealand. Catherine's appointment is an example of Trust Management's commitment to providing leadership within the responsible investment community. We are committed to supporting her with the necessary resources and encouragement to ensure her success in this role.

#### **Proxy voting**

Our underlying equity managers Harbour Asset Management (Harbour) and State Street Global Advisers (SSGA) exercise proxy voting rights on Trust Management investors' behalf, with both managers voting policies placing investors' best interests paramount when undertaking these responsibilities.

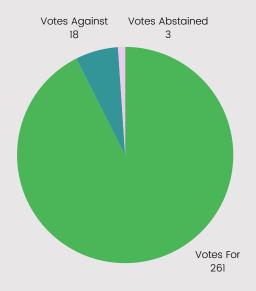
In the 2023 calendar year Harbour reviewed 282 proxy voting decisions for securities held in the Trust Management ESG Australasian Share Fund.

SSGA reviewed 7141 proxy voting decisions for securities held in the underlying fund into which the Trust Management ESG International Share Fund invests.

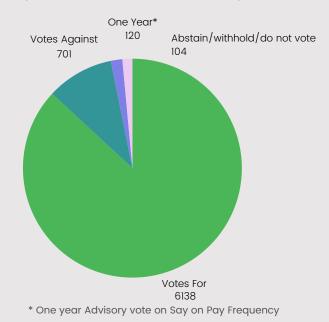
The below charts present a summary of manager voting activity for these funds.

# Voting activity of underlying equity managers (year ended 31 December 2023)

ESG AUSTRALASIAN SHARE FUND (HARBOUR ASSET MANAGEMENT)



ESG INTERNATIONAL SHARE FUND (STATE STREET GLOBAL ADVISORS)



# Stewardship | Kaitiakitanga

#### Engagement

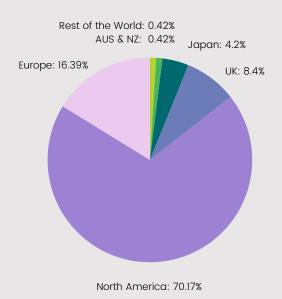
Our underlying managers promote positive governance practices to help manage environmental and social opportunities and risks, and build trust between investors, companies/issuers, and other stakeholders.

In the 2023 calendar year, our underlying managers undertook 514 engagements, with industry bodies, and companies and issuers into which Trust Management funds invest (or may invest in future).

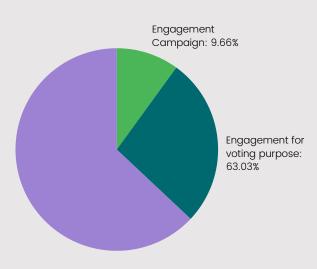
In the next section we provide some insights into Harbour Asset Management's engagement activities.

Below is a summary of engagement activity for the ESG International Share Fund, undertaken by underlying manager State Street Global Advisors.

#### Engagement Breakdown by Region



#### **Engagement Breakdown by Purpose**



General engagement: 27.31%

#### **Engagement Breakdown by ESG Theme**



Source: State Street Global Advisors



# Stewardship in action | Ti whakatinanatanga o te kaitiakitanga

Trust Management partner Harbour Asset Management (Harbour) manages stock selection decisions and stewardship for the ESG Australasian Shares Fund. Shane Solly, Director, Portfolio Manager & Research Analyst at Harbour, is Trust Management's principal advisor.



**Shane Solly**Director, Portfolio Manager & Research
Analyst - Harbour Asset Management

Shane is responsible for equity research and ratings for diverse sectors, including aged care and retirement, airline and leisure, infrastructure and real estate sectors across the New Zealand and Australian equity markets. An award-winning fund manager, Shane has 30+ years' experience in managing portfolios for investors at ANZ, Citibank, Goldman Sachs, ING and Mint. He is a CFA® charterholder, member of the board of the CFA Society in New Zealand, and holds a Bachelor of Business in Finance from Massey University, where he graduated as a Dean's list scholar.

#### Harbour's approach to stewardship on behalf of investors



Active corporate engagement represents a proactive approach to investment, where shareholders use their influence to drive positive changes and enhance the overall value and sustainability of their investments. Companies can play a key role in driving social progress and environmental protection. Trust Management and Harbour Asset Management take an active approach to improving the environmental, sustainability, and governance (ESG) practices in the companies they invest in on behalf of clients.

#### Active corporate engagement

Often referred to as active ownership or shareholder engagement, active corporate engagement involves the active participation of shareholders in the governance and strategic direction of the companies in which they invest. Engagement may influence corporate behaviour, helping to improve long-term shareholder value creation and address broader ESG issues.

#### Key aspects of active corporate engagement

# 1

#### Dialogue with management

As shareholders we engage in dialogue with company management and boards of directors. This often covers corporate strategy, financial performance, risk management, and ESG practices. Harbour's annual Corporate Behaviour Survey (CBS) process reviews company ESG practices across more than 80 ESG questions. The survey provides a useful basis for dialogue and further aims to influence decision-making and promote better business practices.

# 2

#### **Proxy Voting**

Harbour use voting rights to influence corporate governance, voting on various issues at annual general meetings (AGMs) or special meetings, such as the election of directors, executive compensation, mergers and acquisitions, and shareholder proposals.

# 3

#### Shareholder proposals

As shareholders Harbour can submit proposals for consideration at a company's AGM. These proposals often address governance practices, ESG issues, or other significant matters. Proposals that gain enough support can lead to changes in company policies or practices. Generally, our approach is to engage in dialogue with company management and boards of directors first and then consider shareholder proposals where dialogue is not delivering change.



#### **Engagement on ESG Issues**

Harbour engage companies on ESG issues on a bespoke, as needed basis, typically via our annual Corporate Behaviour Survey (CBS) process. The key focus of this engagement is to push for better environmental practices, social responsibility, and improved governance standards. This includes advocating reductions in carbon emissions, improvements in labour practices, and greater transparency and accountability.

### 5

#### Collaborative engagement

Harbour sometimes collaborate with other stakeholders to increase their influence. This can involve forming a coalition with other investors, NGOs, and advocacy groups to collectively address specific issues or to exert greater pressure on a company.

### 6

#### Public campaigns

In certain cases, engagement goes beyond private dialogue to involve public campaigns designed to raise awareness and build pressure for change. This can include public statements, media campaigns, and partnerships with activist organisations. Generally, our approach is to engage in dialogue with company management and boards of directors first and consider public campaigns when all other avenues are not delivering necessary change.



# Long-term focus, continuous monitoring, and accountability

Active engagement typically involves a long-term perspective – there are no quick fixes and there is no finish line. Harbour is committed to the sustained improvement of the companies in which they invest, aiming for long-term value creation rather than short-term gains. As engaged investors, we continuously monitor the companies we invest in, holding management accountable for their commitments and performance. This ongoing oversight ensures agreed-upon changes are implemented and that the company is on the right path.

# Stewardship in action | Ti whakatinanatanga o te kaitiakitanga

#### Benefits of corporate active engagement

Corporate engagement plays a crucial role in risk management, helping to identify and mitigate potential risks that could impact long-term performance and shareholder returns.

- Improved corporate governance enhances accountability and transparency in company operations.
- Focusing on enhanced ESG performance drives companies to adopt more sustainable and socially responsible practices, which improves company impacts on society and long-term corporate resilience.
- Ultimately active corporate engagement influences value creation, with the aim of improving financial performance and shareholder returns over the long term.

#### How active engagement drives change

#### Case Study 1: Mainfreight - Board composition

#### SITUATION:

Mainfreight is a high-performing freight, logistics, and warehouse service provider with a strong board of directors possessing excellent commercial credentials. However, the company's longstanding board lacked diversity. Independent boards act as stewards for shareholders, holding company executives to account and testing strategies to ensure alignment with the interests of all shareholders. Research indicates that refreshing the composition of a board can be important in ensuring this testing, and that where Boards have been in place for a long time they may no longer be independent from company management. Research also highlights that more diverse boards may be better attuned to change and different perspectives, contributing to improved risk adjusted returns for shareholders. Harbour's annual Corporate Behaviour Survey (CBS) process identified the need to refresh the composition of Mainfreight's board of directors.

#### CHANGE:

Over the past few years, Harbour engaged with senior management and the Mainfreight board to discuss board independence and diversity. The process involved multiple interactions and escalation through voting dissent at the company's annual shareholder meetings. During the latest engagement with the company, the board committed to appointing two new independent directors within the next two years. In early 2024 Mainfreight announced the appointment of Annie Steel and Hayley Buckley to its board. Both directors have a background in international corporate law and merger and acquisition (M&A) activity, bringing new perspectives and strong corporate skills, which should help Mainfreight to continue its track record of delivering strong shareholder returns.





# Stewardship in action | Ti whakatinanatanga o te kaitiakitanga

#### Case Study 2: Mercury Energy - Climate change and employee wellbeing

Electricity generator and retailer Mercury Energy is an important player in the decarbonisation of the New Zealand economy. While Mercury is making good progress, publicly available data suggested that progress toward meeting its climate change targets and employee wellbeing indicators had been slower than expected. Employee wellbeing indicators, such as increased staff turnover and lost time and injury metrics, often surface in organisations that don't adopt a long-term sustainable approach to business.

Harbour's regular corporate behaviour survey process showed that while Mercury's reported metrics may have raised questions, actual outcomes were reasonable and consistent with improving ESG metrics.

Regarding Mercury's climate strategy, the company continues to prioritise wind and geothermal development, while being open to solar as well. The main challenge in meeting its science-based climate targets is reducing customer (scope 3) emissions through advocating a shift away from gas use.

Mercury's higher staff turnover rate data was largely due to the expiry of fixed term employment contracts related to the completion of Mercury's rebranding programme. Mercury expects staff turnover to gradually return to normal levels over the medium term. On health and safety, Mercury expressed its preference for using leading indicators rather than prevalent industry metrics, such as total recordable injury frequency rates. The company performed strongly on this metric, considering its heightened level of construction activity as it grows renewable generation capacity.

We will continue to actively monitor Mercury's progress toward meeting its climate change targets and improving employee wellbeing indicators.



# ESG objectives for Trust Management Funds | Ngā whāinga ESG mō te Tahua Whakahaere Tarahiti

Trust Management applies ESG-related objectives to fixed interest and share investment funds under our management. Individual holdings within each fund are regularly reviewed and compared to market benchmark indices ESG characteristics.

#### **ESG NZ Bond Fund**

Our strategy favours ESG linked bonds. Approximately 35% of the Trust Management ESG NZ Bond Fund was invested in green and social bonds (as at the end of May 2024), including:

- Social impact bonds issued by community housing providers The Salvation Army and Emerge Aotearoa
- Green bonds issued by Mercury Energy and Kiwi Property Group
- Sustainability bonds issued by Housing New Zealand
- A gender-diversity bond issued by the Asian Development Bank.

#### **ESG International Bond Fund**

The carbon intensity of the Trust Management ESG International Bond Fund corporate issuers is lower than the benchmark index. As at 31 March 2024, the Weighted Average Carbon Intensity (WACI) of the underlying fund's corporate constituents was approximately 27% below the carbon intensity of the market benchmark index corporate constituents (based on scope 1 and 2 emissions).



#### ESG Australasian Share Fund

At the end of March 2024, the Trust Management ESG Australasian Share Fund's carbon intensity (volume of greenhouse gas emissions per million dollars of revenue) represented around 80% of the carbon intensity of the fund's benchmark index (based on scope 1 and 2 emissions).

The underlying manager of the fund, Harbour Asset Management, also aims to improve the fund's ESG score (versus the benchmark) by using findings from its annual corporate behaviour survey as inputs into portfolio construction.

#### **ESG International Share Fund**

The Trust Management ESG International Share Fund is targeting a lower exposure to fossil fuel reserves, aiming for a carbon intensity that is 70% lower than the market benchmark index for the underlying fund. The fund also aims to double its exposure to companies generating green revenues from products and services that have a positive environmental impact, relative to the benchmark index. The fund has recently incorporated new climate metrics; implied temperature, climate value at risk, and a climate risk rating, targeting modest improvements on each metric against the benchmark.

# ESG Focus: Trust Management Property Fund | Aronga ESG: Tahua mō ngā Āhuatanga Whakahaere Tarahiti

Rachelle Greig, Trust Management's Property Facilities Manager, plays the lead role in ESG reporting and the stewardship of our property portfolio.

Rachelle joined Trust Management in 2023 following 11 years with Goodman Fielder NZ Ltd working in facilities management, project management, procurement, stakeholder engagement, and relationship building.



**Rachelle Greig**Property Facilities Manager

#### Climate resilience

One of Rachelle's first achievements in the role was to oversee the collation of landlord-controlled Greenhouse Gas emissions data, audit by Toitū Envirocare, and offset with carbon credits, to enable the Property Fund to achieve the Toitū net carbonzero certification.

The carbon credits purchased support the Native Forest Project – Spraypoint – a native forest regeneration site protected under a QEII covenant, located in Marlborough.

Looking ahead, Rachelle and the team will formulate an emissions reduction pathway plan, documenting initiatives that can be undertaken by the landlord to reduce the fund's carbon footprint, as well as engaging with tenants to enable us to report a 'whole of building' footprint. The Property Fund has several large organisations as tenants, including the Warehouse Group and Woolworths NZ, both of whom have made steps toward carbon measurement and climate transition planning.

Over the past 12 months, the property team has focussed on climate scenario analysis, GHG recording for ongoing reporting, and embedding ESG considerations into building maintenance service contracts.

# Enhanced supplier contracts with a focus on ESG considerations

In 2024 the Property team completed a review of our facilities maintenance services for the properties within the Fund, inviting new and existing suppliers to submit proposals. Some key focuses were:

- Health and safety practices
- Embedding of environmental, social, and governance considerations into service contracts. Examples include suppliers agreeing to pay staff and contractors not less than the Living Wage Rate, and endeavouring to reduce the environmental impact in the performance of services.
- Evolution of quality control processes, addressing environmental, social, and governance contractual requirements in reviews with suppliers.





# ESG International Share Fund Enhancement | Whakarākaitanga o te Tahua Pānga ā-Ao ESG

Providing diversified global equity exposure with meaningful ESG and climate integration is an important element of Trust Management's ESG International Share Fund. The fund invests in the State Street Climate ESG International Equity Fund, managed by State Street Global Advisors (State Street).

Following feedback from clients, including Trust Management, State Street has announced several enhancements to the underlying fund.

The following changes were incorporated at the May/June 2024 fund rebalance:

#### Additional screening

Two additional screens for material business involvement – including oil and gas, and civilian firearms (manufacture and/or sale of assault weapons to civilians). These will supplement existing screens for material business activity in tobacco, controversial (including nuclear) weapons, thermal coal, gambling, alcohol, and adult entertainment. The manager will also continue to exclude investment companies that exhibit severe violations of the United Nations corporate sustainability principles or ESG controversies that have severe impact or pose serious business risks.









#### Climate data metrics

State Street will also incorporate new forwardlooking climate data metrics sourced from data vendors. These metrics seek to capture what a company is planning to do and how it is positioning itself for the low carbon transition. They also seek to capture a company's exposure to climate-related risks, such as physical risks. The fund's portfolio construction will now incorporate three new metrics: Implied Temperature Rise (ITR), Climate Value at Risk (CVaR) and Carbon Risk Rating (CRR), targeting modest improvements in all three, relative to the benchmark. Given the introduction diversified nature of these additional targets, State Street will no longer use the adaptation score in portfolio construction. The green revenue improvement target will be +200% (from +300%) relative to the benchmark.

The State Street Climate ESG International Equity Fund's climate change mitigation and adaptation thesis remains the same.

These changes will be reflected in the Trust Management PIE Funds offer documents, including the ethical investment policy, in the coming months.

# Climate Related Disclosures | Ngā Whakapuakanga e hāngai ana ki te Āhuarangi

Climate Related Disclosure (CRD) standards were first published in December 2022 in New Zealand by the External Reporting Board. The CRD standards require large, listed entities, insurers, banks, and fund managers to report; around 200 of the country's largest companies and organisations are required to start disclosing information about their greenhouse gas emissions and how they manage climate-related risks and opportunities.

The intention of these standards is to provide more transparent climate reporting, helping stakeholders to understand how climate risks and opportunities are managed.



Trust Management is not currently required to report under these standards, however we are preparing to publish a climate report in 2024, which will be a voluntary and partial disclosure (not compliant with the standards).

Our climate reporting is based on climate data provided by global investment research, data, and technology provider MSCI, as well as risk hazard assessments and climate scenario analysis for our property portfolio supported by environmental and engineering consultancy Tonkin + Taylor.

# "Whatungarongaro te tangata, toitū te whenua"

#### As people disappear from sight, the land remains

Our reporting will broadly align with elements of the CRD standards: Aotearoa New Zealand Climate Standards 1, 2 and 3 or NZ CS. However, our reporting does not yet satisfy CRD standards in 2024, for a few reasons.

- Climate data continues to evolve as participants explore the validity of complex methodologies and assumptions. The limitations are many.
- We believe data quality will improve over time and the important thing is for companies, debt issuers, fund managers, and asset owners to start reviewing, reporting, and improving their understanding of climate data.
- We, and our underlying managers, take a cautious and balanced approach to climate data and how it is incorporated into decision making. We encourage our clients to do the same.

We believe the voluntary production of a climate report will advance our engagement with MSCI and the broader industry to further develop climate metrics that will address the shortcomings of available data.



### Modern slavery | **Ngā mahi whakapononga o te ao hou**

Modern slavery refers to serious exploitation of people, including forced labour, debt bondage, forced marriage, slavery, and human trafficking. Astonishingly, it is estimated that around 50 million people live in modern slavery.

The Ministry of Business, Innovation & Employment (MBIE) is developing modern slavery legislation for New Zealand, requiring businesses to report on modern slavery risk in their operations and supply chains.

Last year Trust Management penned our support of a letter to Minister of Workplace Relations and Safety, stressing that the inclusion of a due diligence requirement in the proposed legislation was critically important.

A due diligence requirement imposes a duty on entities to take effective action to identify, assess, and track risks.

We expect the due diligence requirement to align with the United Nations Guiding Principles (UNGPs), and OECD Guidelines for Multi-National Enterprises.

We believe New Zealand's modern slavery legislation will improve reporting and make a lasting impact on business practices.

Trust Management continues to take an active role in this space and will provide updates to our investors as they develop.



# "Manaaki whenua, manaaki tangata, Haere whakamua."

Care for the land, care for the people, Go forward.

Trust Investments Management Limited is the issuer and manager of the Trust Management PIE Funds Scheme. A copy of the Scheme's Product Disclosure Statement is available here. Further information can also be found at <u>disclose-register.companiesoffice.govt.nz</u>, under offer number OFR12861.

# TRUST MANAGEMENT

Standing with you to deliver community good.



Please contact Halie or Matthew if you would like further information on our ethical investment approach.

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