

# Ethical Investment Update

JUNE 2023



**Doing well to  
maximise good.**



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Published on 26 June 2023, this report is signed on behalf of the Board of Directors by Rachael McDonald.



**Rachael McDonald**

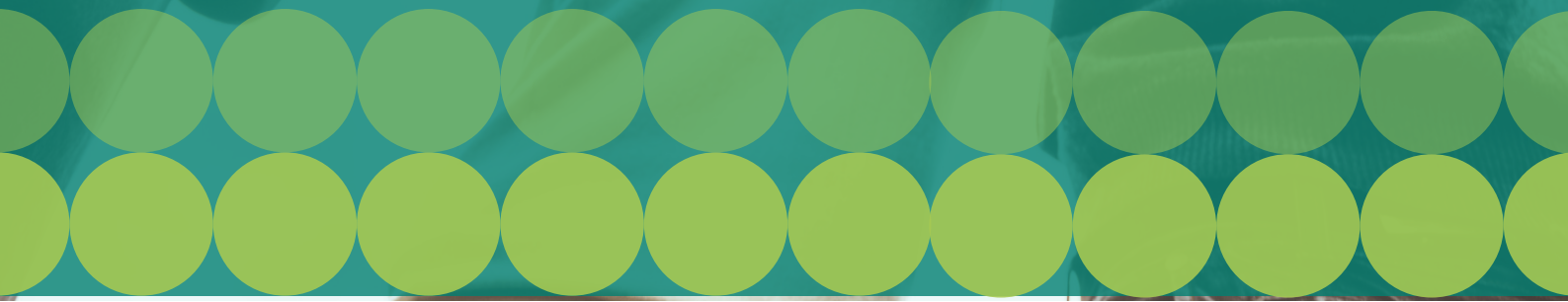
Chief Executive





*Me mabi tabi  
tātou mō te  
oranga o te katoa*

We should work together for the  
wellbeing of all.



# At a glance

## TRUST MANAGEMENT



\$1.9B

Total assets under management and advice as at 31 March 2023

## DISTRIBUTIONS



\$26.3M

Distributions to unitholders doing good in our communities\*

## DISTRIBUTION IMPACT



We are a charity ourselves – returning every cent of profits from the \$1.9B assets under our management and advice to the Anglican Diocese of Auckland to support the good work they do in the community.

## STEWARDSHIP



467 engagements undertaken in 2022 by our specialist managers, with industry bodies and companies and issuers our portfolios invest in (including prospective investment opportunities).

## AWARDS FINALIST



INFINZ Diversified Growth Fund  
Manager of the Year Award  
Finalist 2023

## FOUNDING SIGNATORY



Aotearoa New Zealand  
Stewardship Code

\* in the year to 31 March 2023



# From our CEO

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Dear Clients and Friends

We are pleased to update you on our ethical investment progress in 2023 and how it benefits clients and the wider community.

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 every cent of profits from the \$1.9B assets under our management and advice to the Anglican Diocese of Auckland to support the good work they do in the community.

The income distributions generated from the Trust Management PIE Funds supports social impact – and this past year to March 2023, we returned \$26.3m in distributions to unitholders doing good in our communities. Our profits support the Anglican Diocese of Auckland to deliver broad services to communities from the Far North to Coromandel. These services include programmes for children and families (new parents, pre-schoolers, youth and young people), food banks, older people (particularly those at risk of social isolation) and general pastoral needs of people, especially in times of grief and serious illness.

Our ethical investment practices have flourished since publishing our inaugural Ethical Investment Update in April 2022.

**We are also helping clients develop their own responsible investment policies and to better align their investment portfolios with those policies.**

Over the past year, we have broadened the responsibilities of our Investment Committee to bring an even stronger focus to Environmental, Social and Governance (ESG) disciplines across our investment strategies.

Today we operate at the industry leading-edge, with the following achievements demonstrating Trust Management's commitment to ethical investment:

- Founding signatory to the Aotearoa New Zealand Stewardship Code
- Long-standing signatory to the UN-supported Principles for Responsible Investment (PRI)
- Consulted on the development of Climate-related Disclosure (CRD) standards
- Partnered with global investment research, data and technology provider MSCI to support Trust Management's first climate risk reporting
- Member of the New Zealand Green Building Council
- Named a finalist in the INFINZ Diversified Growth Fund Manager of the Year Award for 2023
- Awarded the Property Institute of New Zealand Professional Business of the Year (small business) Award for 2023



# From our CEO

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We are also helping clients develop their own responsible investment policies and to better align their investment portfolios with those policies. Please get in touch with us if you need our assistance.

Looking to the year ahead, we will shortly submit our annual report as a signatory to the Principles of Responsible Investment (PRI). Our first climate statements for the Trust Management PIE Funds will be available soon after the reporting period ended March 2024.

I'm also taking this opportunity to thank Trust Management stakeholders – our owner, board members, staff, clients, and the many worthy causes we support, either directly or indirectly – for their contribution to making the world a better place.

We've had a strong year, and we're looking to the future with enthusiasm and energy as we continue to maximise our impact.

Thank you and kind regards,

A handwritten signature in black ink that reads "Rachael McDonald". The signature is written in a cursive, flowing style.

Rachael McDonald  
Chief Executive Officer

# People

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Trust Management people are the backbone of our organisation. We employ a diverse group of people from all corners of the globe who are highly qualified, and many of whom belong to professional associations.

We made two key appointments in 2022 – Rachael McDonald was appointed Chief Executive Officer, and Halie Hartigan joined the investment team as investment manager, adding to our ESG capabilities

## ABOUT RACHAEL

Rachael is committed to maximising Trust Management’s impact, empowering clients and community providers to do even more good. She brings a wealth of international experience to Trust Management.

Rachael was most recently a founding partner of the British Virgin Island branch of UK-based professional services firm Mourant Ozannes, where she led a team providing legal and advisory services to international clients.

Rachael was highly regarded across the organisation for her leadership and innovation and was invited to sit on both Mourant’s global Board and its global Risk Committee. She also spearheaded the diversity and inclusion programme.

Rachael has received international recognition for her work, featuring on the IFC Powerwomen list from 2017-2020 and the IFLR1000 Women Leader ranking in 2021, both global honours granted to prominent female lawyers.

Rachael’s keen sense of service led her to cofound an industry alliance focused on post-hurricane community support. She was also a founding board member of BVI Finance, a public-private partnership between government and financial-legal sectors. Rachael also founded the BVI charitable programme for Mourant and a scholarship scheme for local students.

After returning home to Aotearoa New Zealand in 2021, Rachael joined the board of the Life Education Trust (North Shore), an organisation that inspires children and young people to make positive health choices, helping them to understand and avoid problems with substance abuse, poor mental health & wellbeing, obesity, and bullying.



## ABOUT HALIE



Halie provides investment analysis for Trust Management’s clients, along with leading our investment manager selection and responsible investment processes.

Halie joined Trust Management following 10 years at ASB Group Investments, where she led ASB’s responsible investment activities.

Prior to joining ASB, Halie spent several years at BT Funds Management, the investment arm of Westpac in New Zealand. Halie is a CFA Charterholder, a professional designation that demonstrates a strong commitment to investment fundamentals, ethics and professionalism.



# People

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## ONGOING DEVELOPMENT

- Several Trust Management staff attended the Responsible Investment Association Australasia (RIAA) conference hosted in Tāmaki Makaurau in September 2022.
- Matthew Goldsack, General Manager of Investments, presented an education session covering the integration of environmental, social and governance considerations into investment portfolios at the New Zealand Society of Actuaries conference in November 2022.

We also continue to upskill our people on several fronts:

- Our staff attend Te Ao Māori tikanga training each month.
- Our advisory staff are undertaking training for the Accredited Investment Fiduciary (AIF) Designation, aimed at ensuring best practices in conduct and ethical standards.
- Many of our investment staff and executive team have either enrolled in, or completed, ESG training offered by the PRI and/ or the CFA Institute.



# ESG attitudes and impact investing

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A March 2023 client survey gauging their position on ethical investing showed keen consideration of ESG issues. We appreciate all respondents who took the time to complete the survey and provide input.

Almost everyone (95%) who responded to the survey agreed that it was important to include ESG considerations in investment decisions.

Similarly, the majority (81%) of respondents agreed that incorporating ESG considerations aligned with their fiduciary duties. Furthermore, most respondents (87%) believed such alignment could offer social/environmental benefits.

However, with fewer than six-in-ten (57%) respondents agreeing that incorporating ESG considerations could enhance financial performance, only some agree that managing material ESG risks can improve future investment returns.

Most respondents felt strongly about excluding investments related to animal cruelty (91%), human/labour rights issues (93%), tobacco (93%), weapons (87%), adult entertainment (84%) and gambling (84%). The feeling was less intense for avoiding alcohol (64% agreed alcohol should be avoided, 27% were neutral, and 9% disagreed). The response to Genetically Modified Organisms (GMOs) was more neutral again (41% agreed GMOs should be avoided, 39% neutral, and 20% disagreed).

## IMPACT INVESTING

Several clients expressed an interest in learning more about impact investing.

Impact investing considers positive social and/or environmental impact objectives within the context of financial return.

Positive impacts should be both additional (they would not have happened without the investment) and measurable.

Examples include green or climate bonds (where entities raise capital via bonds to invest in projects, such as alternative energy or climate adaptation projects) or equity investment in companies aligned to social or environmental themes – for example, housing, education, healthcare, and clean water and waste.

While impact investing is popularly associated with below-market – or even negligible – returns, many impact investment strategies target a market return.

Expectations of returns is material information, which should be disclosed and understood by investors at the time of making an investment.

# ESG attitudes and impact investing

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Historically, the limited number and poor liquidity of impact investment opportunities in the market has meant that impact investing hasn't received much attention from investors. But times are changing as interest grows and new options come to market.

Some of our funds incorporate impact investments. For example, our ESG NZ Bond Fund invests in green bonds and climate bonds, where issuers use the funds raised to invest in projects with environmental benefits.



Please contact us to learn more about impact investing or how we can help identify impact investment opportunities that may be suited to your organisation.

Start by considering the four categories of investing:

- Traditional investing: Motivated by returns, with a limited focus on ESG considerations.
- Responsible investing: Returns are still paramount, but financial decisions apply a mix of screening and ESG integration and/or stewardship to improve social/environmental outcomes.
- Impact investing: Focus on social/environmental impacts alongside financial outcomes. Social/environmental impacts may take precedence over financial outcomes.
- Philanthropy: No financial return, focus on social/environmental outcomes.



# Ethical Investment Policy

## 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:

### + *Kaitiakitanga: Care for the Environment*

*“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 tabi 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.

 CLIMATE CHANGE	 TARGETS	 INDUSTRY COMMITMENTS
An overview of our support and commitment to climate change, which incorporates our approach to addressing these issues within our investment funds is included in our Policy.	Our approach to setting, reviewing, measuring and monitoring ethical investment targets. The specific targets are included in our Statement of Investment Policies and Objectives (SIPO) document for our investment funds, which can be found <a href="#">here</a> .	Our industry commitments have been incorporated into our Policy to provide detail on Trust Management's contribution to the ethical investing community.

A copy of our Ethical Investment Policy can be found [here](#).

# How ethical investment standards drive better business practices

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Responsibility for the day-to-day stock selection decisions for the Trust Management ESG Australasian Share Fund is currently delegated by us to Harbour Asset Management (Harbour), one of New Zealand's most highly-rated fund managers.

Well regarded for their focus on responsible investing principles, Harbour's approach also encompasses stewardship and active engagement with investee companies held in our Fund, and we work with them to ensure our Ethical Investment Policy is adhered to.

Harbour is helping many of New Zealand's biggest brands embrace ESG practices, including areas such as climate scenario testing, modern slavery policies and biodiversity policies and actions. Here are some recent examples:

## KMD Brands (Kathmandu)



Harbour is helping KMD Brands reduce carbon emissions, improve health and safety, review suppliers on performance measures (such as recyclable materials in products), and adopt ESG practices (including Textile Exchange and Ethical Fashion).

Kathmandu is now a certified B Corporation, demonstrating leadership in the global movement towards an inclusive, equitable, and regenerative economy, with high social and environmental performance and a commitment to all stakeholders (not just company shareholders).

## Summerset Group Holdings (Retirement villages)



Harbour undertakes an 80+ question corporate behaviour survey on New Zealand and Australian businesses each year. Harbour ranks Summerset highly on governance and social metrics. The company is an early adopter of pay parity, education and well-being support for staff, and environmental measures, including emissions commitments and actions to reduce carbon footprint.

# How ethical investment standards drive better business practices

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## Ryman Healthcare



For years, Harbour has been pushing the aged care sector to lower its carbon footprint. Recently Ryman signed an agreement with renewable energy fund Solar Bay to develop a solar farm in Northland to supply power in a first for the retirement industry.

The \$35 million solar farm will be built, owned and operated by Solar Bay on a site near Maungaturoto – and the 29.94 million kWh of energy it produces each year will be fed directly into the national grid in Northland, taking pressure off the system. Under the exclusive agreement, Ryman will be the new solar farm's only customer, giving Solar Bay a guaranteed buyer for all its renewable energy production for the next 10 years.



# ESG targets for Trust Management Funds

We apply measurable ESG-related targets to our fixed interest and share investment funds. The individual holdings of our funds are reviewed regularly by us and compared against the ESG characteristics of the market benchmark indices.

## ESG NZ BOND FUND

The strategy for the ESG NZ Bond Fund is to have a preference for ESG bonds (all else being equal). As at the end of March 2023, the Trust Management ESG NZ Bond Fund held 36% in green and social bonds, including green bonds issued by Mercury Energy, Contact Energy, and Kiwi Property Group; sustainability bonds issued by Christchurch City Council, and Housing New Zealand; and a gender-diversity bond issued by the Asian Development Bank. At the time of writing this update, our NZ bond manager Nikko Asset Management was conducting due diligence on a community housing bond.

## ESG AUSTRALASIAN SHARE FUND

At the end of March 2023, the Trust Management ESG Australasian Share Fund's carbon intensity (volume of greenhouse gas emissions per million dollars of revenue) represented around half the carbon intensity of the fund's market benchmark index. The investment manager of the fund, Harbour, also aims to improve the fund's ESG profile (versus the market benchmark), with stock selection decisions and weightings informed by a comprehensive corporate behaviour survey of listed companies which is undertaken annually.

## ESG INTERNATIONAL BOND FUND

Reducing investments in carbon intensive government and corporate issuers has lowered the carbon intensity of our Trust Management ESG International Bond Fund. At the time of writing this update, the fund's carbon intensity was approximately 15% below the market benchmark index for the underlying fund.

## ESG INTERNATIONAL SHARE FUND

Our Trust Management ESG International Share Fund aims to have lower exposure to fossil fuel reserves, targeting a carbon intensity 70% lower than the market benchmark index for the underlying fund. The fund also targets a 300% uplift in exposure to companies generating green revenues from products and services with a positive environmental impact, relative to the benchmark index. Since September 2022, the underlying fund has excluded companies with material business activity\* involving alcohol production, gambling operations, or adult entertainment production, which aligns with our Ethical Investment Policy.

\* Defined as 10% or more revenue

# Trust Management Property Fund

The Trust Management Property Fund (Property Fund) provides exposure to the New Zealand property market through a diversified portfolio of direct and predominantly freehold commercial properties. The Property Fund has an objective of providing strong income returns for investors along with long-term capital growth.

Launched in 2001\*, the Property Fund invests in direct commercial property assets, with a focus on bulk retail (supermarkets and hardware stores) and industrial property (warehousing).

The Property Fund applies certain ethical investment criteria on the acquisition of properties. Our property asset management team continues to embed our ethical investment principles of caring for the environment, our community and equality into the management practices for the Fund.

## KEY INITIATIVES



### LIGHTING

We have so far switched fluorescent bulbs to LED lighting in 50% of the buildings in the Property Fund. This is a big win, as lighting accounts for around 5% of global CO2 emissions, with LED lighting using up to 85% less energy than traditional bulbs.

We have also installed skylights in 70% of the warehouses in the Property Fund. Improved natural lighting reduces daytime electrical lighting and is known to result in happier workers, less absenteeism, reduced stress, and fewer illnesses.



### CLIMATE RESILIENCE

Over the past 5 years, we have replaced all R22 refrigerant air conditioning and heat pump units across the properties assets held in our Property Fund. R22 cooling is a potent greenhouse gas with a warming effect 1,760 times greater than that of carbon dioxide.

At the time of writing, our property asset management team are working with Toitū Envirocare to gain a carbon certification aligned with international standards. Called 'Toitū Carbon Reduce,' the standard specifies measures for the managed reduction of carbon footprints for landlord-controlled carbon emissions.

Our team have also undertaken a climate hazard exposure assessment of properties held in the Fund to identify potential exposure to coastal erosion, coastal inundation and river flooding.

\* Trust Investments – Property Fund (the Property GIF), formerly offered under the Trust Investments – Group Investment Funds scheme. On 1 April 2020, the Trust Management Property Fund acquired all the assets of the Property GIF under a scheme restructure.





# Trust Management Property Fund



## ENGAGEMENT

Next year we expect to undertake our procurement tender process that will evaluate and issue three-year contracts on attributes that extend to ESG considerations, such as climate strategy, health and safety, supply chain risks, and employment conditions.

We will also work with tenants, using data to help them make improvements in their energy consumption, waste, and water. We expect this programme will define best practices and form the basis of ongoing monitoring to reduce carbon and capture cost savings.



## BUILDING SNAPSHOT

Earlier this year we upgraded a 10,000 sqm warehouse (50% owned by the Property Fund) located at 439 East Tamaki Road, East Tāmaki, Auckland.

The fitout involved significant demolition. We engaged a resource recovery and refuse service provider to reduce waste sent to landfill. The project resulted in a 72% diversion of waste materials, or 25.6 tonnes.





# Stewardship

Trust Management is a proud founding signatory of Aotearoa New Zealand's new Stewardship Code (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 will take leading role to encourage broad acceptance of the Code across the industry. Our underlying managers will promote positive governance practices to help manage environmental and social opportunities and risks, and build trust between investors, companies/issuers, and other stakeholders.



STEWARDSHIP CODE  
AOTEAROA NEW ZEALAND

## Stewardship tools include:

- voting at board meetings
- engaging with company boards and management
- filing shareholder resolutions
- advocating for policy changes

## BENEFITS

Taking an active role in stewardship aligns with the values of both Trust Management and those of our investors, all of whom have a charitable, community, or "for purpose" objective. The Code also supports our ethical investment principles: Kaitiakitanga (care for the environment), Manaakitanga (care for the community) and Kotahitanga (care for equality).

You will learn more about the stewardship activities we and our underlying investment managers undertake on behalf of our clients in our first stewardship report, due to be released in 2024.



# Climate Related Disclosures

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Aotearoa New Zealand is the first country in the developed world to mandate climate reporting.

The External Reporting Board (XRB) published the first Climate Related Disclosure (CRD) standards in December 2022.

CRD standards are based on the Task Force on Climate-Related Financial Disclosures (TCFD) framework, developed by the Financial Stability Board in 2017.

The CRD standards require large listed entities, insurers, banks, and fund managers to measure and report on greenhouse gas emissions, and to specify how climate related risks and opportunities are measured, assessed, managed, and monitored by the organisation.

The Trust Management PIE Funds Scheme is currently under the \$1B reporting threshold. However, we intend to opt into the reporting standards and will prepare our first climate statements for the period ending 31 March 2024.

We have signed a contract with global investment research, data and technology provider MSCI to provide climate data to support the preparation of climate statements for investments in listed equities and bonds.

Working within the Property Asset Management team, we appointed a facilities manager to focus on ESG initiatives and climate reporting earlier this year. New initiatives for the Property Fund (which holds unlisted assets) will include collating energy usage for shared facilities (proprietor-controlled) and tenant energy consumption.

Climate reporting will provide transparency, allowing clients to understand how climate risks and opportunities are managed in the Trust Management PIE Funds Scheme.

# Modern Slavery

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Modern slavery refers to the 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 is investigating modern slavery legislation for Aotearoa New Zealand. The proposal will require Aotearoa New Zealand businesses to undertake due diligence on modern slavery risks within their operations and supply chains.

Trust Management has provided input to the development of this legislation through our membership of the Boutique Investment Group (BIG), and we expect our underlying fund managers to assess and manage modern slavery risks as part of their investment processes and engagement.

We also uphold human and labour rights in our own workplace. We have a remuneration committee to ensure we pay our staff an appropriate wage. Meeting regularly, our health and safety committee ensures we provide safe and healthy working conditions. We also offer an employee assistance programme that provides free counselling for employees and their family members for any reason. We are currently working on modernising our people related policies and frameworks to ensure we continue to provide a supportive and great place to work.

\* Source: Global Estimates of Modern Slavery: Forced Labour and Forced Marriage, Geneva, September 2022

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# TRUST+ MANAGEMENT

STANDING WITH YOU TO DELIVER COMMUNITY GOOD

INVESTMENTS + PROPERTY + ACCOUNTING + GOVERNANCE

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

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