

1 December 2021

Introduction

This policy sets out Smartshares' approach to responsible investment and the extent to which it incorporates environmental, social and governance (ESG) factors in its investment management processes.

Smartshares offers a range of investment options, which allow investors to choose the approach that's right for them.

Examples of ESG factors are:



Environmental

- Climate change
- Water
- Waste and pollution
- Biodiversity



Social

- Health and safety
- Labour standards
- Human rights



Governance

- Board structure, diversity and independence
- Remuneration
- Voting
- Anti-bribery and corruption

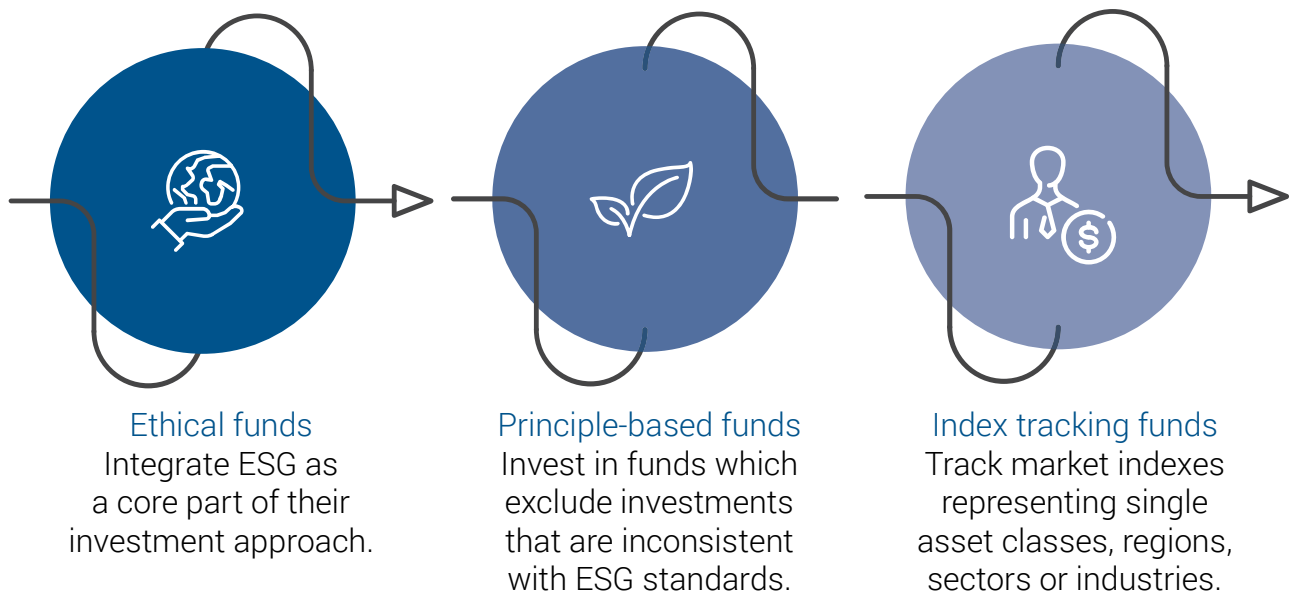
Smartshares' approach to responsible investment

Smartshares incorporates responsible investment into its investment management processes in the following ways:

- external investment managers – Smartshares assesses an external investment manager's responsible investment arrangement prior to appointing the investment manager and at least annually after that. Smartshares prefers external investment managers that are signatories to the United Nations Principles for Responsible Investment (UNPRI);
- voting – Smartshares aims to enhance long-term shareholder value, support voting rights for shareholders and promote responsible corporate behaviour. We engage proxy research and voting advisers when formulating voting and engagement strategies, deciding how to exercise specific voting rights, and in the actual execution of such voting rights. Smartshares assesses a proxy research and voting adviser's responsible investment arrangements prior to appointing the adviser and at least annually after that; and
- transparency and communication – Smartshares ensures that its approach to responsible investment is communicated clearly to investors.

Investment Options

The extent to which Smartshares incorporates ESG factors into its managed investment schemes depends on the particular investment option. Smartshares recognises that investors have diverse views around ESG, so offers a range of funds, from fully integrated responsible investment options to market index tracking options, to allow investors to choose the approach that's right for them.



Ethical funds

Ethica Fund

The Ethica Fund integrates ESG as a core part of its investment approach by:

- excluding investments that are inconsistent with the fund's ESG standards; and
- investing more in investments that have positive ESG characteristics.

The Ethica Fund does not invest in investments where (in Smartshares' opinion) the activities of the companies behind the investment:

- 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 and human rights; and
- are expected to result in long-term, detrimental change to the environment.

Current investments and sectors that are excluded are those where a material part of their revenue and/or activities are in the areas of gambling, tobacco, alcohol, armaments, pornography and fossil fuel extraction.

The Ethica Fund is available to investors in SuperLife Invest, the SuperLife KiwiSaver scheme, the SuperLife UK Pension Transfer Scheme and the SuperLife Workplace Savings Scheme.

Principle-based funds

SuperLife Default Fund

The SuperLife Default Fund is a KiwiSaver default fund and is required to invest in the assets described in the KiwiSaver Default Provider (Smartshares) Notice 2021. Currently, the fund invests in New Zealand equities included in the S&P/NZX 50 Index and international equities included in the MSCI World Ex Australia Custom ESG Leaders Index. This results in the exclusion of investments in illegal weapons and fossil fuel production. Specifically it excludes companies that:

- are involved in activities relating to cluster munitions, anti-personnel mines and nuclear explosive devices;
- own proved or probable reserves in coal, oil, or gas, and derive at least 15% of their revenue from exploration and extraction of coal, oil or gas; or

- have as its primary business activity in any of the excluded subsectors prescribed in table 1 or table 2 of Schedule 5 of the KiwiSaver Default Provider (Smartshares) Notice 2021.

The exclusion above applies to all investments:

- where the shares are held directly in companies that undertake the activities listed above;
- in shares of majority owners of excluded companies (for example, parent companies);
- in shares of subsidiary companies of excluded companies where that subsidiary has any involvement in the prescribed activity; and
- in managed investment schemes that have any investments in the companies listed above.

For the purposes of the exclusion above, oil includes tar sands, gas includes shale (as a source of gas) and metallurgical coal is not included in the term coal.

The SuperLife Default Fund is available via the SuperLife KiwiSaver Scheme.

Exchange traded funds – ESG shares

The following exchange traded funds track ESG screened markets indexes and are available to investors in the Smartshares Exchange Traded Funds:

- Smartshares Global Equities ESG ETF – invests in international shares and is designed to track the return on the MSCI World Ex Australia Custom ESG Leaders Index;
- Smartshares US Equities ESG ETF – invests in US shares and is designed to track the return on the MSCI USA ESG Screened Index;
- Smartshares Japan Equities ESG ETF – invests in Japanese shares and is designed to track the return on the MSCI Japan ESG Screened Index;
- Smartshares Emerging Markets Equities ESG ETF – invests in emerging markets shares and is designed to track the return on the MSCI EM IMI ESG Screened Index; and
- Smartshares Europe Equities ESG ETF – invests in European shares and is designed to track the return on the MSCI Europe ESG Screened Index.

These ESG screened indexes aim to exclude companies:

- associated with controversial weapons (cluster munitions, landmines, depleted uranium weapons, biological/chemical weapons, blinding lasers, non-detectable fragments and incendiary weapons), nuclear weapons, civilian firearms and tobacco;
- that derive revenues from thermal coal and oil sands extraction; and
- that are not in compliance with the United Nations Global Compact (UNGC) principles.

The indexes incorporate the exclusions set out above, while seeking to track standard market capitalisation indexes.

Along with exclusions, some of the indexes may invest more in investments that have positive ESG characteristics and invest less in investments that do not.

Index-tracking funds

The following exchange traded funds allow investors to select or exclude asset classes, regions, sectors or industries from their investment portfolio and are available to investors in the Smartshares Exchange Traded Funds, as well as those who invest indirectly in these funds via SuperLife Invest, the SuperLife KiwiSaver Scheme, the SuperLife UK Pension Transfer Scheme and the SuperLife Workplace Savings Scheme:

New Zealand shares

- Smartshares S&P/ NZX 50 ETF – invests in New Zealand shares and is designed to track the return on the S&P/NZX 50 Index;
- Smartshares NZ Top 50 ETF – invests in New Zealand shares and is designed to track the return on the S&P/NZX 50 Portfolio Index;
- Smartshares NZ Top 10 ETF – invests in New Zealand shares and is designed to track the return on the S&P/NZX 10 Index;
- Smartshares NZ Mid Cap ETF – invests in New Zealand shares and is designed to track the return on the S&P/NZX Mid Cap Index;
- Smartshares NZ Dividend ETF – invests in New Zealand shares and is designed to track the return on the S&P/NZX 50 High Dividend Index;
- Smartshares NZ Property ETF – invests in New Zealand property and is designed to track the return on the S&P/NZX Real Estate Select Index;

Australian shares

- Smartshares S&P/ASX 200 ETF – invests in Australian shares and is designed to track the return on the S&P/ASX 200 Index;
- Smartshares Australian Top 20 ETF – invests in Australian shares and is designed to track the return on the S&P/ASX 20 Index;
- Smartshares Australian Mid Cap ETF – invests in Australian shares and is designed to track the return on the S&P/ASX Mid Cap 50 Index;
- Smartshares Australian Dividend ETF – invests in Australian shares and is designed to track the return on the S&P/ASX Dividend Opportunities Index;
- Smartshares Australian Financials ETF – invests in Australian shares and is designed to track the return on the S&P/ASX 200 Financials Ex-A-REIT Index;
- Smartshares Australian Resources ETF – invests in Australian shares and is designed to track the return on the S&P/ASX 200 Resources Index;
- Smartshares Australian Property ETF – invests in Australian property and is designed to track the return on the S&P/ASX 200 A-REIT Equal Weight Index;

US Shares

- Smartshares US 500 ETF – invests in US shares and is designed to track the return on the S&P 500 Index;
- Smartshares US Large Growth ETF – invests in US shares and is designed to track the return on the CRSP US Large Cap Growth Index;
- Smartshares US Large Value ETF – invests in US shares and is designed to track the return on the CRSP US Large Cap Value Index;
- Smartshares US Mid Cap ETF – invests in US shares and is designed to track the return on the CRSP US Mid Cap Index;
- Smartshares US Small Cap ETF – invests in US shares and is designed to track the return on the CRSP US Small Cap Index;

International shares

- Smartshares Total World ETF – invests in international shares and is designed to track the return on the FTSE Global All Cap Index;
- Smartshares Total World (NZD Hedged) ETF – invests in international shares and is designed to track the return on the FTSE Global All Cap Index, hedged to the New Zealand dollar;
- Smartshares Asia Pacific ETF – invests in international shares and is designed to track the return on the FTSE Developed Asia Pacific All Cap Index;
- Smartshares Emerging Markets ETF – invests in international shares and is designed to track the return on the FTSE Emerging Markets All Cap China A Inclusion Index;
- Smartshares Europe ETF – invests in international shares and is designed to track the return on the FTSE Developed Europe All Cap Index;

Thematic shares

- Smartshares Automation and Robotics ETF – invests in international shares and is designed to track the return on the iSTOXX® FactSet Automation & Robotics Index;
- Smartshares Healthcare Innovation ETF – invests in international shares and is designed to track the return on the iSTOXX® FactSet Breakthrough Healthcare Index;

Bonds

- Smartshares S&P/NZX NZ Government Bond ETF – invests in New Zealand bonds and is designed to track the return on the S&P/NZX NZ Government Bond Index; and
- Smartshares Global Aggregate Bond ETF – invests in international bonds and is designed to track the return on the Bloomberg Barclays Global Aggregate Bond Index, hedged to the New Zealand dollar.

Governance

Smartshares' Board is responsible for approving Smartshares' responsible investment arrangements. Smartshares' Investment Oversight Committee (a Board committee) is responsible for monitoring compliance with these arrangements.

Smartshares' Chief Investment Officer reports to the Investment Oversight Committee in respect of Smartshares' responsible investment arrangements.

Approver:	Smartshares Board
Document owner:	Chief Investment Officer
Review:	Annual
Last reviewed:	1 December 2021