



## Socially Responsible Investment Philosophy

Taking KiwiSaver Seriously.

**KiwiSaver**<sup>™</sup>  
*Poua he Oranga*

**Huljich** 

## What Is Socially Responsible Investing (SRI)?

Socially Responsible Investing, also known as sustainable investing or ethical investing, describes an investment strategy which seeks to maximise both financial return and social good.

In general, socially responsible investors favour corporate best practices that promote environmental sustainability, consumer protection, human rights and diversity. Some (but not all) avoid businesses involved in alcohol, tobacco, gambling, pornography, armaments and anything which directly infringes on human rights.

### 1. Socially Responsible Investment

Huljich Wealth Management (New Zealand) Limited (Huljich) recognises that environmental, social and corporate governance (ESG) issues can be important when making investment decisions. In recognising these issues, responsible investment, including ESG considerations, is taken into account in all of our investment policies and procedures.

Huljich practises Socially Responsible Investment and is a signatory of the United Nations Principles for Responsible Investment (UNPRI). Signing the Principles means we have committed to observing a set of environmental, social and corporate governance principles – an action that will benefit not only Huljich investors but society as a whole.

### 2. Objective

At Huljich, our objective is to protect and build the wealth of our investors so they can enjoy a better standard of living in retirement. As a Socially Responsible Investor we offer our investors the opportunity to firstly pursue their financial goals and secondly invest in a manner consistent with their values. In today's rapidly changing global economy, we believe companies that proactively manage environmental, social and corporate governance issues will be best positioned to outperform over the long-term.

### 3. Philosophy

Our guiding philosophy is to endeavour to hold a diversified portfolio of carefully selected, high quality growth assets that the Manager considers to be environmentally and socially responsible.

### 4. Approach

In selecting individual shares and other investments, you will use a combination of negative screening (avoiding certain investments) and positive screening (favouring certain investments) criteria throughout the Huljich Ongoing Equity Investment Process. The criteria adopted may change over time as standards relating to corporate reporting accountability and codes of conduct advance.

#### Huljich Ongoing Equity Investment Process

1. Step 1: Macroeconomic & Sector Analysis
  - 1.1. Analyse the underlying economic conditions through the forecasting of gross domestic product, inflation, unemployment, interest rates, exchange rates and market performance.
  - 1.2. Measure the effects of political, social and environmental developments on our view of the financial markets.
  - 1.3. Identify both current and past sector trends and forecast future sector performance.
  - 1.4. Asset allocations are weighted to those sectors which we believe will outperform the market.
2. Step 2: Company Fundamental Analysis
  - 2.1. Review all publicly available information, including financial statements and company announcements.
  - 2.2. Conduct in-depth discussions with management to evaluate:
    - growth prospects and industry specific trends; and

- financial health, including leverage, margins, cost structures (past, present & future) and efficiency initiatives.
- 2.3. Develop a three year earnings model, including balance sheet, cash flow and profit and loss forecasts, in order to evaluate future earnings and dividend growth.
- 2.4. Review financial statement analysis and earnings model with management for guidance.
- 2.5. Assess:
  - management team competency, insider ownership and company culture;
  - business model competitiveness and sustainability;
  - competition in the industry;
  - potential for new entrants into the industry;
  - power of buyers;
  - power of suppliers;
  - threat of substitute products; and
  - regulatory environment.
- 2.6. Finalise growth rates and earnings forecasts. Determine the quality of earnings and analyse corporate governance.
- 2.7. Apply negative screening – absolute exclusions. Huljich will use its best endeavours to ensure that all investment portfolios will NOT invest in companies directly involved in:
  - the production of alcoholic beverages;
  - the production of tobacco or tobacco products;
  - gambling as a main line of business;
  - the production of pornography;
  - the manufacture of armaments;
  - activities blacklisted by the United Nations (e.g. manufacture of land mines); or
  - anything which directly infringes on human rights.

Huljich will use its best endeavours, using publicly available information (including annual reports issued by investment companies), social responsibility indices compiled by independent market observers, along with any additional information from our research resources, to ensure that no investment within the portfolio is engaged in poor labour practices, cruelty to animals or excessive environmental pollution.
- 2.8. Apply negative screening – relative exclusions. Huljich will use its best endeavours to ensure that all investment portfolios exclude companies/investments deriving revenues from the sale of alcoholic beverages, tobacco or tobacco products, gambling, pornography or armaments where:
  - it is the company's principal business; and
  - the company earns more than 20% of its revenues from those activities.

(There are some companies (e.g. supermarkets) which sell alcohol and tobacco products, and it is possible the revenues from these activities may exceed 20%, but such sales are clearly not a supermarket's principal business.)
- 2.9. Apply positive screening. Huljich will use its best endeavours, using publicly available information (including annual reports issued by investment companies), along with any additional information from our research resources, to ensure that investments within the portfolio do meet these criteria. There are no pre-determined relative weightings to these criteria:
  - make positive social contributions;
  - seek to minimise adverse environmental effects from their operations;
  - have strong corporate governance practices, ethical standards and track records; and
  - embrace triple bottom line reporting.

### 3. Step 3: Company Valuation Analysis

- 3.1. Intrinsic Value – incorporating both tangible and intangible factors, with a particular focus on discounted 'free' cash flow analysis.
- 3.2. Relative Value – assess the value of the company relative to its peers, industry group and appropriate index by comparing financial ratios.
- 3.3. Sum Of The Parts Value – determining the fair value of the company if it was broken down into individual business

units and sold in the current market.

#### 4. Step 4: Technical Analysis

- 4.1. Technical analysis is used to analyse market activity statistically, in particular price and volume. Identify trends and patterns that may assist in timing the entry and exit of selected investments.

#### 5. Step 5: Portfolio Construction & Risk Management

- 5.1. Each change in composition of the portfolio requires the rebalancing of the collective portfolio risk and matching investments to portfolio objectives.
- 5.2. Due to our selective investment approach and concentrated portfolios, the key risks relate to the individual stock positions. Through intensive research of those companies, the risks are minimised effectively.

#### 6. Step 6: Ongoing Portfolio Management & Analytical Review

- 6.1. We actively manage all portfolios to maintain strategic asset allocations to maximise returns and minimise risk.
- 6.2. Ongoing analytical review of the macroeconomic environment, sector trends and future performance, company fundamentals, company valuations, technical analysis and risk management, as the economic conditions change and corporate information is released.
- 6.3. Ongoing review to ensure environmental, social and corporate governance guidelines are met and negative screens are not breached.
- 6.4. Any material events are monitored and strategies are developed to counteract the risks.

The perception of ethics of a company or industry can change from investor to investor, as well as over time. The Manager aims to keep abreast any new technology and trends, as well as changes in public opinion, and will adapt as required. In the event that a share or other investment included within the portfolio is found to be in breach of the fund's investment criteria, that holding will be divested as soon as practicable, and for the best price practically achievable.

## 5. KiwiSaver - Our Commitment to You

All Huljich investment policies and procedures follow our SRI guidelines and Ongoing Equity Investment Process. In addition, all Huljich KiwiSaver Funds follow our SRI guidelines and adhere to the following standards:

- all clients' funds and investments are held in trust by an independent trustee, Trustees Executors Superannuation Limited (a subsidiary of New Zealand's oldest and most reputable trustee company, Trustees Executors Limited\*). We also report regularly to both the trustee and Government Actuary;
- there are no hidden fees. As direct investors, our approach minimises fees and maximises returns for our members;
- we do not invest in undemocratic regimes or countries with a high degree of corruption;
- the Huljich KiwiSaver Scheme is registered under the KiwiSaver Act, and accordingly our members can access all of the government incentives through the Scheme;
- our members can expect exceptional service every step of the way. We are always here to help;
- we keep our members up-to-date on how their savings are growing with daily performance updates on our website (<http://www.huljich.co.nz>), quarterly newsletters, transaction statements and annual reports;
- you can trust us to always act in your best interests; and
- we promise to make KiwiSaver easy from the day you join to long after you retire.

\* No person, including Trustees Executors Limited, provides any guarantee in respect of the Scheme.

## The Principles for Responsible Investment

As a signatory of the United Nations Principles for Responsible Investment (UNPRI), we at Huljich are proud to adhere to the following Principles:



1. We will incorporate ESG issues into the investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and throughout time). We also recognise that applying these Principles may better align investors with broader objectives of society.

### Why do these Principles matter?

The Principles are a set of values and guidelines for corporate and investment activities to help address a range of problems that all societies and individuals are confronted with in seeking a better, more humane, and more stable and sustainable global economic system.

### How do the Principles relate to Socially Responsible Investment (SRI)?

The Principles are designed to be compatible with the investment styles of large, and often diversified, institutional investors that operate within a traditional fiduciary framework. The Principles apply across the whole investment business and are not designed to be relevant only to SRI products. However, the Principles do point to a number of approaches – such as active ownership and the integration of ESG issues into the investment analysis – that SRI and many corporate governance fund managers also practise.

### How will Huljich apply the Principles?

The Principles are aspirational goals and values that Huljich will incorporate within the way it develops and manages investment policies and processes for our investors.

### What do you mean by ‘aspirational’?

The Principles represent goals to work progressively towards attaining. Huljich strongly believes in the Principles and will strive to implement them wherever possible.

### To which investment products of Huljich will the Principles be applied?

The Principles will be applied right across Huljich’s entire funds management business at wholesale, retail, mezzanine, superannuation and KiwiSaver product levels.

## **What does this mean for Huljich investors?**

Implementing the Principles should ultimately result in increased returns and lower risk from investment decisions. There is increasing opinion that suggests managing environmental, social and corporate governance issues effectively can lead to better long-term financial returns to investors.

Additionally, the ethical and environmental concerns addressed by the Principles are seen as important in their own right by many of our investors.

## **What difference will the Principles make for investments?**

Ultimately the Principles will contribute to improved corporate social responsibility and investment performance by Huljich.

## **Does this mean you will exclude certain stocks from investment portfolios?**

Yes, Huljich applies both absolute and relative negative screening to all investment portfolios. Please refer to 2.7 and 2.8 of the Huljich Ongoing Equity Investment Process.

## **Who governs the Principles for Responsible Investment project?**

The PRD is governed by a 13-person board made up of 11 elected asset owner signatory representatives and two UN representatives from the UN Environmental Programme and the UN Global Compact. Further details can be found in the PRI Constitution, available from the secretariat ([info@unpri.org](mailto:info@unpri.org)).

## **How will I know if Huljich has complied with the Principles?**

The Principles are voluntary and aspirational. The commitments are a work in progress and signal that we are heading in the right direction. Huljich will complete an annual reporting survey which evaluates our progress that will be shared with our stakeholders and investors on a regular basis.

## **Who else has signed up to the Principles in New Zealand?**

A full list of institutions is available on the United Nations Principles for Responsible Investing website (<http://www.unpri.org/signatories/>).

## **Where can I find out more details about these Principles?**

Visit the United Nations Principles for Responsible Investing website (<http://www.unpri.org/>).

**Manager/Promoter Of  
The KiwiSaver Scheme  
Huljich Wealth Management  
(New Zealand) Limited**

Level 6, 12 Viaduct Harbour Avenue  
PO Box 328, Shortland Street  
Auckland 1140.

Freephone: 0800 20 40 60

Telephone: 09 913 3500

Facsimile: 09 913 3520

kiwisaver@huljich.co.nz

www.huljich.co.nz

**Directors Of The Manager**

Donald Thomas Brash

John Archibald Banks

Christopher Peter Huljich

**Trustee Of The KiwiSaver Scheme**

**Trustees Executors**

**Superannuation Limited**

Level 12, 45 Queen Street

PO Box 4197, Auckland 1140.

**Auditor**

**PricewaterhouseCoopers**

113–119 The Terrace

PO Box 243, Wellington 6140.

**Solicitor For The Manager**

**Chapman Tripp**

Level 35, 23–29 Albert Street

PO Box 2206, Auckland 1140.

**Solicitor For The KiwiSaver Scheme  
Trustee**

**DLA Phillips Fox**

50–64 Customhouse Quay

PO Box 2791, Wellington 6140.

**Accountant For The Manager**

**Battley and Johnson**

Level 5, 110 Symonds Street

PO Box 925, Auckland 1140.

**Registrar**

**Trustees Executors Limited**

**(Fund Services Division)**

Level 5, 10 Customhouse Quay

PO Box 409, Wellington 6140.

# Directory

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