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# MAS Responsible Investment Policy

**Issued by Medical  
Funds Management  
Limited**

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*Signatory of:*

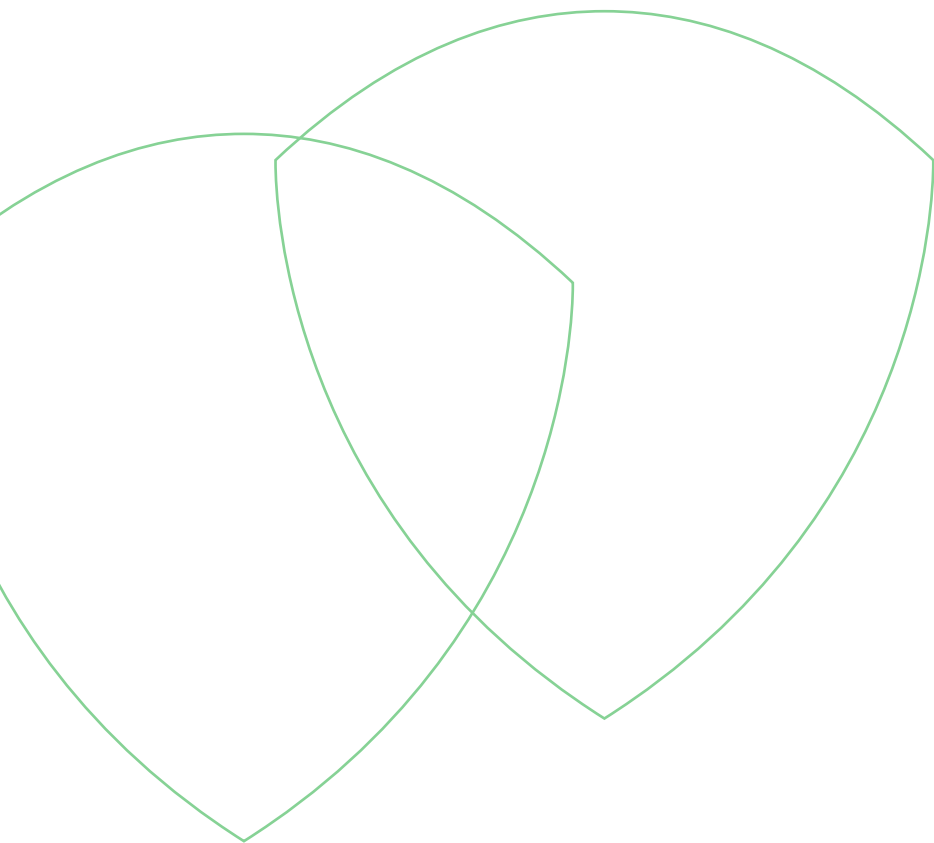
 **PRI** Principles for  
Responsible  
Investment

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The MAS Responsible Investment Policy covers all MAS Schemes and Group Funds (refer Schedule 1).



# 1. Purpose and scope

The MAS Responsible Investment Policy (Policy) describes the way that Medical Funds Management Limited (MFM), as the Manager of the MAS Schemes, and MAS Group Funds (refer to Schedule 1), implements its responsible investment beliefs. MFM is a wholly owned subsidiary of Medical Assurance Society New Zealand Limited (MAS). MAS (us, we, our) is the term used throughout this Policy to refer to all MAS Group companies and activity across all entities.

We consider the term 'responsible investment' to be interchangeable with other terms in common such as 'sustainable' that describe a similar approach to investing.

This Policy is designed to be read alongside other governing documents, including the Schemes' Product Disclosure Statements (PDS), Statements of Investment Policy and Objectives (SIPO), and Other Material Information booklets (OMI).

This Policy is reviewed annually, or more frequently if required, and approved by the MAS Group Boards.

Refer to a list of our key definitions in Schedule 3.

## 2. Guiding principles

MAS believes investing responsibly can support a sustainable future, and more specifically that:

- It is responsible to restrict investments in sectors based on their involvement in areas of harm
- Environmental, social and governance (ESG) factors, including climate factors, can impact long-term risk and return outcomes, and these should be incorporated into the investment decision making process.
- Active management can support a more sophisticated application of responsible investment principles beyond simple exclusions.
- Active ownership can support long-term shareholder value creation by providing investors with an opportunity to enhance the value of companies and markets.

### 3. Responsible investment approach

Our approach to responsible investment is as follows:

- a. Screening exclusions – we do not invest in companies that meet certain criteria, including fossil fuels, weapons, tobacco and very severe controversies.
- b. ESG integration – ESG factors, including climate factors, will be considered as part of the investment decision making process.
- c. Active ownership – we arrange for proxy voting at company meetings and engagement with investee companies.
- d. Industry associations – our membership of relevant industry associations provides independent assessment and endorsement of our responsible investment programme.

This Policy is applied in its entirety to our internal insurance reserves and company money, in addition to the MAS Schemes.

While we do not require private equity investments to fully align with this Policy, we will assess the responsible investment credentials of private equity investments prior to investing. There is no ongoing screening of these funds.

#### a. Screening exclusions

We do not invest in companies that fail to meet certain criteria. We have agreed with our specialist investment managers that they will apply our exclusion criteria (refer Schedule 2) as part of their approach to responsible investing. These exclusions also apply to any derivatives held in the MAS Schemes and Group Funds.

Our exclusion criteria are designed to be consistent with our guiding principles. Specifically, exclusions remove activities that we believe do not support a sustainable future.

We have adopted a targeted approach to exclusions. This approach allows for certain approved exceptions to the exclusion screens, where there is not a practical alternative. For example, we do not exclude investment in companies with exposure to metallurgical coal, which is a key ingredient in steel production for which there is no cost-effective substitute. All exceptions to our exclusion criteria must be approved by the MAS Group Boards.

Screens cover level of involvement, category of involvement, and incorporate analysis to ensure holdings are compliant with this Policy. Screens are based on revenue thresholds. For example, the MAS Schemes and Group Funds are restricted from holding companies that generate any revenue from the manufacture of tobacco, tobacco-based products, or nicotine alternatives, for example, e-cigarettes.

A full list of our exclusion criteria, and approved exceptions can be found in Schedule 2.

Sanctions: The MAS Group Boards must approve any country or group exclusions imposed over and above New Zealand law and regulation and this Policy.

## Implementation methodology

This Responsible Investment Policy, including our exclusion criteria (refer Schedule 2), is provided to our specialist investment managers who use their respective ESG data analytics provider(s) to determine which exclusion screens best match our criteria. Our specialist investment managers and/or the ESG data analytics provider(s) then apply these screens to securities to determine a company's involvement in activities that are subject to our screening exclusions. Identified securities are then restricted from being held in our Schemes or Group Funds.

For securities not covered by the screens provided by the ESG data analytics provider(s), the security either must be assessed and meet the approval of the specialist investment manager or undergo a separate assessment by the ESG data analytics provider, to ensure it meets the criteria of this Policy.

### b. ESG integration

We require our specialist investment managers to incorporate ESG factors, including climate factors, into their investment decision making process.

We consider a manager's ESG capabilities when conducting a manager selection process and continue to review their capabilities on a regular basis once appointed. We qualitatively assess the manager's responsible investing approach and integration into its investment process. Examples may include, but are not limited to, how they consider climate change, if they have suitable resources to appropriately consider ESG factors, and which responsible investment entities they are a signatory of.

Where possible, we complement this qualitative assessment with quantitative analysis of the manager's portfolios using our ESG data analytics provider, MSCI. This process is designed to ensure the investment manager's ESG assessment is reflected in the portfolio. Our quantitative analysis compares the manager's portfolio to a recognised benchmark of the asset class and assesses ESG factors such as exposure to green revenues<sup>1</sup>. The degree of relevance and materiality for the quantitative analysis can vary across different asset classes.

On top of screening for exclusions, for ESG integration a portion (57% benchmark) of our international equities, is invested in a customised strategy that combines the MSCI Climate Paris Aligned Index Methodology with MAS' exclusions. The strategy seeks to reduce exposure to climate risk and increase exposure to positive climate themes, while using an optimisation process to minimise the tracking error relative to the parent index, the MSCI All Country World Total Return Index.

ESG risk assessment is a developing field. As the industry evolves, greater data accessibility, improved accuracy, and/or changes to the reported exposure to exclusions, may lead to the identification of holdings that no longer meet our exclusion criteria. If this occurs, the newly excluded investment will be divested as soon as practicable.

<sup>1</sup>For example, alternative energy, and energy efficiency.

## **c. Active ownership**

### **Share voting**

As a shareholder of publicly listed companies, MAS has the right to vote on investors' behalf (proxy vote) at shareholder meetings. We regard proxy voting as an important fiduciary responsibility.

MAS engages the services of a proxy voting agent, who votes according to our instructions.

Our latest proxy voting report is published on our website at [mas.co.nz/responsible-investments](https://mas.co.nz/responsible-investments)

We endeavour to vote on all shareholdings via our proxy voting agent. Our ambition is to use shareholder voting rights to influence companies to conduct their business in a socially and environmentally responsible manner.

The proxy voting activities and the voting agent's guidelines, are reviewed annually to ensure alignment with our guiding principles.

### **Engagement**

Engaging with companies to promote our ESG beliefs is an important part of our investment process.

We engage with companies to advocate for human rights, labour rights, anti-corruption, and the environment. Engagement activities are executed on our behalf by our agent according to our instructions. Our latest engagement report is published on our website at

[mas.co.nz/responsible-investments](https://mas.co.nz/responsible-investments)

Companies are identified and engaged with in collaboration with other investment managers within the industry. Working with other managers enables us to leverage the collective shareholder influence of numerous investors and achieve greater impact than we could on our own.

## **d. Industry associations**

MAS is a signatory to the UN Principles of Responsible Investment (UNPRI) and the eligible funds of Schemes identified in Schedule 1 are certified by the Responsible Investment Association of Australasia (RIAA).

UNPRI is a leading proponent of responsible investment and supports an international network of investor signatories to incorporate ESG factors into investment and ownership decisions.

RIAA promotes responsible investing and a sustainable financial system in Australia and New Zealand. RIAA certification of our funds signifies MAS has implemented an investment style and process that systematically takes into account ESG considerations, and this investment process reliability has been verified by an external party.

MAS believes the purpose of these organisations is aligned to our guiding principles. Our membership of UNPRI and certification by RIAA provides an independent assessment of our responsible investment programme and signals our commitment to investing responsibly for a sustainable future. Membership also helps us to maintain best practice and remain up to date on industry developments.

## 4. Implementation and governance

### Exclusions

The list of companies we will not invest in is based on our exclusion criteria which can be found in Schedule 2. Any changes to these criteria are approved by the MAS Group Boards and implemented by our specialist investment managers.

### Monitoring

Our specialist investment managers monitor our investments against the exclusion screens. These screens are formally reviewed, by their ESG data analytics provider on an annual basis, or reviewed and updated more frequently if required, to ensure the screens remain appropriate and best reflect our exclusion criteria. There is no ongoing exclusion monitoring for private equity investments.

The Investment Committee oversees the Responsible Investment Policy, which is approved by the MAS Group Boards. This Policy will be reviewed annually by the Investment Committee, or more frequently if required. The Investment Committee is to be kept informed on the implementation of this approach, including confirmation that exclusion screens as described in Schedule 2 have been applied appropriately.

Key responsibilities for the maintenance and implementation of this approach:

Name of owner	Area of responsibility
MAS Group Boards	<ul style="list-style-type: none"><li>• Approve this Policy</li><li>• Approve exclusion criteria</li></ul>
Investment Committee	<ul style="list-style-type: none"><li>• Endorse Policy and exclusion criteria to Board for approval</li></ul>
MAS CEO	<ul style="list-style-type: none"><li>• Monitoring of Policy</li><li>• Reporting to Investment Committee</li></ul>

### Divestment timing

Exclusion screens are applied at least quarterly. Any investment that does not comply with this Policy in the most recent screening will be divested as soon as reasonably practicable, usually within 4 weeks, taking into consideration factors such as market liquidity. Following any changes made to the exclusion criteria, divestment will occur at the next quarterly screening, or earlier if practicable.

### Climate change

Climate change is an important issue for MAS. We are committed to fulfilling our disclosure and reporting requirements under the newly introduced Aotearoa New Zealand Climate Standards. The new framework and standards aim to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.



# 5. Schedules of the Policy

## Schedule 1

MAS Schemes:

- MAS KiwiSaver Scheme (eligible Funds are RIAA Certified<sup>1</sup>)
- MAS Retirement Savings Scheme (eligible Funds are RIAA Certified<sup>1</sup>)
- MAS Investment Funds (eligible Funds are RIAA Certified<sup>1</sup>)

MAS Group Funds:

- Medical Insurance Society Limited
- Medical Life Assurance Society Limited
- Medical Funds Management Limited
- Medical Assurance Society New Zealand Limited

## Schedule 2 – List of exclusions

Our investment managers use their respective ESG data analytics provider(s) to determine a company’s involvements in the below activities and adopt screens that best match this list of exclusions.

Sector	Product involvement	Threshold for exclusion
Fossil fuels	<p><b>Oil, gas, and coal</b></p> <p>Companies that generate 10% or more of their revenues from:</p> <ul style="list-style-type: none"> <li>• the exploration, extraction, refining, or processing of oil, gas, or coal</li> <li>• the supply of equipment and services to oil and gas exploration</li> <li>• oil, gas, or coal-based power generation.</li> </ul>	10% or more of revenues
Weapons	<p><b>Controversial weapons</b></p> <p>Companies that derive any revenue from the manufacture or sale of controversial weapons such as cluster munitions, antipersonnel mines, or nuclear explosive devices.</p>	0% or more of revenues
	<p><b>Civilian firearms</b></p> <p>Companies that generate 10% or more of their revenue from production and distribution of firearms or small arms ammunition intended for civilian use.</p>	10% or more of revenues
	<p><b>Military contracting</b></p> <p>Companies that generate 10% or more of their revenue from weapons systems, component and support systems, or weapons services.</p>	10% or more of revenues

<sup>1</sup>The Responsible Investment Association of Australasia does not currently assess cash funds as part of their Certification Programme.

Sector	Product involvement	Threshold for exclusion
Tobacco	<p data-bbox="341 226 659 253"><b>Production or Manufacture</b></p> <p data-bbox="341 275 887 365">Companies that generate any revenue from the production or manufacture of tobacco, nicotine alternatives or tobacco-based products.</p> <p data-bbox="341 427 963 488"><b>Retail sale, distribution, license, or supply of essential products</b></p> <p data-bbox="341 506 967 566">Companies that generate 10% or more of their revenue from the:</p> <ul data-bbox="341 584 935 786" style="list-style-type: none"> <li>• retail sale of tobacco products</li> <li>• distribution of tobacco products</li> <li>• licensing to tobacco products</li> <li>• production and supply of essential products for the production of tobacco products.</li> </ul>	<p data-bbox="995 226 1270 253">0% or more of revenues</p> <p data-bbox="995 427 1278 454">10% or more of revenues</p>
Controversies	<p data-bbox="341 837 639 864"><b>MSCI Controversy scores</b></p> <p data-bbox="341 887 963 976">Companies involved in 'very severe' controversies that score 0 ('red flag') on MSCI's ESG Controversy criteria are excluded from all portfolios.</p>	<p data-bbox="995 837 1251 898">All companies that are non-compliant</p>

### Approved exceptions to exclusions listed in Schedule 2

- Metallurgical coal: We do not exclude companies with revenue exposure to metallurgical coal. Metallurgical coal is used as a primary ingredient in steel production and there is presently no cost-effective substitute available. Thermal coal can relatively easily be replaced by other fuel sources and constitutes the majority of all coal produced.

### Schedule 3 – Key definitions

- Investment: includes equity and debt securities.
- Companies: refers to registered companies.
- Fossil fuels: non-renewable hydrocarbons including oil, gas, and coal. Fossil fuel exclusions include any companies that have their primary business activity in any of the extended subsectors listed in Schedule 4.
- Controversial weapons: all controversial weapons prohibited under New Zealand legislation (including cluster munitions, anti-personnel mines and nuclear explosive devices).
- Manufacture: the making of goods, including primary production.
- Sale: the selling of goods and/or services.
- Distribution of tobacco products: companies involved in the wholesale of Tobacco Products to retailers and other distributors.
- Licensing to tobacco products: companies that license brand names to Tobacco Products.
- Tobacco products: includes, but may not be limited to, tobacco, nicotine alternatives or tobacco-based products.

### Schedule 4 – Industry classification benchmark

Subsector	Definition
<b>Integrated Oil and Gas</b> 60101000	Companies that engage in all three fields of petroleum production: Extraction (upstream), Transportation (midstream), and Refining and Marketing (downstream).
<b>Oil: Crude Producers</b> 60101010	Companies engaged in the exploration for and drilling, production and supply of crude oil on land.
<b>Offshore Drilling and Other Services</b> 60101015	Companies that primarily explore and drill for oil and gas in offshore areas.
<b>Oil Equipment and Services</b> 60101030	Suppliers of equipment and services to oil fields and offshore platforms, such as drilling, exploration, seismic-information services, and platform construction.
<b>Coal</b> 60101040	Companies that mine, process, and market coal.

## Global Industry Classification Standard

<b>Subsector</b>	<b>Definition</b>
<b>Sub-industry Definition</b> <b>Oil &amp; Gas Drilling</b> 10101010	Drilling contractors or owners of drilling rigs that contract their services for drilling wells.
<b>Oil &amp; Gas Equipment &amp; Services</b> 10101020	Manufacturers of equipment, including drilling rigs and equipment, and providers of supplies and services to companies involved in the drilling, evaluation and completion of oil and gas wells.
<b>Integrated Oil &amp; Gas</b> 10102010	Integrated oil companies engaged in the exploration and production of oil and gas, as well as at least one other significant activity in either refining, marketing and transportation, or chemicals.
<b>Oil &amp; Gas Exploration &amp; Production</b> 10102020	Companies engaged in the exploration and production of oil and gas not classified elsewhere.
<b>Coal &amp; Consumable Fuels</b> 10102050	Companies primarily involved in the production and mining of coal, related products and other consumable fuels related to the generation of energy. Excludes companies primarily producing gases classified in the Industrial Gases sub-industry.