

# Milford 2023



**Sustainability  
Statement**



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# Sustainability Statement 2023

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# Our Philosophy

The Milford investment team has always looked for the best companies. It is clear to us the best companies are those committed to sustainable practices.



Over time, we believe these businesses will deliver better environmental and social outcomes, more resilient business models and ultimately, higher shareholder returns.

At Milford, our approach to sustainability reflects our active management philosophy. We have a large team using a wide range of strategies to identify the best investments in changing market conditions.

This includes a dedicated Sustainable Investment team researching best practice across Environmental, Social and Governance (ESG) factors across the sector we invest in.

As well as enabling us to identify areas of ESG related risks and opportunities across our holdings, this research underpins our communication with companies to drive them to improve their sustainability performance.

Every company needs to act to achieve the transition to a more sustainable future. We are acutely aware of our capacity as shareholders to drive positive change and, rather than just avoid harm, we believe it is our duty to use our seat at the table to help the transition.

We embrace this opportunity by working with company management, boards and policy makers to push for change. This is how we can best play our part in the transition to a more sustainable future.

# Our Philosophy

## What does this mean for your investments?

A deep understanding of sustainability issues enables us to more effectively identify sustainability risks and opportunities and engage with companies to improve sustainability factors. We cannot avoid sustainability risk, rather we seek to understand and manage them. This is important because the landscape is rapidly changing through regulation, consumer trends and investor awareness. We believe this capability can improve our investment outcomes and allows us to actively engage with companies to drive positive change.



# Our Sustainability Approach

 Research and analysis underpins our approach to sustainable investing at Milford.

The Sustainable Investment team is part of the broader Investment team responsible for managing the Milford Funds. This enables us to integrate our sustainability research into our company analysis and investment decision making process.

We use Milford's ESG Checklist to evaluate the companies we invest in. The Checklist is an internally developed assessment tool used to evaluate each company's environmental, social and governance performance, highlight sustainability risks

and opportunities and identify the areas where the company can improve its sustainability performance.

While the ESG Checklist is the core of our sustainability process, engagement is our primary tool for action. It is how we push for change and how we make a difference. We believe this is simply good stewardship, and we engage in a variety of complementary ways to maximise our impact on the companies we invest in.

## We have two simple objectives:

1. To enhance the risk adjusted returns of our Funds.
2. To help drive the transition to a **more sustainable future.**

## What is Sustainable Investment?

We have adopted the Responsible Investment Association Australasia (RIAA) definition of Sustainable Investment as a **'broad-based approach to investing which factors in people, society and the environment, along with financial performance, when making and managing investments'**.

## The Exclusions Gate

Adherence to our ESG Exclusion List.



## Sustainability Analysis

In depth analysis of every company we invest in.

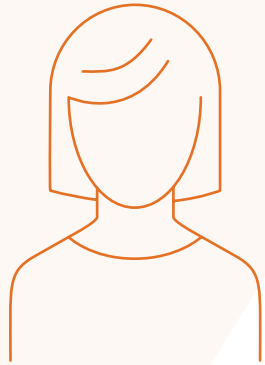


## Good Stewardship

Engagement and proxy voting to drive change.



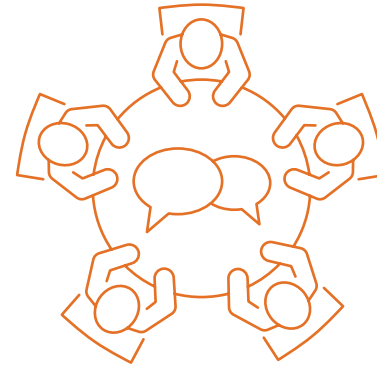
# Our Sustainable Investment Team



**Head of Sustainability**

## Primary roles

- 1** Enable a deep understanding of sustainability issues across the Investment Team.
- 2** Guide and lead engagement activities to enable positive change.

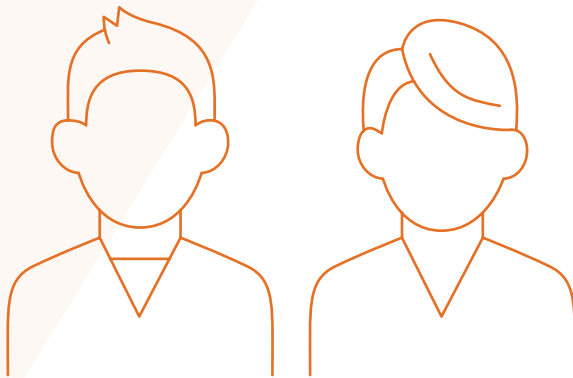


## Collaboration

Works closely with Analysts and Portfolio Managers and take an integrated approach.

## Secondary roles

Oversee our sustainability processes, participate in a variety of sustainability memberships and help inform and educate the broader Milford staff, clients and the wider industry.



**Analysts**

## Sustainability Governance

**The Sustainable Investment Team is part of Milford's broader Investment Team to ensure our sustainability research, management and stewardship is embedded in our investment approach.** As such, The Head of Sustainable Investment reports to the Chief Investment Officer. Governance and oversight of the Sustainable Investment approach is provided by the Board Investment Committee.



# Our Core Sustainability Processes

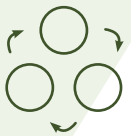
We use two tools to reflect our sustainability research and values in our decision making process; The ESG Checklist and the Controversy Matrix.

# Our ESG Checklist

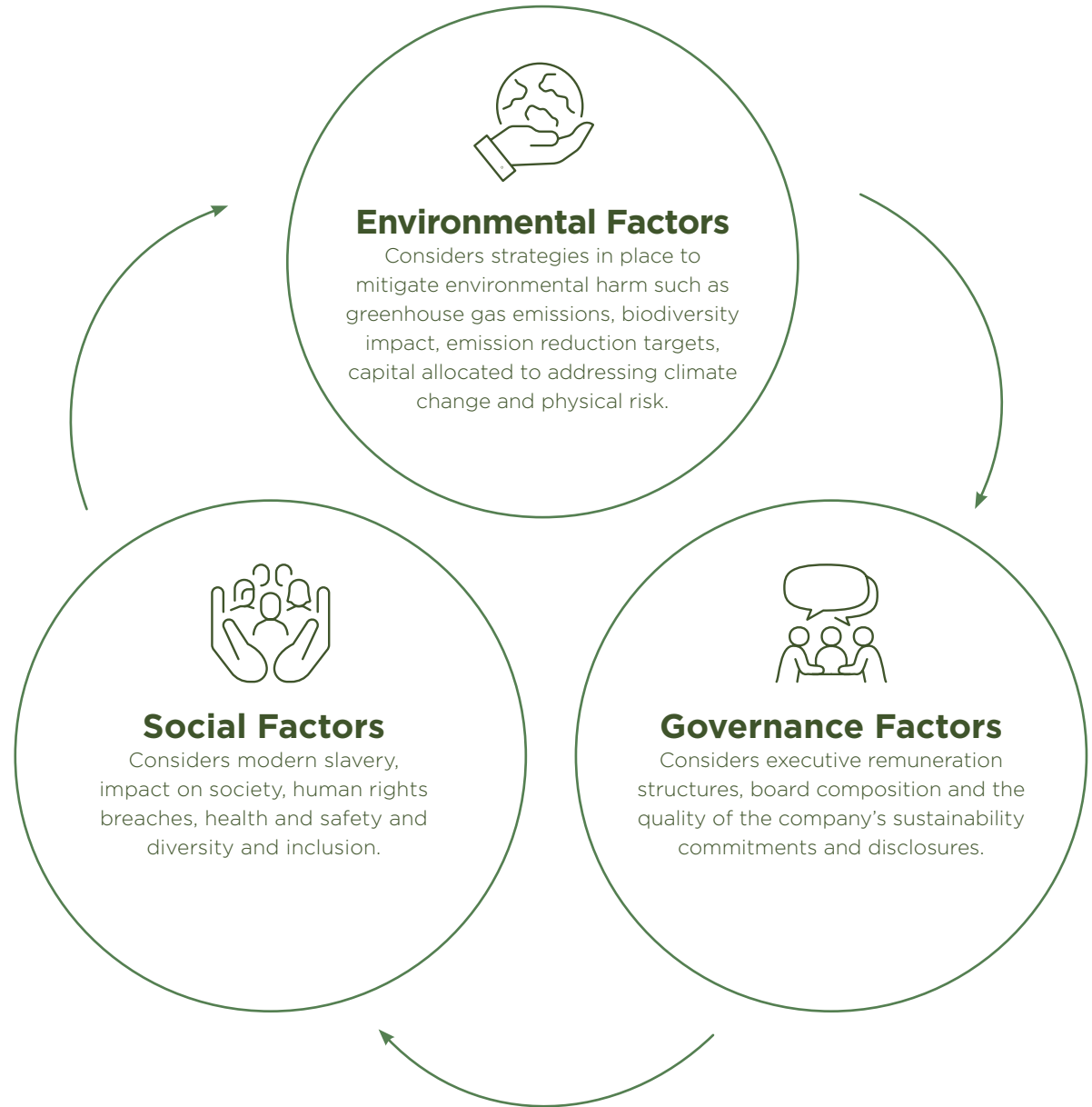
Evaluating a business' exposure to climate change and social harm, and how these risks are being managed, is an essential part of investment analysis.



At Milford, we do this using our ESG Checklist, for every company we invest in.



The ESG Checklist is an internally developed tool that assesses over 25 different ESG factors.





# Our ESG Checklist

The primary output of the ESG Checklist is an assessment of the company's performance in each individual area of ESG, the analysis of sustainability risks and opportunities and the identification of areas for improvement to help determine our engagement priorities.

The Checklist is completed by the relevant Company Analyst using Milford's sustainability research and best practice guidance, external ESG data from Morgan Stanley Capital International (MSCI), peer comparisons and the Analyst's own knowledge of the company's historic performance and likely future trajectory.

The Checklist provides a separate score for Environment, Social and Governance, which are combined into a blended score of Fail, Poor, Neutral or Positive for each company, weighted for its environmental and social impact. Any company that scores a Fail is added to our ESG Exclusion List.

Our view on each company's sustainability performance, including its ESG Checklist rating, is incorporated into our Investment View as one of six identified factors. The Investment View summarises an Analyst's recommendation for investment which impacts the size of any investment made. The ESG Checklist is updated following material new information that affects our ESG view, including engagement outcomes.



## Fundamental analysis



Identification of risk and opportunities  
Identification of engagement priorities  
Environmental, social and governance scores



Weighted ESG score  
and sustainability view



Companies that Fail added  
to the ESG Exclusion List



Investment view

## Additions to the ESG Exclusion List

If a company we invest in has a Severe rated controversy, or its ESG Checklist rating changes to a Fail, the company is added to our ESG Exclusion List. This requires our investment to be divested. If the Portfolio Manager believes this will result in a materially negative investment outcome, we will instead add the company to our Restricted Trading List with a Buy restriction. This means we are prevented from buying the company but allows the Portfolio Manager three months to sell the position and minimise the impact on investment returns. All companies added to the ESG Exclusion List or Restricted Trading List are periodically reviewed and removed if the issue has been appropriately rectified.

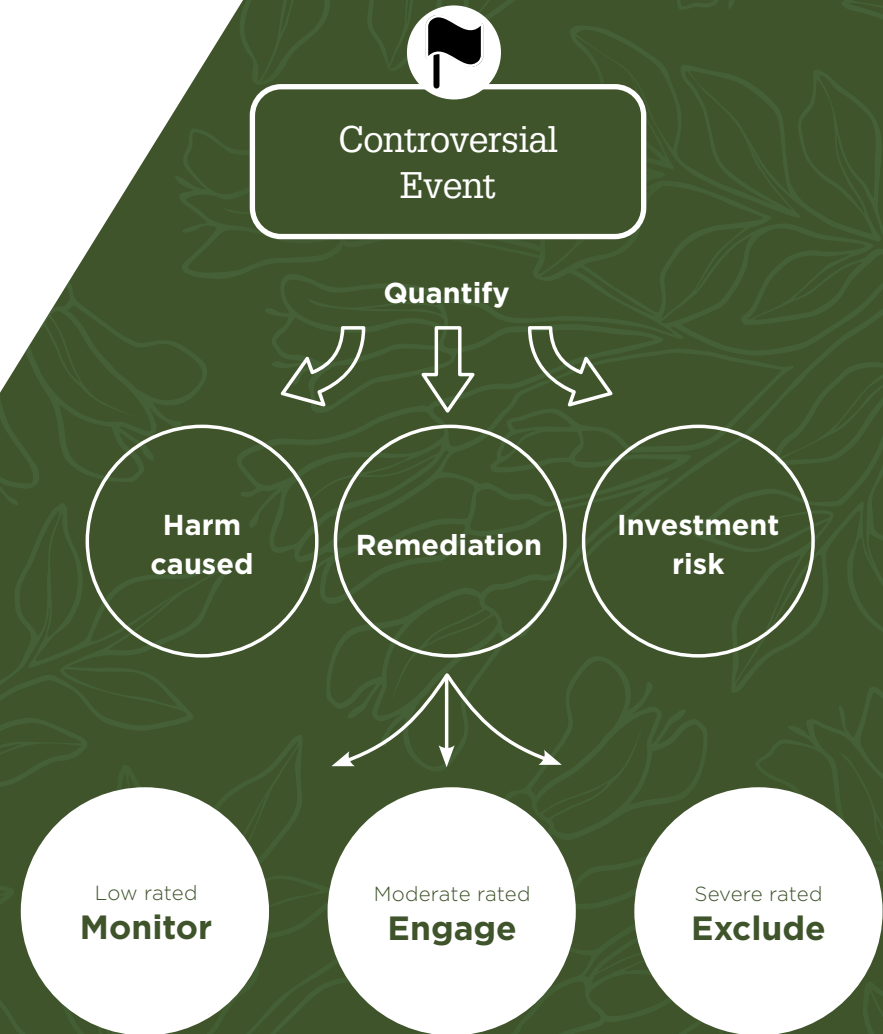
# Our Controversy Matrix



Companies can make critical errors that have a negative impact on society, its customers or its staff. It is important that we respond to these controversies appropriately and in the best interests of those impacted and our clients.

We assess any controversies across our holdings using our internally developed Controversy Matrix. This tool assesses eight factors to determine the cause of the controversy, the harm caused, any endemic risk and remediation undertaken.

- **Severe rated controversies:**  
Added to our ESG Exclusion List.
- **Moderate rated controversies:**  
Lead to an engagement with the company for greater understanding or remediation.
- **Low rated controversies:**  
Monitored for ongoing developments.





# Stewardship & Engagement

The New Zealand Stewardship Code defines stewardship as ‘creating and preserving long term value for current and future generations by responsibly managing and allocating capital’.

We translate our commitment to good stewardship into action via our engagement and proxy voting activities.

# Stewardship Principles

These principles guide our stewardship activities at Milford. They reflect the research we have undertaken into the most effective way to achieve the sustainable transition. Our core principles guide our stewardship process and long-term objectives. Our Environment, Social and Governance principles are specific to the stewardship activities in those areas.

We strive to achieve outcomes from our engagement and proxy activities that align with these principles as the most effective way to achieve the transition to a more sustainable future.

## Core Principles

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We believe in driving change, not simply avoiding harm.

We acknowledge that ‘transition’ means change over time, not change overnight. We target ongoing improvements from our engagements, and believe these activities support risk adjusted returns.

We accept that the sustainable transition will require compromise. We invest in crucial transition activities and expect companies to minimise any negative impacts to ensure sustainable, long-term business models.

# Stewardship Principles



## Environment

Global warming is an existential threat and must be addressed. Further, the warming impact of atmospheric GHG emissions is compounding, meaning time is of the essence.

We expect companies to set decarbonisation targets aligned with the most current and credible guidance offered by climate science, which is at present Net Zero operations by 2050.

Protecting ecosystems and biodiversity is key to the sustainable transition. We expect companies to prioritise pollution, water and waste management alongside emission reductions.



## Social

We believe in a 'just transition' that promotes sustainable development in a fair and equitable way for all members of the global population.

We expect companies to maintain their social licence to operate by actively addressing the scope of their social impact on their customers, employees, local communities, and society as a whole.

We expect companies to identify modern slavery risk in their supply chains and to take action to address this risk.



## Governance

We believe effective boards are crucial to deliver long-term company performance. This is best delivered by prioritising a Board's skill set, capability, capacity and diversity.

Appropriate remuneration structures should be aligned with shareholders, incentivise management to excel and build long-term shareholder value.

We promote transparent disclosure as this attracts shareholder capital, provides confidence to all stakeholders, and demonstrates integrity and a positive culture.

### Harm definitions

We define environmental harm as global warming, damage to ecosystems and biodiversity, and the physical impact on human livelihood including infrastructure and economic cost.

We define social harm as any action damaging individuals, communities or society as a whole. This includes physical harm, human rights, modern slavery, cultural destruction, discrimination and harassment and poor health and safety.



# How We Engage

We define engagement as ‘using our influence to encourage the companies we invest in to become more sustainable’.

We believe this is our greatest opportunity to make a positive impact due to:

- Our understanding of sustainability issues and the transition to more sustainable business models, enabling educated and impactful engagements.
- Our size and active management approach, which provides influence and access to company management and Boards.
- Our internal resource and capability to undertake long and difficult engagements with a range of companies.
- The embedding of sustainability in our Investment Team, enabling a team approach to engagement.

# Overview



We undertake a wide range of engagement activities to maximise our influence in working towards our Stewardship Principles.

## 1 Proactive engagements

We undertake strategic engagements to affect change with the companies we invest in that have the most ability to cause harm and where we have the most influence.

We undertake informal engagements by asking sustainability focused questions and promoting improvement in our regular dialogue with company management teams and boards. This should help drive change by demonstrating that active investors value and prioritise sustainable practices.

## 2 Reactive engagements

We respond to unexpected controversies such as significant breaches of environmental or social requirements in accordance with our Controversy Matrix.

## 3 Active proxy voting

We use the power of voting to communicate our expectations and agitate for change. We commit to voting all proxies where possible and engage with Boards to share our concerns when required.

## 4 Collaborative engagements

Collaboration between investors can increase influence and ability to achieve outcomes. We collaborate wherever there is the opportunity, including as a member of Climate Action 100+.

## 5 Policy engagements

We engage with policy makers where possible, such as collaborating with industry bodies and responding to regulatory proposals.

# Strategic Engagement Process

Our strategic engagements have the most potential to deliver direct, measurable change.

The target companies are selected based on their ability to cause environmental and social harm, plus our expected level of influence due to the size of our holding or our position in the local market.

We determine the specific engagement outcomes we seek for each company using our ESG Checklist and sustainability best practice research. These outcomes aim to progress the transition to a more sustainable future in line with our Stewardship Principles, reduce sustainability risk and improve the outlook for long-term shareholder returns.

We take a constructive and collaborative approach to our engagements, starting the process with the most appropriate company personnel to share our research and targeted outcomes, and learn more detail about the company's approach before making our recommendations.

While we acknowledge that change can take time, we do expect progress from our target companies, and will advance engagements via our escalation framework if required.





# Milford Escalation Framework

## Indicative Timeframe

# 6-12 months

### 1 Trigger

No / dismissive response from company personnel.

#### Action

Escalate to CEO, Non-Executive Directors or Chair of target company.

### 2 Trigger

No / dismissive response from CEO, Non-Executive Directors or Chair .

#### Action

Contact other investors to raise the issue and collaborate.  
*AND/OR*  
Publicise the issue in Milford disclosures.

## Indicative Timeframe

# 12-24 months

### 3 Trigger

Refusal to cooperate or adopt recommendations by company personnel, management and board.

#### Action

Vote against relevant resolutions and/or Directors at the next AGM.  
*AND/OR*  
Publicise the issue in broader media.  
*AND/OR*  
Divest based on ESG risk and add to the ESG Exclusion List.

### 4 Trigger

Continued refusal to cooperate or adopt recommendations by company personnel, management and board.

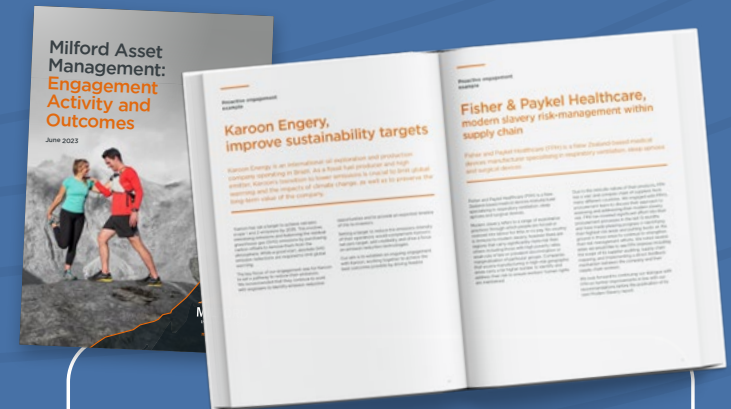
#### Action

Raise resolution at next AGM to deliver change.  
*AND/OR*  
Divest based on ESG risk and add to the ESG Exclusion List.

# How does engagement impact our investment decisions?

Our engagements should reduce the sustainability risk of the target companies as they address sustainability harm, the ultimate cause of this risk. As such, there is a feedback loop between the identification

of engagement opportunities in the ESG Checklist, and the reflection of any improvement as a result of engagement back in the ESG Checklist and Investment View.



## Engagement Disclosure

We disclose the individual companies we are targeting in our strategic engagements, plus examples across a range of our other engagement activities in our [Engagement Activities and Outcomes](#) report published on our website. We want to share information on our engagements to ensure accountability for our targeted outcomes and highlight sustainability issues to other stakeholders.

# Proxy Voting Process

At Milford, we are committed to actively voting at every opportunity on behalf of our investors.



The ability to vote for directors and resolutions that support more sustainable practices are an important tool for investors to drive change.

Our proxy votes are cast in alignment with our Stewardship Principles and the internal guidelines developed by our Sustainable Investment team.

The Sustainable Investment team coordinate our proxy voting activities with the final decision made by the Company Analyst considering any advice provided by the Sustainability team and research from Institutional Shareholder Services (ISS), an independent proxy advice provider.

We engage with company directors on material issues to communicate our governance expectations and push for improvements, supported by our proxy votes.

We disclose the detail of our proxy voting activities on our [website](#), including the votes cast by company and the proportion of votes cast against company management recommendations.



# Milford's ESG Exclusions

We use our ESG Exclusion List to reflect New Zealand law and ratified treaties and protect investment returns from sustainability risks we believe we cannot address through our engagement activities.

# Our ESG Exclusion List



Milford's integrated ESG investment process results in four types of exclusion:

- 1** Industry exclusions based on business activities.
- 2** Companies that Fail our ESG Checklist.
- 3** Companies that have a Severe rated controversy.
- 4** Companies subject to divestment via our engagement Escalation Framework.

## Exposure to Excluded Activities

We do not allow direct investments into companies with any exposure to excluded categories, no matter how small. However, Milford can use indirect investments for market exposure and hedging purposes, such as futures and options. We monitor the extent to which these indirect investments have exposure to companies on the ESG Exclusion List to ensure the exposure is no more than 1% in aggregate for each Milford Fund.

# Industry Exclusion Categories

We exclude all companies that undertake the following business activities.

We apply these exclusions to reflect New Zealand and Australian law and international conventions ratified by New Zealand and Australia, and screen for newly identified companies within these categories on a monthly basis.

Companies added to the ESG Exclusion List due to our ESG Checklist, Controversies Matrix or Escalation Framework are periodically reviewed and are removed from the ESG Exclusion List when adequate improvements have been made. The current, full list of securities on the Milford ESG Exclusion list is available on our [website](#).

## Expansion of Excluded Categories Activities

We believe engagement has a greater capacity to deliver positive change than broad-based industry exclusions. However, we will continue to evaluate how we can make the most positive impact in activities with the potential to cause harm and will adjust our excluded categories if we deem this most effective.

- ⊗ Production or sale of anti personnel land mines that are not compliant with the Anti-Personnel Mines Prohibition Act 1998.
- ⊗ Production, design, testing, assembly, or refurbishment of nuclear explosive devices.
- ⊗ Production or development of cluster munitions.
- ⊗ Companies involved in the manufacture of civilian automatic and semi-automatic firearms, magazines or parts.
- ⊗ Manufacture of tobacco and alternative tobacco products.
- ⊗ Manufacture of recreational cannabis products.



# Our Assurance Processes

We monitor our adherence to our Sustainability Strategy via regular checks and reporting.

# Assurance Processes

The checks described on this page are designed to manage our risk and ensure we are fulfilling our commitments to our clients and sustainability memberships.

We report relevant sustainability data including a summary of key checks, the GHG emissions of our portfolios and engagement activity, to our Investment Management Committee on a quarterly basis.

## Monthly

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- Monitor indirect exposure to the excluded categories in the prior month to ensure it remains within the Milford set limit (1% of each Fund) and rectify if required.
- Audit and count engagement activities undertaken and documented, to ensure they are pushing for change and demonstrating to companies the value to investors of good sustainability performance.
- Evaluate proxy votes cast to ensure all votes have been cast and voted in line with our Stewardship Principles and considering advice from our external proxy voting adviser. We review and publically disclose all votes against management recommendations and shareholder raised resolutions.

## Quarterly

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- Confirm completion of the ESG Checklist for every company we invest in.
- Monitor the Milford Fund's greenhouse gas emissions and proportion of underlying investments with a net zero target.

## Annually

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- Test relevance and appropriateness of our Sustainability Strategy to achieve our objectives of enhancing risk adjusted returns and helping drive the transition to a more sustainable future.

## As Required

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- Audit of control activities and review of Milford's sustainability disclosures.



# Process Overview

We believe we are best able to fulfill our commitments by ensuring we have a deep understanding of sustainability issues, a culture of respect for our environment and society and dedication to the best outcomes for clients. This is why detailed sustainability research is integral to our approach, we embed sustainability in our investment process and share knowledge across the Milford business.





# Conflicts of Interest

Identifying and managing conflicts or interest is part of Milford's commitment to being a good steward of capital.

Milford is governed by an internal Conflict of Interest policy to minimise the potential adverse impact of conflicts of interest on clients and ensure that the quality of financial services is not significantly compromised. The policy applies to our stewardship activities, and the Milford team are committed to acting in the best interests of all our stakeholders in line with our Stewardship Principles, rather than individual investor considerations.

# Sustainability Memberships and Service Providers



We are members of a number of industry organisations that help us progress our sustainability strategy, processes and stewardship activities. We use a number of independent service providers to inform our sustainable investment activities.

## Responsible Investment Association of Australasia (RIAA)

RIAA champions responsible investing and a sustainable financial system in Australia and New Zealand. As members, we commit to RIAA's mission to promote, advocate for, and support approaches to responsible investment that align capital with achieving a healthy and sustainable society, environment and economy.

We use our membership to grow our knowledge of sustainability best practice via their research, provide input to policy considerations and meet likeminded investors for collaboration opportunities. We were named a RIAA Leader in 2022 and 2023, and our Milford KiwiSaver Active Growth Fund has been RIAA Certified, demonstrating we have achieved the strict operational and disclosure practices required.

## United Nations Principles of Responsible Investment (UNPRI)

Milford first made a public commitment to explicitly and consistently incorporate environmental, social and governance factors into our investment decision making by becoming a signatory to the United Nations Principles for Responsible Investment (UNPRI) in 2018. UNPRI is the world's leading proponent of responsible investment. As

a UNPRI member, we benefit from UNPRI's sustainability research and best practice advice and can participate in collaborative engagements. We also complete an annual assessment tool. The results of this assessment are published in Milford's UNPRI Transparency Report, available on our website.

## New Zealand Stewardship Code

Milford became a Founding Signatory to the New Zealand Stewardship Code on its establishment in 2022. The Code is an industry-led framework developed to define and promote sustainable investment management practices. Our participation signifies our commitment to the Code's nine principles to achieve its three interconnected goals of effective stewardship. The Code has already proved an effective collaborative platform in New Zealand and we are working with fellow signatories to grow and mature stewardship in New Zealand.

## Climate Action 100+

Milford became a member of Climate Action 100+ in 2022 with the aim of growing our engagement activities and increasing our impact with global companies, where we often have smaller holdings and less influence. Our

engagement activities are aligned with the three goals of Climate Action 100+; to achieve clear commitments to cut emissions, improve governance and strengthen both climate-related financial disclosures and transition plan. We are signatories to number of collaborative engagements and this experience is enhancing our independent engagement capabilities.

## Morgan Stanley Capital International (MSCI)

We use MSCI data to facilitate our sustainable investment analysis and reporting. This includes information for our business activity exclusions, data for the ESG Checklist and portfolio analysis tools.

## Institutional Shareholder Services (ISS)

We use ISS for independent advice on proxy voting and to cast our proxy votes. ISS provide a recommendation and supporting research for every proxy vote across our holdings that we consider when casting our votes.



# Case Studies

Examples of stewardship  
in practice

We believe we can make the most impact by pushing for outcomes that complement the company's strategy and long-term performance

as well as deliver improvements to sustainability performance, disclosures and governance. To read more about our stewardship and engagement in practice, please read our [Engagement Activity and Outcomes document](#) available on our website.

# Case Studies



PROACTIVE  
ENGAGEMENT

## Modern slavery risk-management within supply chain

We engaged with Fisher & Paykel Healthcare's (FPH) procurement team to discuss their approach to assessing and addressing their modern slavery risk.

We noted several areas we would like to see FPH improve including the scope of its supplier auditing, supply chain mapping, and implementing a direct feedback mechanism between the company and their supply chain workers.



PROACTIVE  
ENGAGEMENT

## Improve sustainability targets

Karoon Energy is an international oil exploration and production company operating in Brazil. Karoon has set a target to achieve net-zero scope 1 and 2 emissions by 2035. The key focus of our engagement was for Karoon to set a pathway to reduce their emissions.

Our aim is to establish an ongoing engagement with Karoon, working together to achieve the best outcomes possible by driving feasible enhancements to their sustainability practices over time.

# Case Studies



REACTIVE  
ENGAGEMENT

## Workplace culture

During the early stages of our pre-investment process into Australian air traffic control and airport services company Airservices, we found the company had undertaken a cultural review following an independent enquiry by the Australian Sex Discrimination Commissioner in 2019.

Airservices management noted they had either already implemented, or were in the process of implementing, all the review recommendations. Airservices were honest and willing to engage on this topic. As a result, we determined Airservices passed our ESG threshold following its response to the independent enquiry, irrespective of any decision to invest.



PROXY  
VOTING  
EXAMPLE

## Ongoing disclosure improvements

Earlier this year, we had the opportunity to meet with the incoming Chair of the Kiwi Property Group. This company has experienced a period of share price under performance while it has attempted to reposition its portfolio in a subdued commercial property market in response to a refreshed strategic direction.

The challenge in executing this strategy has put the performance of the board and executive in the spotlight. Us having this visibility will enable investors to more easily understand short-term company aspirations and measure management's performance against those goals.



SUSTAINABILITY  
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September 2023



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