

# 50 SHADES OF GREEN

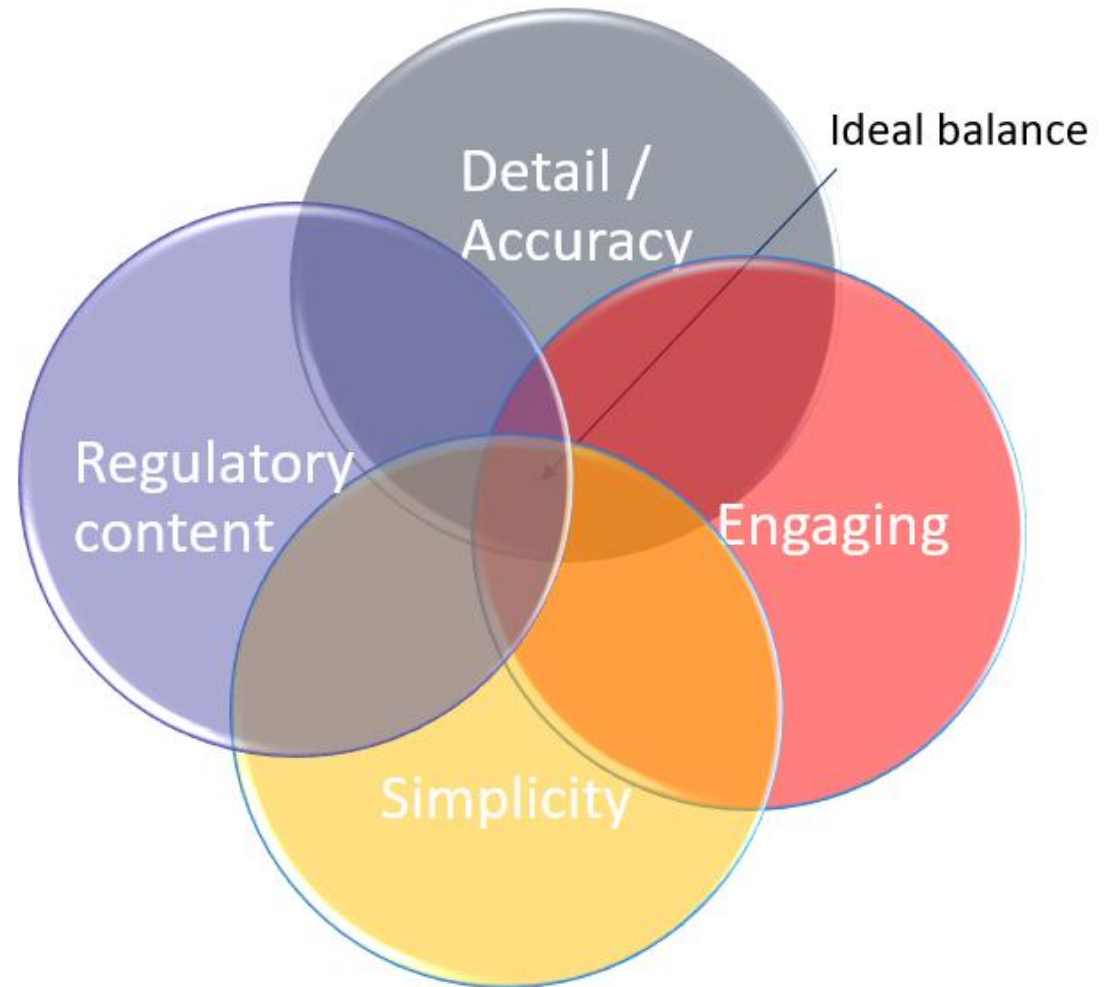
A story of ethical restrictions & regulatory discipline



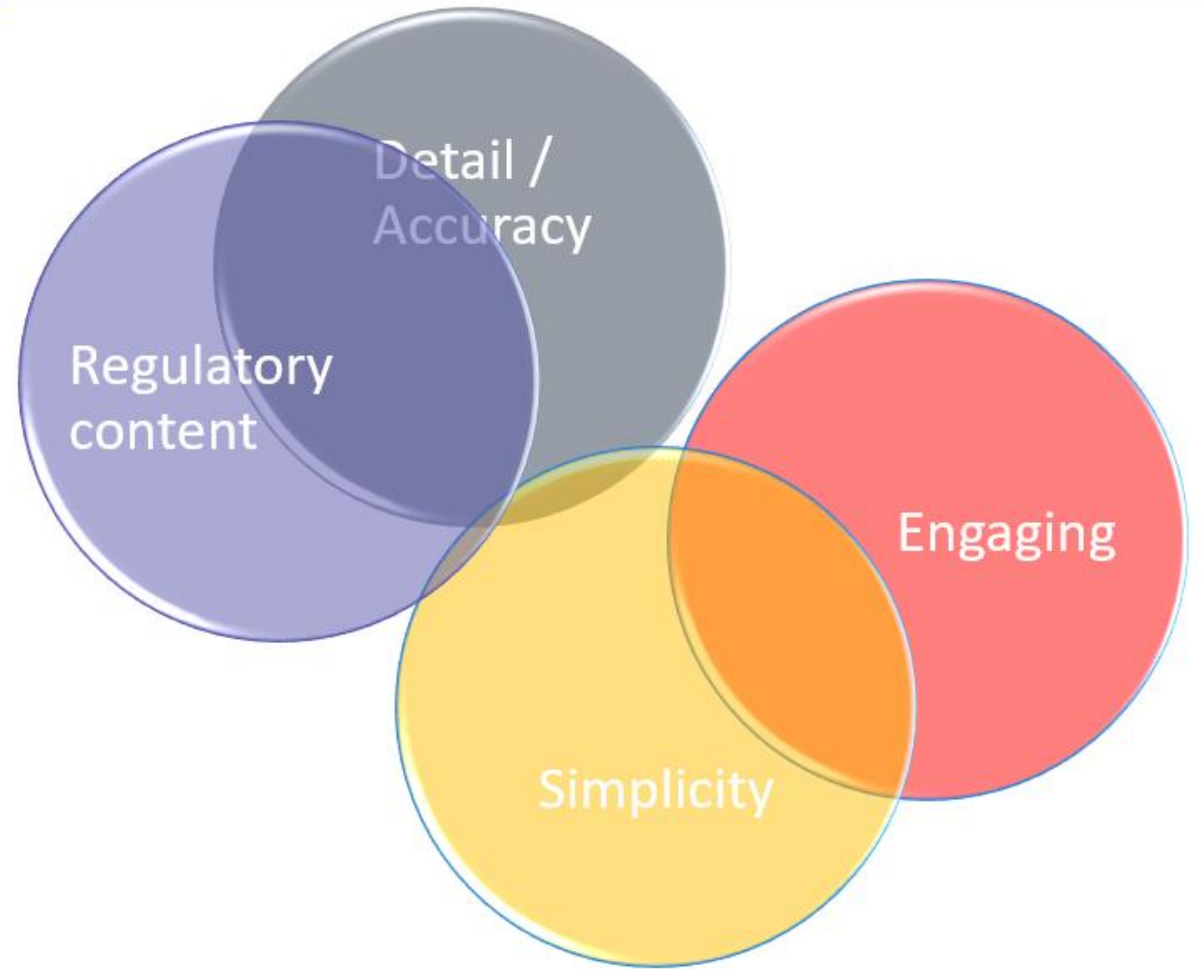
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COMPETING  
CONSIDERATIONS  
WHEN  
COMMUNICATING  
WITH INVESTORS..



WITH ETHICAL  
ISSUES IT FEELS  
LIKE THE CIRCLES  
DON'T ALWAYS  
OVERLAP..



# Why communication is so hard to get right with ethical products

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## REASON 1: EVERYTHING YOU SAY IS AMBIGUOUS WITHOUT LOTS OF EXPLANATION

**Example:** If I say, "my fund excludes investment in tobacco", does this:

- Rule out supermarkets and petrol stations that sell a bit of tobacco on the side ?
- Rule out freight and haulage companies that transport tobacco ?
- Rule out finance companies that make money by lending to tobacco businesses ?



Would my tobacco exclusion prevent me from investing in Gandalf's "pipe weed" business?



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REASON 2: PDS CONTENT IS HIGHLY PRESCRIBED & DOES NOT GIVE YOU ANY NATURAL PLACE TO DISCUSS ETHICAL FEATURES – PAPER BASED FORMAT UNHELPFUL..

## Part 1 PDS for managed funds

### *PDS sections*

#### **9 PDS sections**

- (1) The PDS must have sections that are headed up and ordered as follows:
  - 1 Key information summary
  - 2 How does this investment work?
  - 3 Description of your investment option(s)
  - 4 What are the risks of investing?
  - 5 What are the fees?
  - 6 What taxes will you pay?
  - 7 Who is involved?
  - 8 How to complain
  - 9 Where you can find more information
  - 10 How to apply
- (2) The sections of the PDS must be numbered sequentially.

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REASON 3: MAYBE WE DON'T REALISE HOW DIFFERENT WE ALL ARE MORALLY?

## Examples:

- Class exercise in Profs: told a story and asked to rank the conduct of the characters in the story - no consistency
- To some investing in a vineyard would be a very wholesome image, to others alcohol is a terrible vice that causes violence in society



Assume makes an “Ass” of “U” and “Me”



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REASON 4: POLITICAL/ GIMMICKY  
PRESURE TO EXCLUDE THINGS YOU  
COULD NEVER INVEST IN

## Examples:

- DGL Chemicals – at least one fund manager that could/would never have been able to invest in this stock went to the papers about excluding it.
- NZ domestic funds excluding whaling and nuclear.



J u m p   o n   t h e   B a n d w a g o n



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## REASON 5: EVERYTHING IS IN A STATE OF CHANGE

### Examples:

- Issues of concern change all the time e.g. Palm Oil
- Data patchy
- Methodologies and principles change
- Products innovating in new ways e.g. freedom fund
- People use the same words to mean different things



An example of the world changing.



# Why communication is so hard to get right with ethical products

TRYING TO DO RIGHT..

## Examples:

- Website format – enables a high-level starting point with info you can drill into
- Nikko AM is trying to present information in multiple different ways to cater for different customer needs.

## 3 things to look for in responsible investments

### #1 Look beyond the ratings

Companies can achieve a high rating by simply ticking the right boxes to achieve the requirement of the rating system. With rating systems alone, you can't see what specific criteria have or have not been met.

For example: Are activities such as off-setting carbon emissions and planting trees enough to meet your personal criteria for environmental responsibility?

### #2 Focus on what you care about

Think about how you want to invest - your goals and values - and look for funds (and fund managers) that align with this. This area is relatively new and is evolving fast, so do your research.

### #3 Consider working with a fund manager

There are some very important benefits of working with a fund manager who has a responsible investment approach:

- A manager can dedicate time to research companies and understand the ratings and other information available to make responsible investment decisions.
- A manager will always act in the best interest of their investors, and as a larger investor can actively engage and have a greater influence with companies.
- By continuously researching companies, fund managers have access to the latest information and so are better informed when making voting decisions.

**goalsgetter**  
powered by nikko am

Set a Goal Invest Job/Transfer Kit/Seer Log In

**But what does this mean in practice?**

Our approach to investment and our approach to ESG are both intertwined. We look for companies that are likely to hold and grow their value over the long term. While on the face of it this goal is focused on generating returns, it is also underpinned by a belief that a business that is environmentally sound, socially responsible and well-governed will ultimately be recognised by market participants, hence our process is likely to highlight these opportunities.

So for us, ESG is not about making one-off exclusions to our funds, but it is part and parcel of a holistic analysis we do to ensure that, as a company, we make strong long term investments.

Our investment teams engage proactively with and can influence companies to lift the bar in relatively weaker areas or areas where ongoing improvement is beneficial to stakeholders. As an individual investor, you cannot have this influence.

Companies we invest in are also screened using the MSCI ESG Research Tool, assisting us by adding another layer of inspection to our knowledge of companies. Companies that rate well or are actively improving ESG standards will ultimately be recognised by market participants, hence our process is likely to highlight these opportunities.

Besides our responsibilities managing investments, we are also actively engaged in sustainability efforts as a firm.

[Learn about our ESG investment restrictions](#)

## ESG and specific restrictions

How ESG restrictions are applied for Nikko AM Investment Scheme funds.

| Fund                                 | ESG process applied | Primary Restrictions |              |                       | Other Restrictions |                     |         |
|--------------------------------------|---------------------|----------------------|--------------|-----------------------|--------------------|---------------------|---------|
|                                      |                     | Tobacco              | Fossil Fuels | Controversial Weapons | Gambling           | Adult Entertainment | Alcohol |
| <b>Diversified Funds<sup>1</sup></b> |                     |                      |              |                       |                    |                     |         |
| Nikko AM Conservative Fund           | YES                 | ●                    | ●            | ●                     | ○                  | ○                   | ○       |
| Nikko AM Balanced Fund               | YES                 | ○                    | ○            | ●                     | ○                  | ○                   | ○       |
| Nikko AM Growth Fund                 | YES                 | ○                    | ○            | ●                     | ○                  | ○                   | ○       |
| Nikko AM Income Fund                 | YES                 | ●                    | ●            | ●                     | ●                  | ●                   | ●       |
| <b>Single Sector Funds</b>           |                     |                      |              |                       |                    |                     |         |
| Nikko AM Core Equity                 | YES                 | ●                    | ●            | ●                     | ○                  | ○                   | ○       |

## NIKKO AM NZ INVESTMENT SCHEME Statement of Investment Policy and Objectives

|                                      | Tobacco <sup>1</sup>  | Fossil Fuels  | Controversial Weapons  | Gambling | Adult Entertainment | Alcohol |
|--------------------------------------|---|---|--|----------|---------------------|---------|
| Nikko AM Wholesale Global Bonds Fund | The Manager is not permitted to purchase investments in tobacco manufacturers | Companies with >10% revenue from the extraction of thermal coal and/or tar sands oil. | The Manager is not permitted to purchase investments for the Portfolio of any entity listed by their appointed third-party research provider as being involved in 'controversial weapons'. |          |                     |         |

<sup>1</sup> For global sectors, this exclusion is determined based on, whether a company is classified in the sub-industry "Tobacco". These industry classifications are determined by major global index providers and are internationally recognized, every company is assigned to a sub-industry by its principal business activity.

### How restrictions are applied

For the domestic sectors which are managed internally by Nikko AM NZ, restrictions are monitored directly by the portfolio managers and analysts. Publicly available data may be limited and, in some instances, companies are not required to disclose information. For domestic sectors, portfolio managers engage directly on a periodic basis to get additional information. Restriction monitoring is then updated on an ongoing basis as new information becomes available.

The Nikko AM Global Equities and Global Shares Funds are managed by related party managers, and the Global Bond Fund by an external manager. Restrictions, which may result in specific exclusions, are monitored using 3<sup>rd</sup> party vendors appointed by the managers of these funds. These vendors may change from time to time. Due to the timing and availability of data, it may not always be possible to identify in a timely fashion which company/companies should be included in this exclusion list, and that based on different sources of data, different vendors could provide different exclusion lists at any point in time. It is not considered a breach of mandate or this SIO if the vendor engaged in monitoring this restriction reaches a different conclusion on any particular company to another vendor, and it is acknowledged that differences in research opinion will occur from time to time.

### The restrictions and monitoring of activity does not apply to:

- Securities issued by governments who may be involved in and/or have revenue sources from the industries described below. However, Nikko AM NZ has internal controls reasonably designed to ensure compliance with applicable economic sanctions and trade embargo regulations. Nikko AM NZ periodically confirms, with its Delegated Managers their compliance arrangements to manage applicable sanctions obligations
- Second order factors refer to activities undertaken by companies which are not considered part of their primary business activity for example, if we held shares in a company that owns buildings and their tenants sell alcohol and tobacco products; or if we held shares in a freight company whose clients require them to transport restricted items, these would not be included in the assessment of restrictions of our funds

### Restriction Monitoring

Revenue thresholds will be reviewed periodically for relevant mandate compliance based on available information. The review will occur no less than annually. Where information cannot be obtained, the manager will determine the suitability of the investment in the context of the mandate guidelines. In addition, if we become aware of a company's position changing between assessments and the manager has exposure to that company, required sales will be made in a reasonable period of time (typically within 1 month). Such exposure shall also not be considered a breach of this SIO.

## What B.I.G. thinks we need from regulatory guidance

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Any guidance needs to:

- Help foster a conversation about where that sweet spot is between accuracy and simplicity so we can say something to our customers about what we are doing that is mostly right, but that is also comprehensible and digestible to an ordinary person
- Acknowledge the limitations of the legal framework, and the challenges facing everyone – this is all new to everyone.
- Set the right tone in the media.
- Call out the B.S. exclusions.
- Be founded on good industry conversation



Boutique  
Investment Group  
(B.I.G.)

