Environmental, Social and Governance Policy

June 2021

Introduction

Harbour is a client-focused, research-driven, investment manager. Our analysis across both equity and fixed interest markets is dedicated to producing superior investment results.

This document refers to Harbour's investment process and the integration of the non-financial aspects of a company, commonly referred to as Environment, Social, and Governance (ESG) factors, into that process.

Harbour's approach to ESG considerations is neither a recent, nor a superficial part of the process. As a responsible corporate citizen, with a fiduciary duty to our clients, and as a signatory to the Principles of Responsible Investing (PRI), Harbour has an obligation to consider all types of non-financial risks and opportunities, and we believe our ESG integration strategy strengthens our investment decisions.

Beliefs

1. Harbour believes that companies that manage ESG considerations well are more likely to create shareholder value, with a reduced risk profile, compared to those who do not.

2. Harbour believes that strong corporate governance is often correlated with strong environmental and social company outcomes.

3. Harbour believes that ESG risks and opportunities are able to be identified and measured for individual companies, and that these risks are often not fully reflected by the market in the security price.

4. Harbour believes that an integrative approach to ESG yields stronger investment returns than screening processes alone.

5. ESG monitoring and assessment is constantly evolving. Harbour believes in engagement on ESG matters and we reserve a divestment option for a relatively narrow range of harmful sectors.

6. Harbour's beliefs are based on a balanced understanding of the academic evidence and is consistent with empirical analysis of our own ESG process over several years.

PRI and RIAA:

Harbour became a signatory of the PRI in 2010, and we have submitted our investment process on an annual basis for assessment of our ESG integration strategy since 2014. The PRI has recognised Harbour as having a best-in-class ESG approach through multiple years of rating as A+ in their assessment framework. Similarly, Harbour has been recognised by the Responsible Investing Association Australasia (RIAA) for having one of the leading ESG approaches in New Zealand[1].

[1] RIAA 2016 -2019 benchmark reports on the state of Responsible Investing in New Zealand

As a signatory to the PRI, we have committed to adopt and implement the following principles:

1. We will **incorporate** ESG issues into our 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 provide 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 **report** on our activities and progress towards implementing the Principles

Harbour is also a member of RIAA in order to support their goal of seeing more capital being invested responsibly for a healthier economy, society and environment.

To find out more about the PRI and RIAA, please visit their websites at www.unpri.org and www.responsibleinvestment.org

ESG Considerations:

Environment

Environmental considerations, particularly climate change has been a growing part of our ESG process as improving data and scientific research highlights the materiality of these effects on companies over the long term. Our research programme has involved two major projects focused on climate change, the first a benchmarking study to assess carbon emissions disclosure and performance across the NZ market and the second to gain insight into electric vehicles in NZ corporate fleets as a mechanism to decarbonise transport emissions. Environmental factors can influence company performance through both acute and transitionary effects such as write downs in asset values ('stranded' assets), regulatory costs and changes in consumer behaviour.

Our integration process includes the following environmental issues:

- Carbon emissions disclosure and performance
- Environmental impact and risk management
- Energy use
- Waste
- Taskforce for Climate-related Financial Disclosures (TCFD) alignment

Social

The management of social considerations of a company remains an important focus with employee, supplier and community relations all playing a key role. They emphasise the need to look after human health and welfare through best practice safety systems and human rights processes which is particularly important when assessing companies with operations and/or suppliers in developing countries. Companies can suffer significant reputational damage if they mis-manage these social aspects. These issues were analysed in detail in our social justice research project that assessed the state of the NZ market in terms of their employee engagement, health and safety performance, diversity levels and modern slavery prevention practices.

Examples of social issues considered in our process include:

- Occupational health and safety
- Employee relations
- Human rights and modern slavery

- Supply chain management
- Community engagement
- Cyber security and data privacy

Governance

Governance issues form a key part of our process reflecting our belief that companies that are well governed tend to result in stronger environmental and social outcomes. Robust governance of companies is important to promote high standards of ethics and conduct that help avoid any lapses in operating/risk management processes and align with stakeholder outcomes. Many different governance factors are captured in our process with some examples below:

- Board composition including skills, independence and diversity
- Executive remuneration and incentives
- Corruption and ethics
- Anti-competitive practices

Sustainability Outcomes

Harbour is a strong proponent of investing in companies that deliver positive real-world outcomes such as clean energy, medical advances and education solutions.

We are supportive of the UN's Sustainable Development Goals (SDGs), a set of 17 goals (and further underlying targets) for governments and businesses to meet by 2030 to improve the wellbeing of people around the world whilst also protecting the planet. Through the application of our ESG approach, we seek to align our investments with this framework where it is relevant by identifying specific goals where companies are making an active contribution and favouring them through our allocation of capital.

For example, regarding SDG 7 and 13 on Affordable and Clean Energy and Climate Action, we supported a renewable electricity generator as a cornerstone investor in a capital raising to develop a new geothermal power plant. This enabled the company to provide more clean energy to the country to help meet our climate targets.

There are numerous important global frameworks in place designed to help deliver positive real-world outcomes for the environment and society that we endorse. On climate change, we support the Paris Agreement and TCFD recommendations to provide targets to limit global warming and a framework to disclose relevant information to meet these targets. Regarding human rights, we advocate the UN's Guiding Principles on Business and Human Rights for companies to adopt to prevent, address and remedy human rights abuses occurring in business operations.

There are multiple elements to Harbour's ESG integration: Harbour's ESG score, active engagement, and proxy voting.

Harbour's ESG score

Companies are assessed by Harbour analysts on their competence in identifying and mitigating ESG risks and opportunities. Each company in our investment universe is allocated a Harbour ESG score based on their ESG competency. ESG scores are generated via one of two processes:

1. For New Zealand Securities, Harbour's analysts complete specific proprietary company Corporate Behaviour Surveys (CBS). Company scores are cross-referenced against an

external ESG research provider’s ESG recommendation if available, and a final score is produced.

2. For Australian Securities, an external ESG research provider’s recommendation is translated into an ESG score.

Harbour’s New Zealand Corporate Behaviour Survey (CBS)

Harbour’s CBS currently consists of 84 questions which results in a total of 240 points. It is completed annually. Events such as governance lapses, environmental mismanagement or poor labour relations provide hard evidence of poor corporate behaviour. Approximately two-thirds of the points are weighted towards governance issues, and one-third towards social and environmental factors.

This reflects Harbour’s view that governance measures are more easily discernible in a meaningful way; this in no way downplays Harbour’s view of the influence of environmental or social risks on a company’s performance. Harbour believes that there is often a correlation between strong governance performance and positive environmental and social outcomes. This view is based on Harbour’s experience, and in Harbour’s opinion is consistent with academic research, that strong governance checks and balances often lead to more rigorous oversight of company environmental and social policy, and therefore better E and S outcomes. However, the weight of environmental and social issues in the survey has been gradually rising over time as compelling research and better quality data emerges.

The CBS has proven to be a useful tool in objectively establishing our expectations with companies looking to list on the equity market. In general, it has provided a solid foundation to address the range of ESG issues that senior management, in many instances, may have not actively considered.

Harbour seeks to constructively engage with companies to encourage ongoing improvement in corporate behaviour. The CBS is used as a tool to initiate conversations with management and the board on corporate behaviour standards. The CBS is completed annually, or when (in Harbour’s opinion) there is substantial change.

The CBS is confidential, although we are generally willing to discuss the overall conclusions with stakeholders.

Australian ESG Score

ESG scores for Australian companies are established using external research from a global ESG research provider. As of June 2021, MSCI ESG is the current provider. MSCI’s Intangible Value Assessment (IVA) describes different ESG factors in company specific research. The MSCI Impact Monitor measures the relevance and impact ESG issues would have on a company, depending on the industry. These scores combined form Harbour’s ESG score for Australian securities.

Harbour assesses the effectiveness and quality of the external research provider annually.

Equity Process

Harbour uses quantitative screens in its investment process to rank investment opportunities. Harbour’s ESG score is included in all Harbour funds active quantitative screens along with other fundamental and quantitative factors in the investment process. All other things being equal, a higher ESG score results in a better overall security ranking. These rankings are categorised into deciles that are further filtered into a traffic light classification where the top three deciles are the ‘green zone’ and the bottom three are the ‘red zone’. Portfolio Managers will then tend to select and overweight securities in the green zone and avoid/underweight companies in the red zone.

Securities are not excluded solely based on ESG scores. High risk ESG issues within companies, or issues of concern, are discussed between analysts and portfolio managers during the selection process. Companies with poor ESG scores are engaged where appropriate, to encourage the improvement of corporate behaviour.

Fixed Interest Process

Harbour’s Fixed Interest team utilises both the Harbour CBS and MSCI research, in addition to conducting its own ESG research into unlisted bond issuers. The team uses this research to both engage with companies, and also identify companies whose behaviour may lead to untenable risks. Similar to the equity team, the fixed interest team places more weight on a company’s behaviour and conduct than making moral judgements on industries. That said, the industry in which a company operates exposes it to risks that can only be controlled by the company to a degree.

External Managers

Harbour manages Australasian asset classes in-house. External managers are used for our Global Equities Fund (T. Rowe Price) and within our multi asset class funds, being the Harbour Income Fund and Active Growth Fund.

External managers, at a minimum, must meet two thresholds:

1. Must be a signatory to the PRI. We review the outcomes of their PRI assessments.
2. Satisfy us during the due diligence process that they meaningfully integrate ESG into their investment decision making process

On an ongoing basis we also:

1. Undertake independent carbon footprint analysis of external equity managers to measure the carbon intensity of their portfolio relative to the benchmark. Adverse results are raised with the manager.
2. Engage with their responsible investment team to share our views of best practice and identify areas for improvement.

All external managers have proxy voting policies and are active owners. They all provide us with regular reporting on votes with and against management. The results of this show a strong depth of challenge to management voting.

Engagement

Harbour is an active owner. Where conflicts arise with respect to company strategic direction, remuneration, or other material issues, Harbour will work with senior management, the Board of Directors, and other investors to find a satisfactory outcome for all stakeholders. Harbour does not concern itself with day-to-day running of the business but focuses on strong shareholder outcomes.

Harbour’s CBS is an ideal catalyst for initiating conversations with companies. As Harbour’s analysts need to speak with senior management to complete the survey, it encourages the establishment of a working relationship with management and maintenance of a dialogue. This relationship can be leveraged as and when issues need to be discussed. Harbour analysts are also encouraged to communicate with the Board of Directors as necessary. Our strong preference is to achieve change without it involving public media as we consider this may be counterproductive to securing long lasting change.

Harbour's research projects on climate change and social considerations including modern slavery, human capital and diversity have involved extensive engagement with 20+ companies listed on the NZX in each case. We have also conducted other ad hoc engagements relating to these issues, including promoting better emissions disclosure and seeking information on company initiatives towards decarbonisation.

In addition, the fixed interest team initiated a process of engaging all 50+ issuers in its universe to explain each issuer's rating and what the issuer could do to improve its score.

Harbour has also been open to presenting to company Boards and senior management on our view of strong ESG practices, helping to inform their stakeholder materiality assessments and influencing their sustainability initiatives and reporting.

Examples of our engagements and their outcomes are provided in our annual stewardship summary on our website.

Proxy Voting

Harbour utilises a third party for external proxy voting research. As of June 2021 this is ISS Proxy Exchange. Harbour analysts that cover the company will evaluate this research along with any other relevant information in coming to a voting decision. All voting is recorded in both soft and hard copies. A history of Harbour's voting for contentious resolutions is provided to Harbour's internal risk committee along with documented rationale to explain the decision. Harbour votes on all resolutions for both annual meetings and extraordinary meetings. In addition, in those instances where Harbour does not vote in accordance with ISS Services, the reasoning is also documented. Company annual/extraordinary meetings provide another catalyst for engagement where we may ask for clarification on an upcoming resolution from the board/senior management or provide feedback on our recommendations for improving governance following our voting decisions.

Aggregate voting statistics are provided to clients quarterly, summarising the total number of resolutions voted and the proportions that are in favour of management or the proxy advisor's recommendations. Furthermore, a record of all voting is also available on our website. We have also undertaken to consult with clients, where so desired by the client, prior to voting on any contentious issues or issues that may attract widespread publicity.

<u>Guiding principles:</u>

In forming our decision on proxy voting resolutions, as a general guide we promote the following principles to encourage leading practice in ESG management. However, each resolution is assessed on a case by case basis and there may be circumstances where our vote deviates from these principles.

Board composition: The Board should comprise a majority of independent directors, subject to them contributing valuable skills and experience, with an adequate level of diversity across the Board. The roles of CEO and Chairperson should be separate, and Board sub-committees should be majority represented by independent directors.

Executive/director remuneration: Companies should report sufficient information on their executive remuneration structure including vesting schedules and performance hurdles on their incentive schemes. Director fee assessments should be benchmarked to an appropriate peer set that covers considerations such as geography, industry, complexity and size of the business.

Climate change: Companies should be transparent and provide disclosure on their emissions metrics and targets and how they plan to meet them especially if they are materially exposed to the effects of climate change.

Human rights: Any material human rights risk identified by a company should be properly assessed and reported to stakeholders with appropriate action taken to mitigate any incidence of labour abuse or human rights violations.

Exclusions

Harbour believes in applying an integrative approach emphasising active ownership through engagement as a better way to influence changes in corporate behaviour rather than only negative screening. However, we have set a baseline standard of responsible behaviour to exclude companies involved in some of the most controversial business activities likely to lead to significant harm in society.

Therefore, we do not invest in companies that to our knowledge derive any revenue from:

- The manufacture of tobacco
- The manufacture or testing of nuclear explosive devices (NEDs)
- The manufacture or sale of cluster munitions
- The manufacture or sale of anti-personnel mines
- The manufacture or sale of recreational cannabis
- The production of pornography
- The manufacture or sale of civilian automatic and semi-automatic firearms, magazines or parts

Harbour utilises an external ESG provider (currently ISS ESG) to provide screening services to ensure the active monitoring and compliance of these exclusions. These services allow us to distinguish between the type of business involvement i.e. manufacturing vs. distribution/sales and determine the revenue exposure. In addition, the excluded list of securities is coded into our compliance system as restricted securities for an extra layer of robustness.

We also accommodate other ethical values clients hold in tailored solutions through segregated mandates.

Reporting

Harbour communicates our ESG activities with our clients on a quarterly basis. These activities detail our engagements and proxy voting over the period including aggregate statistics and key voting rationales. In addition, any conferences, presentations and industry involvement relating to ESG are included in the reports. Further information can be provided to clients on request.

Climate change metrics are reported in fund reports and fact sheets on a monthly basis. These metrics include the portfolio’s total emissions, carbon footprint and weighted average carbon intensity. They are provided against each fund’s respective benchmark to show a comparison of absolute emissions exposure as well as normalising for capital invested and the revenue of the underlying companies. They are consistent with definitions under the TCFD guidance.

A summary of our annual stewardship activities is provided on our website to show the outcomes of our active ownership and our progress over each year on our responsible investing objectives.

Harbour is committed to assessing ESG

Harbour takes an active role in promoting ESG in the investment community. As well as its active participation in the market, Harbour is a founding member of the New Zealand Corporate Governance Forum, an institutional investor group focused on increasing the standard of corporate governance in the New Zealand markets. Harbour itself actively works to improve the standard of governance in the New Zealand market. Harbour employees participate in domestic and international conferences and forums on ESG issues, and Harbour regularly speaks and publishes research on its views on ESG investment issues.

Harbour believes in the value of ESG and is confident that its ESG process enhances portfolio outcomes for Harbour clients. We welcome any further questions on the subject. Furthermore, our PRI transparency report is available for download from our website.

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