

**BT FUNDS MANAGEMENT (NZ) LIMITED**  
**2024 CLIMATE STATEMENT**  
**WESTPAC ACTIVE SERIES**



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# STATEMENT OF COMPLIANCE

This Climate Statement complies with the Aotearoa New Zealand Climate Standards issued by the External Reporting Board. In preparing the FY24 Climate Statement for the Westpac Active Series (and the funds within it), BT Funds Management (NZ) Limited (BTNZ, we, us, our) has elected to use the following adoption provisions:

## **Adoption provision 2: Anticipated financial impacts in Clauses 15 (b), (c) and (d) of NZ CS 1.**

In FY24, this adoption provision exempts the disclosure from presenting the anticipated financial impacts of climate related risks and opportunities, a description of the time horizons over which the anticipated financial impacts could reasonably be expected to occur and, if relevant, an explanation as to why quantitative financial information cannot be disclosed.

## **Adoption provision 3: Transition planning in Clauses 16 (b) and (c) of NZ CS 1.**

In FY24, this adoption provision exempts the disclosure from presenting the transition plan aspects of the scheme's investment strategy, including how the business model and investment strategy might change to address the scheme's climate-related risks and opportunities; and the extent to which the transition plan aspects of the scheme's investment strategy are aligned with internal capital deployment and funding decision-making processes. Instead, the disclosure includes a description of our progress towards developing the transition plan aspects of the scheme's investment strategy.

## **Adoption provision 4: Scope 3 Greenhouse Gas (GHG) emissions in Clause 22 (a) of NZ CS 1.**

In FY24, this adoption provision exempts the disclosure from presenting the gross GHG emissions in metric tonnes of carbon dioxide equivalent (CO<sub>2</sub>e) classified as Scope 3 (for BTNZ this is the financed emissions). BTNZ has elected to rely on this provision for a subset of its Scope 3 (financed emissions) sources, namely sovereign bond and corporate bond asset classes.

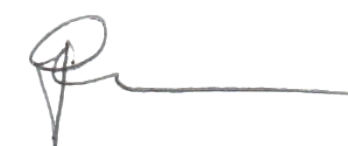
## **Adoption provision 6: Comparatives for metrics in Clause 40 of NZ CS 3.**

In FY24, this adoption provision exempts the disclosure from presenting comparative information for each metric disclosed. BTNZ has elected to rely on this provision for the metrics used to measure our exposures to transitional risks and physical risks as presented in the Targets and Metrics section of this Climate Statement.

## **Adoption provision 7: Analysis of trends in Clause 42 of NZ CS 3.**

In FY24, this adoption provision exempts disclosure from presenting the analysis of the main trends evident from a comparison of each metric from previous reporting periods to the current reporting period. BTNZ has elected to rely on this provision for the metrics used to measure our exposures to transitional risks and physical risks as presented in the Targets and Metrics section of this Climate Statement.

Signed on behalf of  
BT Funds Management (NZ) Limited  
on 29 July 2024



**David Green**  
Chairman, BTNZ Board



**Catherine McGrath**  
Director, BTNZ Board

# INTRODUCTION

## About this report.

This Climate Statement, for the reporting period 1 April 2023 to 31 March 2024 (FY24), was prepared by BTNZ for the climate-related disclosures regime under Part 7A of the Financial Markets Conduct Act 2013.

BTNZ is the investment arm of Westpac in New Zealand. BTNZ is the manager of the Westpac Active Series (scheme).

This Climate Statement covers the Westpac Active Series, and the following funds:

- Balanced Trust
- Conservative Trust
- Growth Trust
- Income Strategies Trust
- Moderate Trust

This is the Westpac Active Series' first Climate Statement and provides existing and potential investors with information on where we are at in our journey to manage climate-related risks and opportunities that may impact our customers' investments.

Preparing a Climate Statement is a new obligation and the quality and completeness of the data available for many of the prescribed requirements is at varying degrees of maturity. This in turn impacts the accuracy and comparability of this information. BTNZ cautions reliance on the information contained in this Climate Statement.

Managing climate-related risks and opportunities is important to us and we're proud of the progress we have made as outlined in this Climate Statement. We expect that we will continue to develop over time as new methodologies emerge, and data accuracy, completeness and reliability improve. Further information about factors that influence how we manage climate-related risks and opportunities is set out in the **Important Information** section.

## Why climate change matters to investments.

Climate change can have an impact on investment performance. This is because investments are made in companies and other issuers (including governments), which are exposed to the potential physical and transitional impacts of climate change.

Examples of climate-related risks that companies face include extreme weather (such as droughts or storms), new legislation, or changes in consumer preferences. Examples of climate-related opportunities that companies can leverage include investing in renewable energy. These risks and opportunities can impact on the financial performance of the companies.

By investing in these companies, these risks and opportunities can impact the investment performance of the scheme. As a result, considering climate-related risks and opportunities in investment decisions has become an essential part of managing funds given their long-term investment horizon.

## Our commitments to managing the potential impacts of climate change on the investments.

Our overall purpose is to help our people, our communities, and our customers financially, to grow a better New Zealand. Part of this is our responsibility to manage investment risk and seek investment opportunities. Climate change is only one such risk and opportunity.

We recognise we all have a role to play in limiting greenhouse gas (GHG) emissions in line with climate science and the Paris Agreement (to which Aotearoa New Zealand is a signatory). Science tells us that the key to limiting the impact of climate change, which includes both economic and investment impacts, is to have a temperature rise of no more than 1.5°C (above pre-industrial levels) by 2050.

Our long-term climate commitment reflects this. Our commitment is to support the goal of net zero GHG emissions by 2050 or sooner by managing investments in line with a 1.5°C pathway. This is core to us being a signatory of the Net Zero Asset Manager's initiative (NZAMi). NZAMi is a group of international investment managers committed to supporting the Paris Agreement.

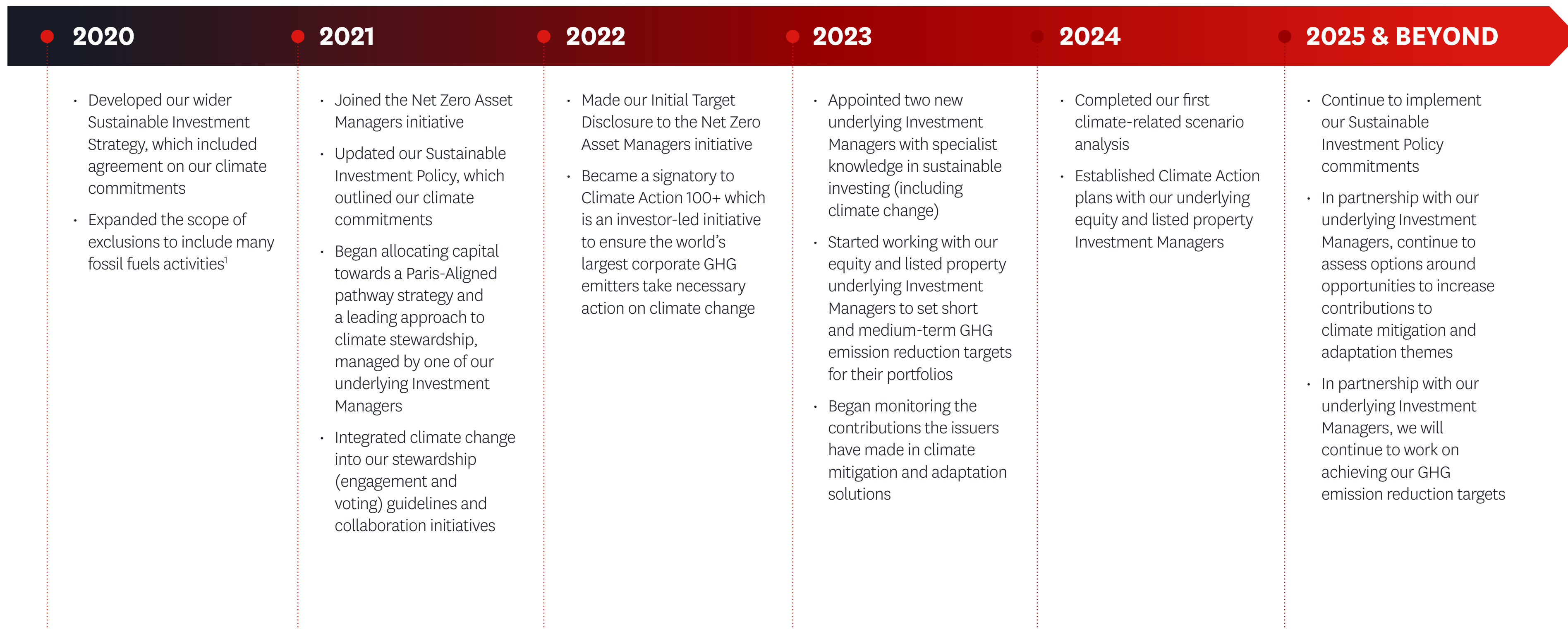
We make this commitment in the expectation that companies and countries (governments) also follow through on their commitments under the Paris Agreement. We recognise that failure by companies and countries to follow through on their commitments may constrain our ambition.

Climate commitments are only a part of our wider approach to sustainable investment. This approach focuses on four key pillars: Exclusions, ESG Integration, Stewardship and Sustainable Themes. More details can be found in our Sustainable Investment Policy, which is available on the Westpac website or provided as **Appendix 1**.

### Our climate risk and opportunity journey.

Managing climate-related risks and opportunities for an investment scheme is complex. Although we have made progress since our initial commitments were established, we recognise we are on a journey.

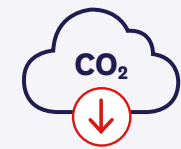
At this stage, our efforts to integrate climate-related risks and opportunities have focused on equities and listed property asset classes. This is because there are accepted methodologies and more extensive data that we can use to help us. We will work on introducing other asset classes as methodologies and data allows.



1. More details of our exclusions can be found in our Sustainable Investment Policy, which is available on the Westpac website or provided as **Appendix 1**.

## Our progress.

As a result of the actions we have taken since 2020, we have made significant progress on meeting our climate commitments. In this Climate Statement, we show progress of the GHG emission reduction and investments into climate solutions of the equities and listed property assets of the scheme. In addition, we provide information on the capital allocated to the scheme to a Paris-Aligned strategy.<sup>2</sup>



From 31 March 2019 to 31 December 2023, the Westpac Active Series' carbon footprint (metric t of CO<sub>2</sub>e/NZ\$M invested, Scope 1 and 2) for equities and listed properties assets, **reduced by 66.6%**.



From 31 December 2021 to 31 December 2022, the proportion of revenues that companies generated from climate solutions, **increased from 7.6% to 9.7%** in the Westpac Active Series.



From 31 December 2020 to 31 March 2024, the capital deployed in the Westpac Active Series in the Paris-Aligned strategy **increased from 0% to 5.8%**.

## Tracking against our GHG emission targets.

We have achieved our short-term GHG emission reduction targets ahead of schedule (FY25). We will assess this again in our FY25 Climate Statement. In achieving this, it is important to be aware that there are many factors driving changes in the absolute GHG emissions and the carbon footprint, some of which are a consequence of the actions we and the underlying Investment Managers have taken, while others are beyond our control. These factors include changes in the companies we hold and the mix of those holdings, changes in the value of those companies, changes in the GHG emissions of those companies and the evolution of the data of our third-party data providers. For absolute GHG emissions, an additional factor is the size of the scheme.

Whilst we have achieved our short-term GHG emission reduction targets so far, changes in the factors described above may impact our continued achievement of this target. We are also aware that the global and domestic economies are not moving as fast as science recommends and this creates a challenge in achieving our climate commitments in the future. Our forward-looking commitments are made in the expectation that companies and countries (governments) will follow through on their commitments to ensure the objectives of the Paris Agreement are met.

**Measuring GHG emissions and other climate-related metrics is an inherently challenging task. The data for these metrics is provided by third-party data providers. Our third-party data providers in turn rely on data provided by issuers. As this is a relatively new area, the data is less accurate, complete, reliable, and timely than financial information. There is also a reliance on making estimates and assumptions in producing this data. Over time we expect that our climate-related metrics will change as new methodologies emerge, and data accuracy, coverage and reliability improve.**

## How to read this Climate Statement.

This Climate Statement has four key sections:



### Governance

This section provides information on the role BTNZ's Board (Board) plays in overseeing the identified climate-related risks and climate-related opportunities of the Westpac Active Series (and the funds within it).

It then describes the role Management has in assessing and managing the climate-related risks and opportunities.



### Risk Management

This section describes the processes BTNZ uses to identify, assess, and manage the material (important) climate-related risks applicable to the Westpac Active Series (and the funds within it).

This section also explains how these processes are integrated into BTNZ's existing risk management processes.



### Strategy

This section describes the current impact of climate change on the Westpac Active Series (and the funds within it) and the potential for impact in the future.

This section also describes the climate-related risks and opportunities we have identified, the scenario analysis that has been undertaken in respect to the Westpac Active Series (and the funds within it) and the steps we are taking, and plan to take, to position the scheme as the global and domestic economy transitions towards a low-emissions, climate-resilient future.



### Targets and Metrics

This section describes how BTNZ measures and monitors its climate-related risks and opportunities.

It also provides a basis for climate-related targets and metrics upon which you can compare the Westpac Active Series (and the funds within it).

In the appendices you will find our Sustainable Investment Policy, our detailed climate scenarios, details on how we calculate our GHG emissions inventory, and a glossary to help explain key terms.

<sup>2</sup> The time periods of the progress highlights below are different due to the availability of the most complete and recent sustainable and holdings data. For more information on data assumptions, exclusions, limitations, and uncertainties, refer to the **Targets and Metrics** section.



# GOVERNANCE

This section describes the role BTNZ’s Board (Board) plays in overseeing the identified climate-related risks and climate-related opportunities of the Westpac Active Series and the funds within it. It then describes the role Management has in assessing and managing these climate-related risks and opportunities.

## The role of the BTNZ Board in overseeing climate-related risks and opportunities.

BTNZ is managed under the direction and supervision of the BTNZ Board of Directors (Board). The Board provides leadership and strategic guidance to Management and effective oversight of Management. The Board is responsible for acting in a manner consistent with its fiduciary duties, including acting in the best interests of Westpac Active Series’ participants.

The Board is responsible for approving BTNZ’s strategy, significant corporate strategic initiatives, and overseeing their implementation. In 2023, the Board Charter was updated to include further detail on sustainable investment (which includes climate) responsibilities to further promote BTNZ’s long-term resilience to climate risks. This includes approving and overseeing the Sustainable Investment Strategy and monitoring performance of the Sustainable Investment Policy (including climate-related risks and opportunities) applicable to the Westpac Active Series and the funds within it.

The Board receives quarterly reports and has sessions on both sustainable investment and risk management at the quarterly Board meetings. The Board discusses progress on strategy (including climate-related opportunities) linked to the Sustainable Investment Policy and emerging risks (including climate-related risks) at its quarterly meetings and/or additional sessions as required. The Board also has access to sustainable investment subject matter experts on an ongoing basis.

**Table 1: The Board processes for overseeing climate-related risks and opportunities, and frequency of Board oversight.**

	Climate-related Strategy (including setting and monitoring performance against targets)	Climate-related Risk Governance	External Climate-related Reporting
<b>Board oversight processes</b>			
<b>Board</b>	<p><b>For the Westpac Active Series, the Board is responsible for:</b></p> <ul style="list-style-type: none"> <li>Approving BTNZ’s overall investment approach and investment strategy</li> <li>Approving and overseeing BTNZ’s Sustainable Investment Strategy and commitments (including climate)</li> <li>Setting sustainable investment standards and targets (including climate, and including performance expectations), where appropriate</li> <li>Monitoring performance with BTNZ’s Sustainable Investment Policy and practices to promote the scheme’s long-term resilience to climate-related risks.</li> </ul> <p>The BTNZ Sustainable Investment Strategy was initially considered and approved by the BTNZ Board in June 2020.<sup>3</sup> A Board Sustainable Investment Strategy Workshop in June 2023 highlighted key developments against the Sustainable Investment Strategy.</p> <p>The Board is also responsible for determining the corporate goals and objectives relevant to the remuneration of the Chief Executive and evaluating the performance of the Chief Executive considering these goals and objectives. The BTNZ Chief Executive’s remuneration performance scorecard includes the KPIs related to achieving third-party certification/recognition in BTNZ’s Sustainable Investment Policy.</p> <p>Monitoring of progress towards implementing the Sustainable Investment Policy (including climate-related targets) and climate metrics takes place through quarterly Management reports to the Board from BTIS (see further below under Role of Management) and formal Board meetings.</p>	<p><b>For the Westpac Active Series, the Board is responsible for:</b></p> <ul style="list-style-type: none"> <li>Overseeing the identification, assessment, and management of material environmental, social and governance (including climate-related) risks and opportunities, undertaken quarterly, or as required</li> <li>Considering reports on sustainable investment, undertaken as required, but at least quarterly</li> <li>Approving climate-related scenarios and integrating key results of the scenario analysis into scheme-level investment strategies, undertaken annually, or as required.</li> </ul> <p>The BTNZ Risk Management Framework provides a structured approach to identifying, assessing, managing, and reporting on risks, including climate-related risks.</p> <p>The material climate-related risks and opportunities were reviewed and approved by the Board in March 2024.</p> <p>The climate-related scenarios were reviewed, and their findings approved, by the Board in March 2024.</p> <p>Monitoring of risk management (including climate) and risk metrics takes place through quarterly Management reports to the Board and formal Board meetings.</p>	<p><b>For the Westpac Active Series, the Board is responsible for:</b></p> <ul style="list-style-type: none"> <li>Reviewing and discussing with management the annual Climate Statement</li> <li>Approving the annual Climate Statement</li> <li>Monitoring BTNZ’s compliance against the Climate Related Disclosure obligations, including:                             <ul style="list-style-type: none"> <li>Overseeing the performance of appropriate controls and processes</li> <li>Reviewing the external assurance practitioner’s findings.</li> </ul> </li> </ul> <p>These disclosure oversight processes are undertaken annually.</p>

<sup>3</sup> Formerly known as the Responsible Investment Principles and Strategy.

### Board skills and competencies.

BTNZ acknowledges that directors must understand the impacts of climate change on the Westpac Active Series and the funds within it.

To assist with discharging this responsibility, the Board maintains a Board Skills Matrix which has been reviewed and will be assessed annually. The performance of the Board was also assessed and will be repeated annually.

The skills assessment component of the Board Skills Matrix specifically addresses director skills and experience in providing oversight of potential risks and opportunities associated with sustainable investing (including climate change). The most recent assessment of director sustainable investment and climate capability took place in November 2023.

Board membership includes the WNZL Chief Executive Officer and the WNZL Chief Financial Officer.

In December 2023, the Board was provided with an education session, which included external subject matter experts. This session focused on the climate-related disclosures regime. BTNZ recognises the rapidly evolving demands, opportunities and challenges related to sustainable investment and climate change and intends to undertake climate-related training annually, or earlier if required, for the Board.



**The role of Management.**

BTNZ has several management committees where the roles and responsibilities for assessing and managing climate-related risks and opportunities have been assigned. These management level committees are existing committees tasked with assessing and managing investment related risks (which include sustainable investment risks). BTNZ has assigned responsibilities based on integrating climate-related responsibilities to existing committees and roles. The processes and frequency of the activities undertaken by these committees are provided in **Table 2**.

**BT Investment Committee.**

The Board is supported by the BT Investment Committee (BTIC). BTIC is a management committee convened by the BTNZ Chief Executive, who manages the reporting between BTIC and the Board. BTIC assists the Board to discharge its responsibilities relating to investment strategy (including the Sustainable Investment Strategy), policies (including the Sustainable Investment Policy), and processes to fulfil fiduciary and regulatory obligations in respect of the Westpac Active Series.

BTIC is chaired by the Chief Executive and its role and responsibilities are outlined in the BTIC Charter.

BTIC meets at least four times per year, or more frequently, as necessary, with reporting (including in relation to sustainable investment) being prepared by management.

**Risk Oversight Committee.**

The Risk Oversight Committee (ROC) oversees risk management, including oversight of current and emerging risks (including sustainable/climate-related risks), material incidents and issues, and the status of key risk metrics relating to BTNZ and its schemes, including the Westpac Active Series.

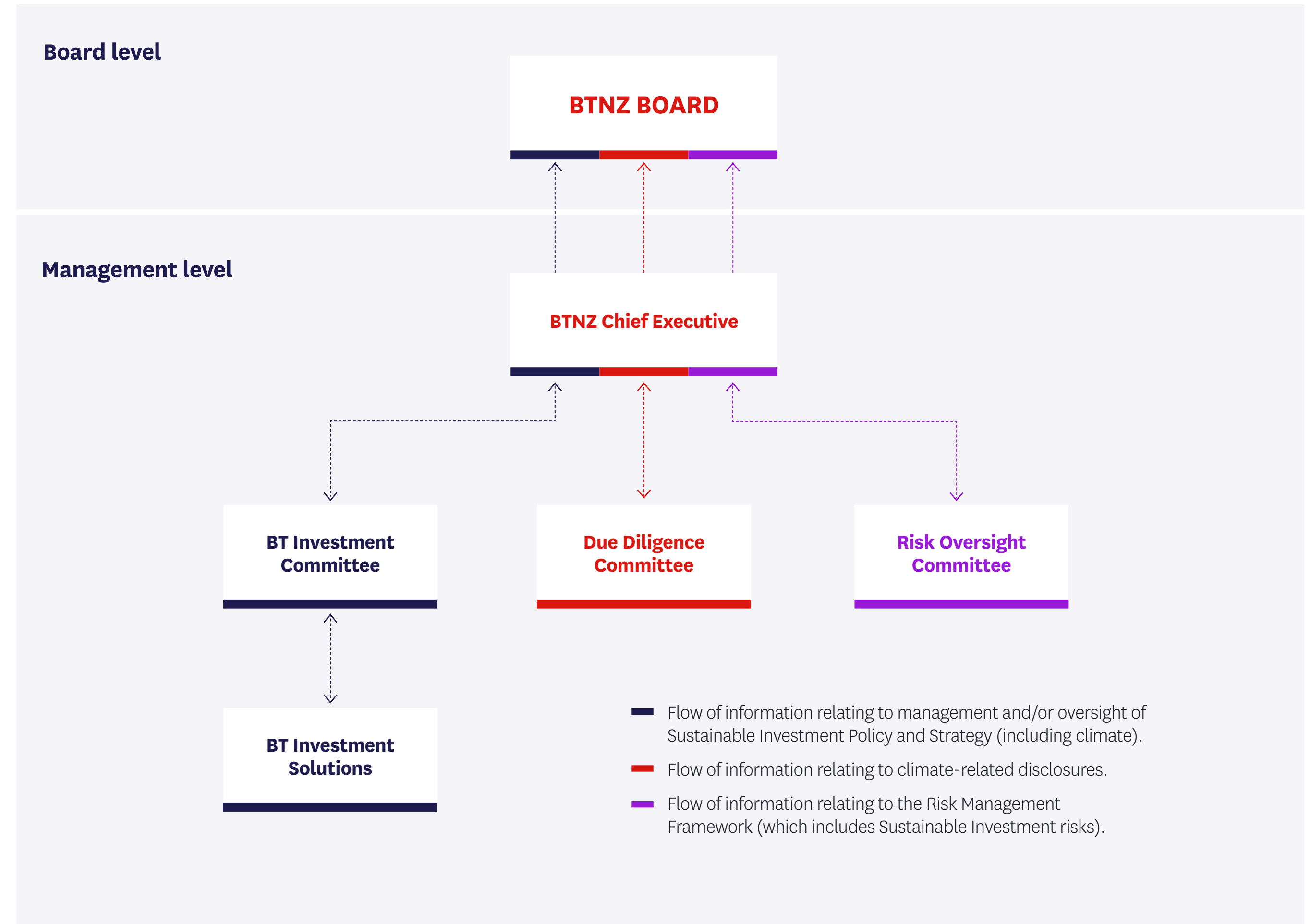
The ROC is chaired by the Head of Risk & Compliance and the ROC’s roles and responsibilities are outlined in the ROC Terms of Reference.

The ROC meets quarterly (or more often if required).

**Due Diligence Committee.**

The Chief Executive receives support for the annual Climate Statement from the Due Diligence Committee, a committee of senior BTNZ and Westpac staff, who oversee the verification processes undertaken by BTNZ as part of the annual climate-related disclosure.

**Figure A: The related organisational structures showing where these management-level positions and committees lie, and how they engage with each other.**



**Table 2: Management’s processes for assessing and managing climate-related risks and opportunities, and frequency.**

	Climate-related Strategy and Targets	Climate-related Risk Governance	External Climate-related Reporting
<b>BTNZ Management assessment and management processes</b>			
<b>BT Investment Committee (BTIC)</b>	<p><b>BTIC is responsible for:</b></p> <ul style="list-style-type: none"> <li>Being informed, and making recommendations on, BTNZ’s overall investment approach, structure and strategy</li> <li>Being informed, and monitoring the implementation of, BTNZ’s Sustainable Investment Strategy and commitments</li> <li>Reviewing and approving the appointment and removal of underlying Investment Managers</li> <li>Reviewing (at least biennially) and approving strategic asset allocations and benchmark indices for the funds.</li> </ul>	<p><b>BTIC is responsible for:</b></p> <ul style="list-style-type: none"> <li>Being informed and monitoring investment related performance and data, which includes sustainable investment related performance and data, including against commitments and agreed Key Performance Indicators (including climate)</li> <li>Being informed and monitoring climate-related risk and opportunity performance and data, including outputs from climate-related scenarios analysis</li> <li>Monitoring compliance with underlying policies, including the Investment Governance, Policy and Process Framework. This framework includes roles and responsibilities for sustainable investment related matters.</li> </ul>	<p><b>BTIC is responsible for:</b></p> <ul style="list-style-type: none"> <li>Being informed and monitoring the implementation of BTNZ’s reporting obligations (including those as a Climate Reporting Entity).</li> </ul>
<b>Risk Oversight Committee (ROC)</b>	–	<p><b>The ROC is responsible for:</b></p> <ul style="list-style-type: none"> <li>Overseeing the effectiveness of risk management processes of BTNZ within the context of the BTNZ Risk Management Framework (RMF), including overseeing and monitoring the key components of BTNZ’s risk culture and risk profile</li> <li>Reviewing and discussing quarterly risk reports before noting or approval at the relevant Board meeting</li> </ul> <p>For more information on risk management, refer to the <b>Risk Management</b> section.</p>	–
<b>BTNZ Management responsibilities</b> <b>Investment management activities are managed by the BT Investment Solutions Team.</b>			
<b>BT Investment Solutions Team (BTIS)</b>	<p><b>BTIS’s responsibilities and decisions of the team include:</b></p> <ul style="list-style-type: none"> <li>Asset allocation (strategic and dynamic)</li> <li>Implementing the sustainable investment strategy, standards and targets approved by the BTNZ Board</li> <li>Selection, appointment, monitoring, and review of underlying investment managers’ performance and commitments in line with BTNZ’s Sustainable Investment Policy</li> <li>Developing and implementing the Sustainable Investment Policy and Strategy</li> <li>Developing and reviewing performance of the underlying Investment Manager Agreements (IMAs). Each IMA for each underlying Investment Manager includes sustainable investment (including BTNZ’s climate-related commitments, requirements and reporting obligations). For more information on the selection and appointment of underlying Investment Managers, refer to the <b>Strategy</b> section</li> </ul> <p>A Strategic Asset Allocation review is undertaken at least biennially.</p> <p>These responsibilities are undertaken on an ongoing basis, and include weekly team meetings, monthly Investment Manager monitoring meetings and monthly Sustainable Investment updates (which include climate-related risks and opportunities). Meetings with underlying Investment Managers are held quarterly.</p>	<p><b>BTIS’s responsibilities and decisions of the team include:</b></p> <ul style="list-style-type: none"> <li>Investment risk monitoring and management</li> <li>The identification, assessment (which includes scenario analysis) and management of climate-related risks and opportunities.</li> </ul> <p>The identification, assessment and management of climate-related risks and opportunities are undertaken on an ongoing basis.</p> <p>The scenario analysis was last undertaken in September 2023 and is planned for review in 2024.</p>	<p><b>BTIS’s responsibilities and decisions of the team include:</b></p> <ul style="list-style-type: none"> <li>Development and implementation of the systems and processes required for delivery of the scheme’s Climate Statements to support compliance with the Aotearoa New Zealand Climate Standards.</li> </ul>



# RISK MANAGEMENT

This section describes the processes BTNZ uses to identify, assess, and manage the material (important) climate-related risks applicable to the Westpac Active Series (and the funds within it). This section also explains how these processes are integrated into BTNZ's existing risk management processes.

## Processes for identifying, assessing and managing climate-related risks.

The BTNZ Risk Management Framework (RMF) provides a structured approach to identifying, assessing, managing, and reporting on risks, including climate-related risks. Using the BTNZ RMF ensures risks are assessed using the BTNZ Risk Matrix and that they form part of BTNZ’s Risk Profile.

Risk identification processes begin with assessing the internal and external environment to identify issues that have the potential to prohibit us from achieving key business objectives (including compliance obligations). Risks are then classified into Risk Classes (which are described in the RMF) to confirm the category to which the risk belongs. The climate-related Risk Classes we have identified are provided in **Table 3** on the right.

One of the key processes in identifying and assessing risks (including climate-related risks) is the Risk Profile review. The Risk Profile Review is reviewed every six months, with the results presented to the Board.

The BTNZ Risk Matrix is used to assess the likelihood, scope, size, and potential impact of identified risks. The risk impacts considered in this assessment include financial, customers, staff, regulatory compliance, reputation, social and environmental. One of the key outputs of this process is production of BTNZ’s Risk Profile which plots risks visually relative to other risks.

For information on the material climate-related risks we have identified, and the management of these, please refer to the **Strategy** section.

### Tools and methods used to identify and assess climate-related risks.

The tools and methods we use to identify and assess material climate-related risks are presented in **Table 3**.

BTNZ’s identified climate-related risks fall within strategic, market, reputation, and third-party Risk Classes.

### Timeframes used – short-term, medium-term, and long-term horizons considered.

The tools used to identify and assess climate-related risks apply different timeframes as shown in **Table 4**, which includes the rationale for why these timeframes are used.

**Table 3: Key tools and methods used to identify and assess climate-related risks.**

Risk Class	Risk description	Tools and methods	General frequency of assessment	Time horizon
Market	The risk that companies and other issuers (within the fund(s)) experience negative investment performance from the impacts of climate change which consequently affects the investment performance of the fund(s).	Climate scenario analysis (including macro-economic factors) provides information on how climate could impact the scheme’s and each fund’s performance.	Reviewed annually and updated as required	Short-term Medium-term Long-term
		Sustainable investment metrics – includes GHG emissions, metrics for transitional and physical risk exposure, and investments in climate solutions provide information on sustainable investment performance.	Varies from quarterly to annually depending upon the metric	Short-term
Third party – use of underlying Investment Managers	The risk that the underlying Investment Managers fail to manage the scheme (and the funds within it) in line with BTNZ’s climate commitments.	Sustainable investment reports from our underlying Investment Managers provide information on their progress towards achieving our sustainable investment commitments and managing our material climate-related risks.	Quarterly	Short-term
		Sustainable investment due diligence of underlying Investment Managers provides information on their capabilities and performance around sustainable investment.	Annually	Medium-term
Strategic	The risk that the scheme does not have an integrated strategy to address the transition towards a low-emissions, climate resilient economy.	Climate scenario analysis (including macro-economic factors) provides information on how climate could impact the scheme’s and each fund’s performance.	Reviewed annually and updated as required	Short-term Medium-term Long-term
		Sustainable investment metrics, including GHG emissions, metrics for transitional and physical risk exposure, and investments in climate solutions provide information on progress towards achieving our sustainable investment commitments and managing our material climate-related risks.	Varies from quarterly to annually depending upon the metric	Short-term
		Risk Profile Review – reviews the most significant risk exposures (including any potential climate-related impacts to identified risks if they are significant).	Six-monthly	Short-term
Reputation	The risk that the scheme (and funds within it) does not provide transparent communications to primary users.	We use the FMA guidance notes to identify and assess requirements around providing primary users transparent communications.	Varies depending on when FMA guidance is published	Short-term

**Table 4: Time horizons considered when identifying and assessing climate-related risks.**

Time horizon	Current year	Short-term	Medium-term	Long-term
Time Period		2 – 5 years	6 - 10 years	11 - 30 years
Year relative to 2023	2023	2025 to 2028	2029 to 2033	2034 to 2053
Rationale for selection	Current year	Aligns with Scheme Investment Strategy (which informs capital deployment) typical review timeframe.	Aligns with Climate Action Plans with the underlying Investment Managers (equities and listed properties). Aligns with Strategic Asset Allocation (which informs capital deployment) review timeframe.	Aligns with international emission reduction targets under the Paris Agreement. Aligns with the long-term climate ambition for the scheme.

**Value chain exclusions.**

The value chain encompasses the activities, resources, and relationships integral to the Westpac Active Series. The value chain for the Westpac Active Series is shown below in **Figure B**.

When considering the Westpac Active Series’ exposures to material climate-related risks, we consider the risks associated with the investment portfolios managed by our underlying Investment Managers and the companies and other issuers they invest in.

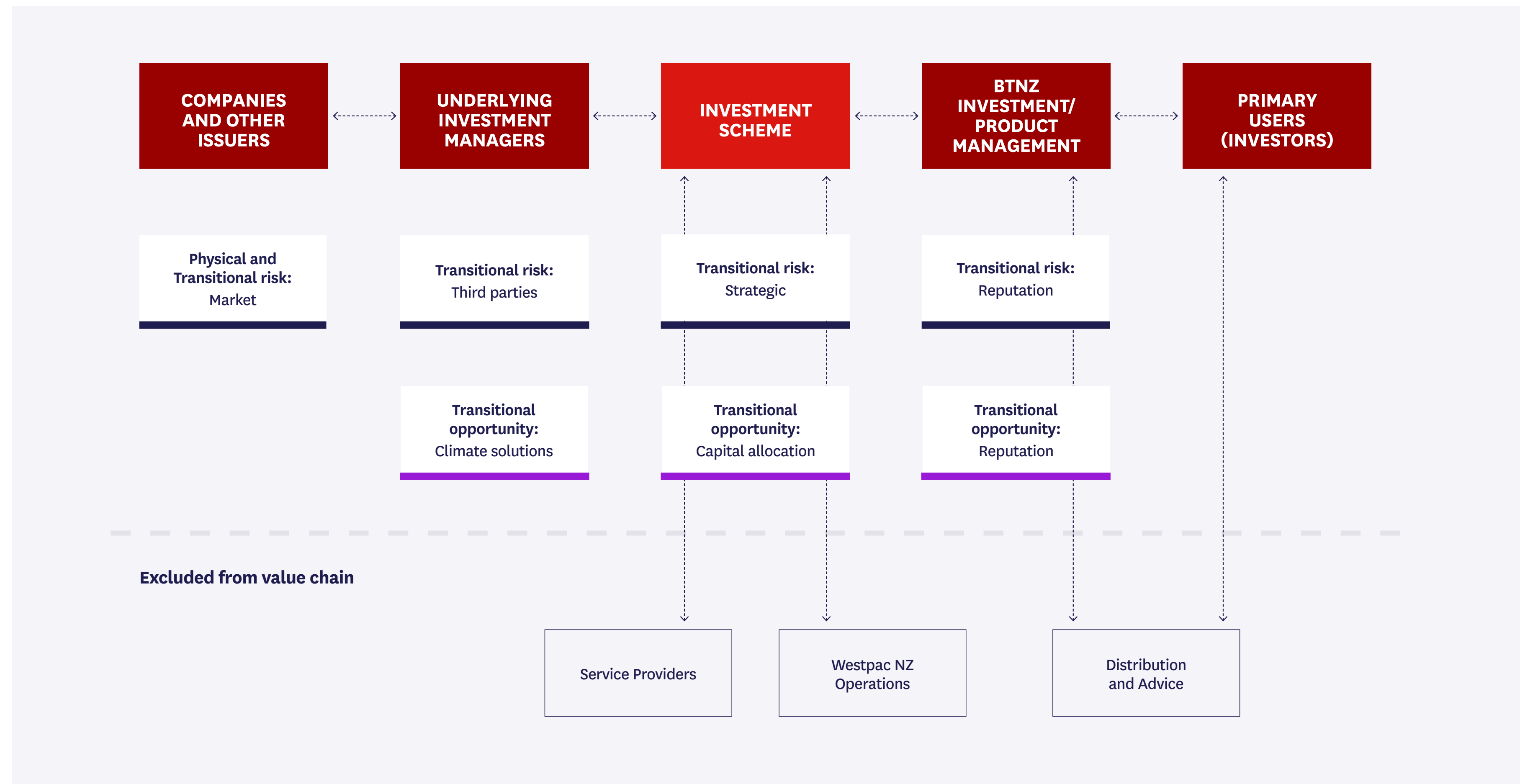
We are primarily exposed to potential physical and transitional climate impacts (positive and negative) through the companies and other issuers our underlying Investment Managers invest in.

The parts of the value chain that have been excluded include:

- Most service providers, such as internal and external Legal, internal Information Technology and Risk, and our Administrator, Supervisor and Custodians
- BTNZ and Westpac NZ Operations, such as facilities and staffing
- Our distribution channels and financial advisors.

These parts of the value chain have been excluded as they have been deemed not to present material climate-related risks to the Westpac Active Series in the short and medium term.

**Figure B: BTNZ’s value chain and exclusions.**



### How we prioritise climate-related risks relative to other types of risk.

In line with BTNZ’s RMF, prioritisation of material climate-related risks against other risks is dependent upon both the likelihood and potential impact of that climate risk occurring compared to those other risks and its potential impact on those other risks.

The periodic reviews of BTNZ’s Risk Profile enable Management and the Board to understand where the most significant exposure exists and ensures mitigating actions are appropriately prioritised. Using the BTNZ Risk Matrix and Risk Profile helps ensure consistency and clarity in the way climate-related risks are identified, assessed, and managed relative to other risks.

Proportionality is also considered when deciding whether to prioritise climate-related risks. The higher the likelihood and potential impact of a climate-related risk relative to other risks and the greater its potential impact on other risks, the higher priority it will receive.

### Integration of climate-related risks into overall management processes.

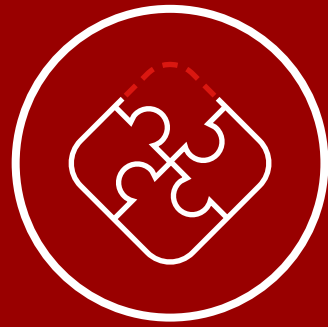
To effectively manage risk, BTNZ’s RMF has nine key components underpinned by a strong risk culture. These components operate independently and interactively to provide a complete approach for managing risk and delivering our key business objectives.

For information on how risk is integrated into investment strategy and processes, please refer to the **Strategy** section.

In line with BTNZ’s RMF, material climate-related risks are managed and integrated into our risk management tools and processes.

**Table 5: Risk management tools and processes.**

Risk Management Framework (RMF)	Purpose
<b>Risk Appetite Statement (RAS)</b>	Defines the desired risk profile and the maximum level of risk that BTNZ is prepared to take in the operation of its business.
<b>Risk Appetite Dashboard (RAD)</b>	The RAD supports and forms part of the RAS. The RAD contains key metrics against which BTNZ measures its adherence to the agreed risk appetite. The RAD contains a metric to measure any non-adherence with a fund’s investment limits (limit breaks) and/or breaches of our Sustainable Investment Policy.
<b>Policies</b>	The RMF is implemented through the adoption and development of policies, frameworks, and standards. Some of the policies and frameworks relevant to climate-related risks include: <ul style="list-style-type: none"> <li>• Sustainable Investment Policy</li> <li>• Investment Governance, Policy, and Process Framework</li> <li>• Underlying Investment Manager Policy</li> <li>• Managed Investment Scheme (MIS) Due Diligence Policy for relevant disclosure documents.</li> </ul>
<b>Data and Information Systems</b>	BTNZ uses management information systems for the monitoring and reporting of risks (including climate-related risks). Some of the key data and information systems used that are most relevant for the monitoring and reporting of climate-related risks are: <ul style="list-style-type: none"> <li>• BTNZ/Westpac Group’s Risk Management System</li> <li>• Data provided by FactSet</li> <li>• Data provided by Sustainalytics</li> <li>• Data provided by ProxyEdge</li> <li>• Bloomberg and other compliance monitoring systems</li> <li>• SAS</li> <li>• PowerBI information system.</li> </ul>
<b>Assurance activities</b>	BTNZ’s key controls (including those designed to manage climate-related risks) developed to manage its risks are recorded in the Risk Management System. BTNZ’s key controls are assessed annually by the BTNZ Risk & Compliance team. BTNZ is also working with an independent assurance provider to obtain limited assurance for future reporting periods over selected climate metrics such as GHG emission data.
<b>Incident and breach management</b>	The Westpac Group Incident Management Policy outlines the minimum requirements for identifying, reporting, and managing incidents across the Westpac Group. BTNZ uses the Risk Management System for recording and managing incidents and breaches (including climate-related incidents).
<b>Issues and action management</b>	Issues (and actions within the issues) are also recorded in the Risk Management System, assessed and assigned accountability based on significance, and are reviewed regularly to support remediation and closure. This includes climate-related issues (as required and/or appropriate).
<b>Risk Profile Review</b>	Six-monthly reviews of BTNZ’s Risk Profile are completed by Management. Climate-related risks are considered as part of the Risk Profile reviews (as required and/or appropriate).
<b>Risk reporting</b>	A quarterly Enterprise Risk Management Report (which includes climate-related risk matters as required) is prepared and presented to the BTNZ Risk Oversight Committee and Board for discussion. Any changes to BTNZ’s risks arising from the Risk Profile Review are included in these quarterly Reports. Sustainable investment reports (including climate-related risks) are presented to BTIC and the Board on a quarterly basis. BTNZ is working to further develop a climate-related risk dashboard.



# STRATEGY

This section describes the current impact of climate change on the Westpac Active Series (and the funds within it) and the potential for impact in the future. This section also describes the climate-related risks and opportunities we have identified, the scenario analysis that has been undertaken in respect to the Westpac Active Series (and the funds within it), and the steps we are taking, and plan to take, to position the scheme as the global and domestic economy transitions towards a low-emissions, climate-resilient future.

### Defining climate-related risks and opportunities.

Climate-related risks and opportunities relate to the financial and non-financial impacts that may occur to the Westpac Active Series (and the funds within it) because of climate change and the global transition to a low-emissions, climate resilient future.

**Climate-related risks** refer to the potential negative impacts of climate change on an investment scheme or fund. Climate-related risks can originate from the physical risks of climate change (such as increased droughts and storms, and sea level rise) and/or from transitional risks (such as new and/or changes to climate-related policies, reputational risks, heightened litigation risks, and market and technology risks through the climate transition).

**Climate-related opportunities** refer to the potential positive impacts of climate change on an investment scheme or fund. Investment performance can benefit from potentially increased returns by investing in opportunities to adapt to and mitigate the impacts of climate change (such as resource efficiency, renewable energy, new products and services, and building climate resilience).

The Westpac Active Series (and the funds within it) has potential exposures to these climate-related physical and transitional risks and climate-related opportunities on the scheme (directly) and through the companies and other issuers it is invested in. These exposures in turn have the potential to impact investment performance.

For more information on the tools and methods used to identify and assess climate-related risks refer to the **Risk Management** section.

### Climate-related risks.

**Table 6** describes the material climate-related risks we have identified and how we currently manage these risks.

For details on the tools and methods we used to identify these risks, the timeframes we have used, the links between these timeframes and our strategic investment planning horizons and capital deployment plans, and in which part of the value chain these risks are most likely to occur, refer to the **Risk Management** section.

For further information on the details of our Sustainable Investment Strategy and Sustainable Investment Policy, which we use for managing risks, including climate-related risks, refer to **Appendix 1**.

**Table 6: Overview of the material climate-related risks identified and how these are managed.**

Risk (including whether it is transitional or physical)	What is the risk?	Timeframe the risk applies to the most	How we are managing the risk, and how the risk serves as an input into capital deployment processes
<b>Transitional and Physical:</b> Market – the impacts of climate change on the financial system	The risk that companies and other issuers (within the fund(s)) experience negative investment performance from the impacts of climate change which consequently affects the investment performance of the fund(s).	Medium to long-term	We manage this through our investment strategy, which includes the Sustainable Investment Strategy and Sustainable Investment Policy. Practically, this includes integrating sustainable investment (which includes climate) into portfolio construction, underlying investment manager selection, appointment, monitoring, and review. We are working towards integrating the results of the scenario analysis into our Strategic Asset Allocation processes. We use a variety of metrics to monitor progress towards achieving our climate commitments.
<b>Transitional:</b> Third party – use of underlying Investment Managers	The risk that the underlying Investment Managers fail to manage the scheme (and the funds within it) in line with BTNZ’s climate commitments.	Short-term	BTNZ manages this through: <ul style="list-style-type: none"> <li>Underlying Investment Manager <b>selection processes</b>. Our policies include requirements for BTNZ to consider the manager’s ability to deliver on the Sustainable Investment Policy commitments as well as integrate climate-related risks and opportunities into their processes.</li> <li>Underlying Investment Manager <b>appointment processes</b>. This includes having Investment Manager Agreements with each of the managers. These agreements include requirements for our underlying Investment Managers to manage portfolios, capital allocation and report in accordance with our Sustainable Investment Policy. In addition, we have established Climate Action Plans for our equity and listed property managers.</li> <li>Underlying Investment Manager <b>monitoring processes</b>. This includes receipt and review of quarterly sustainable investment performance reporting from our underlying Investment Managers as well as quarterly meetings.</li> <li>Underlying Investment Manager <b>review processes</b>. This includes conducting annual sustainable investment due diligence on our underlying Investment Managers.</li> </ul>
<b>Transitional:</b> Strategic	The risk that the scheme does not have an integrated strategy to address the transition towards a low-emissions, climate resilient economy.	Short-term	Refer to Market risk above.
<b>Transitional:</b> Reputation	The risk that the scheme/fund does not provide transparent communications to primary users on its climate commitments.	Short-term	To ensure communications are transparent, we rely on our internal disclosure verification and review processes, including our formal Due Diligence processes for the Climate Statements.



**Table 7: Overview of the material climate-related opportunities identified and how these are managed.**

Opportunity (including whether it is transitional or physical)	What is the opportunity?	Timeframe this opportunity applies to the most	How we are managing these opportunities, including how they serve as an input into capital deployment processes
<b>Transitional:</b> Market (capital allocation)	The opportunity for the scheme/fund to invest in support of the climate transition.	Medium to long-term	We manage this by allocating capital to investments which support a low-emissions, climate resilient economy. For example, since December 2021, we have allocated capital towards a Paris Aligned benchmark strategy (refer to <b>Targets and Metrics</b> section).
<b>Transitional:</b> Market (climate solutions)	The opportunity for the scheme/fund to invest in companies and other issuers supporting climate mitigation and adaptation.	Medium to long-term	We manage this through our Sustainable Investment Policy commitment to work towards investing more in companies and other issuers supporting climate mitigation and adaptation themes (aligned to the EU Sustainable Investment Taxonomy Articles 10 and 11).
<b>Transitional:</b> Strategic	The opportunity for BTNZ to have a Sustainable Investment Strategy, with a clear climate ambition.	Short-term	Our climate ambition is outlined in our Sustainable Investment Policy and includes the Net Zero Asset Managers Initiative commitment.

**The current impact of material climate-related risks and opportunities on the scheme (and funds within it).**

Impact is the effect, or result, of a material climate-related risk or opportunity occurring on the Westpac Active Series (and the funds within it). The current impact is the impact within the current reporting period. **Table 8** and **Table 9** outline the current physical and transitional impacts of climate change on the Westpac Active Series (and the funds within it).

Impact can be positive or negative and can be attributed to either physical or transitional climate-related risks or opportunities.

For FY24, to determine the current impact, including financial impact, we used the following methodology:

1. We reviewed the identified risks and opportunities, to see whether they had been experienced in the current reporting period.
2. We considered whether there had been any climate-related:
  - Acute or discrete events (e.g. physical storms affecting the performance of companies and other issuers at a large scale to impact the scheme or any fund)
  - Chronic or ongoing changes to macro-economic factors (e.g. Gross Domestic Product (GDP) and/or inflation at a scale large enough to impact the scheme or any fund)

- Benefits realised (i.e. whether investments in climate-related opportunities had occurred at a scale large enough to impact the scheme or any fund).
3. We also monitored key metrics as shown in **Table 8** and **Table 9**. Refer to the **Targets and Metrics** section for their current state. We continue to monitor the market to identify other metrics that can be used to attribute the impacts of climate-related risk and opportunities on fund performance as and when they materialise. It is expected that precedent and data will become available as this analysis matures across the investment industry.

**Attributing current changes in fund investment performance to climate change.**

Although we recognise and acknowledge climate change as a market risk (i.e. a risk with the potential to impact fund performance), there is currently limited international precedent to determine the current physical and transitional impacts of climate-related risks and opportunities on an investment scheme.

Critically, when determining current (climate-related) impact (positive or negative), we need to be confident that changes in fund performance can be attributed directly to climate change. For example, many countries' Gross Domestic Product (GDP) changes during a reporting period, as do their inflation rates, however, these changes can be due to a variety of factors – of which climate change may only be one.

Therefore, we rely on a range of operational risk and opportunity metrics as outlined on the following page to measure the current impact from climate-related risks and opportunities on the scheme (and the funds within it). At this stage, we are unable to confidently quantify the current financial impact on the scheme (and the funds within it) that can be attributed solely to climate-related risks and opportunities. We are aware this area is relatively novel globally and acknowledge there is limited international precedent and data to draw upon.

We expect this to develop and mature with time and will continue to monitor developments as appropriate.

**Table 8: Summary of the impact of climate-related risks on the Westpac Active Series (and the funds within it) during the current reporting period**

Climate-related risks				
Risk class	What is the risk?	Metrics we monitor	Current impact to the scheme	Current financial impact to the scheme
<b>Transitional and Physical:</b> Market – the impacts of climate change on the financial system	The risk that companies and other issuers (within the fund(s)) experience negative investment performance from the impacts of climate change which consequently affects the investment performance of the fund(s).	The investment performance of each scheme (and funds within it).	Nil: We were not able to confidently attribute the impact of climate change to the scheme (and funds within it).	There was no measurable and/or material financial impact (positive or negative) on the Westpac Active Series (and the funds within it) within the current reporting period that can be directly and clearly attributed to climate change.
<b>Transitional:</b> Third party – use of underlying Investment Managers.	The risk that the underlying Investment Managers fail to manage the scheme (and the funds within it) in line with BTNZ’s climate commitments.	Number of underlying Investment Managers with signed Investment Management Agreements that include requirements for the manager to align to the (scheme/fund’s) Sustainable Investment Policy commitments.	All underlying Investment Managers have signed agreements which include requirements to align with our Sustainable Investment Policy commitments.	There was no measurable and/or material financial impact (positive or negative) on the Westpac Active Series and the funds within it) within the current reporting period that can be directly and clearly attributed to climate change and/or our climate commitments.
<b>Transitional:</b> Strategic	The risk that the scheme does not have an integrated strategy to address the transition towards a low-emissions, climate resilient economy.	We measure this through the transition plan aspect of our Investment Strategy.	Refer to the transition plan aspect of our Investment Strategy.	There was no measurable and/or material financial impact (positive or negative) on the Westpac Active Series (and the funds within it) within the current reporting period that can be directly and clearly attributed to climate change and/or our climate commitments.
<b>Transitional:</b> Reputation	The risk that the scheme (and funds within it) does not provide transparent communications to primary users.	The number of regulatory incidents (due to climate-related claims) in the reporting year.	There have been no regulatory incidents due to climate-related claims in the reporting year.	There was no measurable and/or material financial impact (positive or negative) on the Westpac Active Series (and the funds within it) within the current reporting period that can be directly and clearly attributed to our climate-related claims.

**Table 9: Summary of the impact of climate-related opportunities on the Westpac Active Series (and the funds within it) during the current reporting period**

Climate-related opportunities				
Opportunity class	What is the opportunity?	Metrics we monitor	Current impact to the scheme	Current financial impact to the scheme
<b>Transitional:</b> Market (capital allocation)	The opportunity for the scheme/fund to invest in support of the climate transition.	We measure the capital allocated to a Paris-Aligned investment strategy. We measure the financial impact as the change in fund investment performance.	During the reporting period, the scheme had exposure to a Paris-Aligned investment strategy. The allocation as at 31 March 2024 was 5.8% for the Westpac Active Series. Refer to the <b>Targets and Metrics</b> section for fund-level performance.	Although 5.8% of the scheme was allocated to a Paris-Aligned investment strategy in the reporting year, we have been unable to quantify changes to fund performance that can be directly and clearly attributed to climate change.
<b>Transitional:</b> Market (climate solutions)	The opportunity for the scheme/fund to invest in companies and other issuers supporting climate mitigation and climate adaptation.	We measure the % of equity and listed property issuers’ revenue that contributes to climate mitigation and adaptation themes (revenue that is eligible and aligned with the EU Taxonomy Articles 10 and 11).	As at December 2022, the % of revenue that was eligible and aligned with the EU Taxonomy (Articles 10 and 11) for equity and listed property issuers in the Westpac Active Series was 9.7%. Refer to the <b>Targets and Metrics</b> section for fund-level performance.	There was no measurable and/or material financial impact (positive or negative) on the Westpac Active Series (and the funds within it) within the current reporting period that can be directly and clearly attributed to climate change and/or our climate commitments.
<b>Transitional:</b> Reputation	The opportunity for BTNZ to have a Sustainable Investment Strategy, with a clear climate ambition.	We measure our continued eligibility with the Net Zero Asset Management Initiative commitments.	In the current reporting period, we maintained our Net Zero Asset Manager’s initiative commitments.	There was no measurable and/or material financial impact (positive or negative) on the Westpac Active Series (and the funds within it) within the current reporting period that can be directly and clearly attributed to climate change and/or our climate commitments.

## Climate Scenario analysis.

### What is a climate scenario?

The FMA (in its information sheet on scenario analysis, October 2023) describes a climate scenario as a “plausible, but hypothetical, description of a series of events leading to a particular future outcome”. The FMA further notes that “Scenarios are not forecasts or predictions of what is deemed most likely to happen. Nor are they sensitivities, or the result of probabilistic analyses. Instead, they represent plausible pathways to different futures. Scenarios are not comprehensive and all-encompassing depictions of the future”.

### What is scenario analysis?

Climate-related scenarios are based on a consistent set of assumptions about key driving forces and relationships covering both physical and transition risks. Scenario analysis allows us to assess potential changes in investment returns in various warming scenarios. These scenarios have been developed by inputting climate scientific data into econometric models. The outputs can then be mapped to potential changes in investment returns using a financial model. These potential changes are assessed by making assumptions on what may plausibly happen and to what extent market shocks are likely to be priced in.

We consider climate-related scenario analysis to be an important tool to better understand the reasonably expected anticipated financial impact that climate change could have on the financial performance of the funds that make up the Westpac Active Series over the short, medium, and long-term.

The climate scenario analysis tool we have used simulates the investment portfolio under a

range of possible future climate pathways and associated economic and market developments. The climate scenario tool quantifies the potential impact to fund performance under each of these plausible futures to test a fund’s resilience over our selected time horizons. These insights, in turn, can then be used to support and inform investment decision-making.

### What was the objective of our scenario analysis?

The key focal question of our scenario analysis was “*how climate change could plausibly impact the investment performance of the Westpac Active Series and funds within it over the short, medium and long-term*”.

The results of the analysis were used to help assess our climate-related risks and opportunities and will be used to inform and support the transition plan elements of our investment strategy.

### External partners and other stakeholders involved in the scenarios analysis.

We partnered with Mercer to complete our scenario analysis because they have expertise in climate research in relation to investment-related scenario analysis. We also partnered with Mercer so we could utilise climate-related scenarios they have developed (which are built upon those developed by Ortec Finance and Cambridge Econometrics). These organisations have developed globally appropriate models that draw upon climate science and economic research to provide information of potential climate impact on investment performance. We rely on Mercer for their methodology, approach and estimations and for the data to be accurate, consistent, available and complete.

## The climate scenarios we used.

**Table 10: A brief description of the plausible scenarios, their pathways and key driving forces we used.**

	4°C Failed Transition	<2°C Orderly Transition	1.5°C Rapid Transition
<b>Summary</b>	Average temperature increases above 4°C by 2100. The world fails to meet the Paris Agreement goals and global warming reaches 4.3°C above pre-industrial levels by 2100.	Average temperature increases of less than 2.0°C by 2100. This scenario assumes political and social organisations act in a co-ordinated way to implement the recommendations of the Paris Agreement to limit global warming to below 2°C. Political and social organisations act quickly and predictably to implement the recommendations of the Paris Agreement to limit global warming to below 2°C.	Average temperature increases of 1.5°C by 2100 in line with the Paris Agreement. This scenario assumes sudden large-scale downward re-pricing across multiple securities in 2026. This could be driven by a change in policy or realisation that policy change is inevitable, consideration of stranded assets or expected cost.
<b>Transitional impacts</b>	This scenario assumes the world fails to co-ordinate a transition to a low carbon economy and global warming exceeds 4°C above pre-industrial levels by 2100.	Transitional impacts do occur but are relatively muted across the broad market.	Sudden divestments in 2026, to align portfolios to the Paris Agreement goals, have disruptive effects on financial markets with sudden repricing followed by stranded assets and a sentiment shock.
<b>Physical impacts</b>	Physical climate impacts cause large reductions in economic productivity and there are increasingly negative impacts from extreme weather events. These are reflected in re-pricing events in the late 2020s and late 2030s. Whilst the frequency of extreme weather events is expected to more than treble between 2023 and 2100 (a 245% increase), the direct financial impacts are expected to increase sixfold (a 500% increase in 2020 US\$ terms) globally.	Limiting global warming below 2°C in line with the Paris Agreement, limits the impacts of extreme weather due to climate change. Direct losses from extreme weather events increase from US\$274 billion in 2021 to US\$528 billion in 2050 and near quadruple to US\$866 billion in 2100 (all in 2020 US\$ terms) globally.	Physical damages are limited the most under this scenario. Whilst the frequency of extreme weather events is expected to increase by 50% between 2023 and 2100, the direct financial impacts are expected to increase to nearly three times current values by 2100 (all in 2020 US\$ terms).
<b>Alignment to internationally recognised scenario sets</b>	Most closely corresponding to the ‘high emissions’ Intergovernmental Panel on Climate Change (IPCC) Shared Socioeconomic Pathway SSP3-RCP7.0 and the Network for Greening the Financial System Net Zero 2050 scenario sets. <sup>4</sup>	Most closely corresponding to the ‘low emissions’ IPCC SSP1-RCP2.6 pathway and the Network for Greening the Financial System below 2°C scenario sets.	Most closely corresponding to the ‘lowest emissions’ IPCC SSP1-RCPI.9 pathways and the Network for Greening the Financial System Current Policies scenario sets.

For additional information on scenario analysis undertaken, the scenario narratives, other driving forces and their plausible pathways, assumptions and limitations, please refer to **Appendix 2**.

4. IPCC Shared Socioeconomic Pathways are a series of scenarios synthesised by the IPCC, which outline different states of socio-economic prosperity and resilience by the year 2100, based on different possible trajectories of development. The Representative Concentration Pathways (RCPs) are a series of scenarios used by the IPCC, based on different projections of atmospheric concentrations of GHG emissions and other air pollutants, and land use, by the year 2100.

**Time horizons.**

For more information on the time horizons used in the analysis, and how those are linked to investment strategy planning horizons, refer to the **Risk Management** section.

We undertook scenario analysis over a 30-year horizon to 2053. This aligns with the 2050 climate ambition of the Paris Agreement and BTNZ’s net zero 2050 climate commitment.

**Why the selected scenarios are considered appropriate.**

The scenarios we chose to use were considered appropriate because:

- The Rapid (1.5°C) transition aligns with the climate ambition of BTNZ and the compliance requirements of the Aotearoa New Zealand Climate Standards. We considered this to be ‘best case’. This scenario primarily tests the resilience to transitional risk impacts, which are most dominant over the short term in this scenario.
- The Orderly (<2°C) transition scenario fulfils the compliance requirement of the Standards for a third climate-related scenario. It also serves as middle-ground between the Rapid transition and the Failed transition scenarios. We selected an orderly

transition as it provides an immediate and smooth policy reaction, with low regional policy variation as well as moderate technology change.

- The Failed (4°C) transition scenario represents a reasonably worst case situation and aligns with the compliance requirements of the Standards. This scenario mostly tests the resilience to physical risks, which are more dominant over the longer term (30-year horizon) in this scenario.

**Data sources for our scenarios.**

The scenario analysis was completed, on a fund-by-fund basis, using portfolio holdings as of 30 September 2023. Data provided to Mercer also included a breakdown of holdings per asset class benchmark.

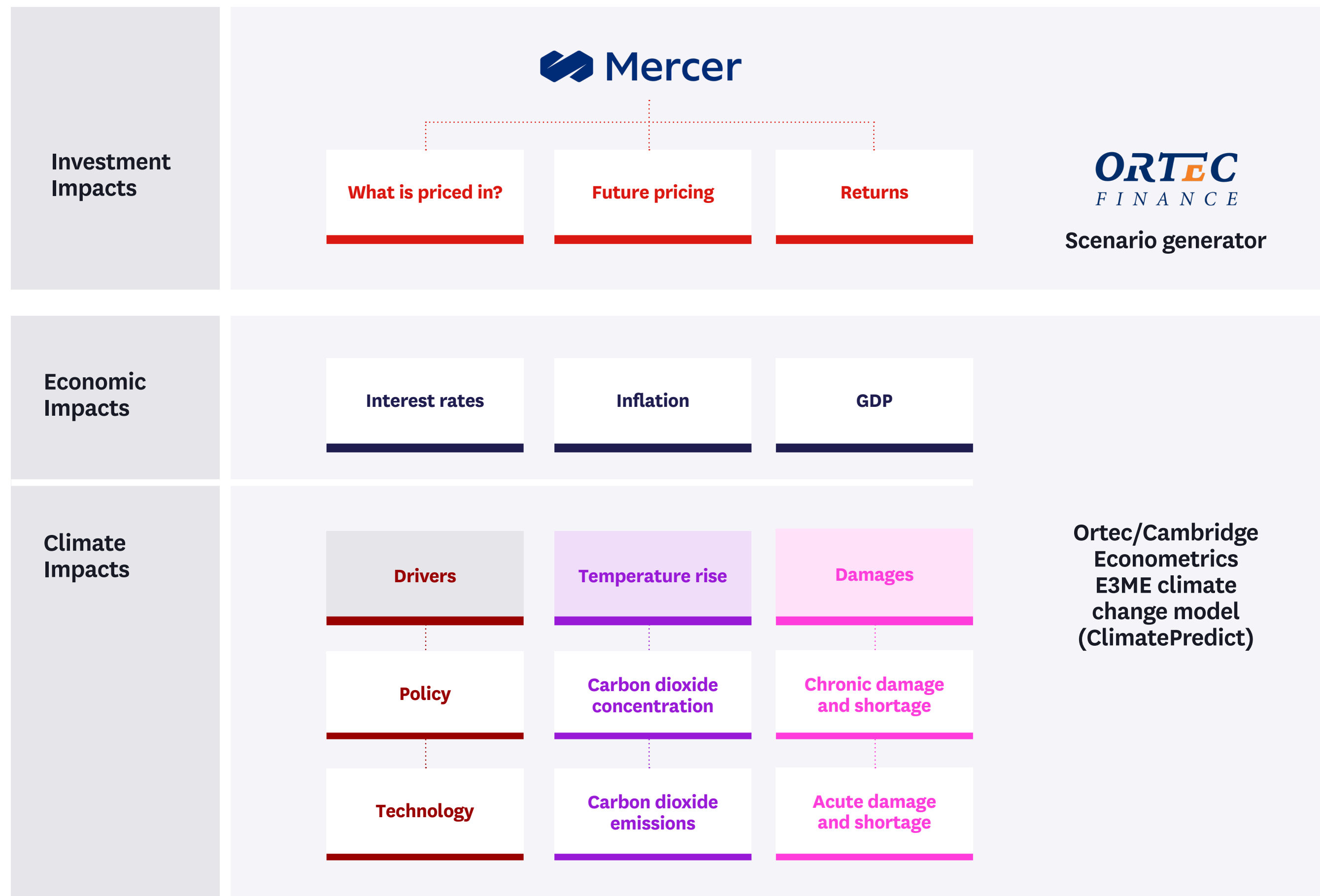
The Ortec ClimatePredict model, which supports the Ortec Financial Model, draws upon some key external source data such as United Nations data for hazard factors by city and World Bank data for Gross Domestic Product (GDP) projections, with most of the research being based on proprietary scientific research. These predictions are regularly calibrated, by Ortec Finance, against physical risk reference models such as that produced by Munich Re and EM-DAT for consistency and currency.

Further, the data used also closely aligned to historical extreme weather and natural catastrophe datasets such as Munich Re’s NatCatService (data available from 1980 until 2018). Munich Re then categorises natural disasters into four categories: meteorological (tropical, extra-tropical, convective, and local storms); hydrological (flood, mass movement wet); climatological (extreme temperature, drought, wildfire); and geological (earthquakes, volcanism).

This data feeds into the Ortec ClimatePredict model. The Cambridge Econometrics E3ME model draws on external source data such as the UN World Population Prospects, ILO modelled estimates, OECD LF, World Bank GDP, UN National Accounts Gross, OECD STAN database, OECD National Accounts, Asian Development Bank (ADB) exports, WIOD database Gross output, gross value added, labour cost statistics, IEA Energy Balances Energy demand, Eurostat statistics and EDGAR GHG emission data.

**The scenario analysis process.**

Figure C: The scenario analysis process.



**The scenario analysis process was standalone.**

2023 was the first time BTNZ has conducted a climate-related scenario analysis.

In this reporting period, the scenario analysis process was conducted as a standalone exercise. We consider this to be appropriate because it focused on assessing the reasonably expected anticipated financial impact of climate change on the Westpac Active Series (and funds within it). The scenario analysis was conducted based on a combination of Strategic Asset Allocation weights and holdings data as at 30 September 2023 (i.e. within FY24). We expect to re-run the scenario analysis again for the FY25 reporting period.

**The governance processes used to oversee and manage the scenario analysis process.**

BT Management (specifically the BT Investment Solutions team) were responsible for managing the FY24 scenario analysis process, including determining the focal question, assessing potential third-party providers, and liaising with our chosen third-party provider.

BT Investment Solutions was responsible for determining the time horizons used, providing the necessary data to the third-party data provider, and for reviewing the results. Going forward, BT Investment Solutions are responsible for integrating the key results of the scenario analysis into the overall investment strategy for the scheme.

The BT Investment Solutions team reviewed the results of the scenario analysis against

the current investment strategy. We are working towards integrating the results of the scenario analysis into our Strategic Asset Allocation processes.

The Board was responsible for reviewing and approving the climate-related scenarios and are responsible for ensuring that the key results of the scenario analysis are integrated into the scheme investment strategy. In December 2023, the BTNZ Board was provided with the scenario analysis findings and results for discussion, and approval in March 2024.

**The scope of each scenario analysis.**

The scenario analysis was undertaken for the funds within the scheme, focusing on the different asset classes within them.

For the Westpac Active Series (and the funds within it), equities and listed property, corporate and sovereign bonds, and cash asset classes were included.

**Modelling.**

We partnered with Mercer to utilise climate-related scenarios they have developed (alongside Ortec Finance and Cambridge Econometrics) to systematically explore the exposure of the Westpac Active Series (and the funds within it) to a range of plausible future events (potential impacts) and determine their impact on overall performance.

Ortec's ClimatePredict model combines the Cambridge Econometrics' E3ME model (a global model of energy systems, the

environment, and the economy), with the Ortec Finance Scenarios. Together these models allow us to translate the transitional and physical risks on issuers into economic shocks and assess the reasonably anticipated financial impacts on fund performance associated with climate change. The outputs of the model can then be integrated into our Strategic Asset Allocation processes.

In comparison to the Network to Greening the Financial System (NGFS) scenarios, the Ortec ClimatePredict model includes the likelihood of each scenario taking place. Further we consider the Ortec ClimatePredict model to be fit-for-purpose given our global investment strategy. We also consider the model to be appropriate as it considers global macroeconomic factors (i.e. a top-down approach).

**Key modelling assumptions.**

We have used the modelling assumptions provided by Mercer. The key economic modelling assumptions applied by Mercer focused on the pricing in of financial shocks as summarised below:

- A failed transition will see physical risks priced in over two different periods:
  - 2026 to 2030; and
  - 2036 to 2040.
- An orderly transition will see pricing in of the physical and transitional impacts over the first four years. Thereafter, additional impacts, beyond 1.5°C, are assumed to

impact fund performance on a year-by-year basis with no advance pricing in.

- A rapid transition will see the pricing in of transitional and physical risks occur within one year (in 2025). As a result of this aggressive market correction, a confidence shock to the financial system will take place in the same year.

For the scenario assumptions associated with changes in GDP and inflation, please refer to **Appendix 2.**

**Limitations and exclusions of scenario analysis and associated models.**

The impacts of climate change come with levels of uncertainty and therefore developing climate scenarios and undertaking scenario analysis requires modelling assumptions and simplifications. As with any modelling approach, there are limitations, and no economic model can fully capture or reflect the unknown complexities of climate change.

Attributing changes in fund performance to climate change is a very challenging and complex field of research. For example, it is currently not feasible for climatologists to undertake rigorous analysis of each extreme weather event, and for that to be considered in economic modelling. Although modelling procedures are now established, each model requires extensive computations and academic effort. Whilst the overall trends and extent of climate attribution in the Ortec ClimatePredict model are consistent with the trends in scientific studies completed to date, the

limitation of the model is that it is not possible to identify local factors that may modify or even reverse the effects of climate change.

A limitation of the Cambridge Econometrics’ E3ME model is that, for developing countries and some smaller countries (including New Zealand), there is some uncertainty in results due to data availability. Assumptions have been made in the model for household income, skills availability, and static energy prices.

Specific limitations of the approach adopted include:

- The further into the future the analysis goes, the less reliable any modelling will be. Scenario analysis cannot predict the future.
- There is a reasonable likelihood that physical impacts are grossly underestimated by the market. Feedback loops or ‘tipping points’, like permafrost melting, are challenging to model - particularly around the timing of such an event and the speed at which it could accelerate.
- Financial stability and insurance ‘breakdown’ have not been modelled. A systemic failure in the financial system may be caused by either an ‘uninsurable’ 4°C physical environment, or due to the scale of mitigation and adaptation required to avoid significant global warming.
- Most adaptation costs and social factors are not priced into the models. These include population health, civil unrest, and climate-related migration.

- The impact of adaptation measures on economic resilience have not been factored in.
- The carbon sequestration captured in the analysis relates to technology-based carbon capture & storage (CCS), but does not expressly cover carbon sequestration from afforestation, nature-based solutions or technology assumptions including negative emissions technology.

Climate change is affecting the frequency, clustering, and intensity of meteorological, hydrological, and climatological disasters. Whilst those are all considered in the Ortec ClimatePredict model, geophysical disasters are considered to not be affected by climate change to a significant degree and therefore excluded.

**Reasonably expected anticipated impacts and anticipated financial impacts.**

**Table 11** and **Table 12** outline the anticipated physical and transitional impacts of climate change that can be reasonably expected on the Westpac Active Series (and the funds within it). For this report, BTNZ has chosen to apply the first-time adoption provision for anticipated financial impacts.

The short-term timeframe aligns with the typical review timeframe for the Scheme’s Investment Strategy (which informs capital deployment). The medium-term timeframe used aligns with the current Climate Action Plans we have with our underlying Investment Managers (equities and listed properties) and aligns with our Strategic Asset Allocation review timeframes. For more information on timeframes refer to the **Risk Management** section.

**Table 11: Summary of the reasonably expected anticipated future impact of climate-related risks on the Westpac Active Series (and the funds within it).**

Climate-related risks					
Risk class	What is the risk?	Metrics we monitor	Timeframe this risk applies to the most	Anticipated impact to the scheme	Anticipated financial impact to the scheme
<b>Transitional and Physical:</b> Market – the impacts of climate change on the financial system	The risk that companies and other issuers (within the fund(s)) experience negative investment performance from the impacts of climate change which consequently affects the investment performance of the fund(s)	The investment performance of each scheme (and funds within it).	Medium-long term	The anticipated impact to the scheme would be that it experiences negative investment performance because of the impacts of climate change to companies and other issuers.	BTNZ has elected to utilise Adoption Provision 1, NZ CS 2 for FY24, exempting the disclosure of the anticipated financial impacts of climate-related risks and opportunities. We will use scenario analysis to help inform the reasonably expected anticipated investment performance changes of each fund.
<b>Transitional:</b> Third party risk – use of underlying Investment Managers.	The risk that the underlying Investment Managers fail to manage the scheme (and the funds within it) in line with BTNZ’s climate commitments.	Number of underlying Investment Managers with signed Investment Management Agreements that include requirements for the manager to align to the (scheme/fund’s) Sustainable Investment Policy commitments. Without these agreements, there is a risk the underlying Investment Managers do not actively work towards achieving our strategic objectives (as outlined above).	Short-term	We do not reasonably expect to have Investment Managers without signed Agreements that include requirements to align with the Sustainable Investment Policy commitments. As a result, there is no reasonably expected materially significant impact to the scheme in the short-term.	Refer to Market risk above.
<b>Transitional:</b> Strategic	The risk that the scheme does not have an integrated strategy to address the transition towards a low-emissions, climate resilient economy.	We measure this through the transition plans aspect of our investment strategy.	Short-term	Refer to the <b>Transition Plan aspects of the strategy</b> section below.	Refer to Market risk above.
<b>Transitional:</b> Reputation	The risk that the scheme (and funds within it) does not provide transparent communications to primary users.	The number of regulatory incidents due to external climate-related statements.	Short-term	We do not reasonably expect regulatory incidents to occur due to external climate-related statements. As a result, there is no reasonably expected materially significant impact to the scheme in the short-term.	We do not expect there to be any measurable and/or financial impact (positive or negative) on the Westpac Active Series (and the funds within it) because of this risk.

**Table 12: Summary of the reasonably expected anticipated future impact of climate-related opportunities on the Westpac Active Series (and the funds within it).**

Climate-related opportunities					
Opportunity class	What is the opportunity?	Metrics we monitor	Timeframe this opportunity applies to the most	Anticipated impact to the overall scheme	Financial anticipated impact to the overall scheme <sup>2</sup>
<b>Transitional:</b> Market (capital allocation)	The opportunity for the scheme/fund to invest in support of the climate transition.	We measure the capital allocated to Paris-Aligned investment strategy.	Medium to long-term	We will review our allocation to the Paris-Aligned investment strategy as part of our full transition plan. <sup>5</sup>	Refer to Market risk above.
<b>Transitional:</b> Market (climate solutions)	The opportunity for the scheme/fund to invest in companies and other issuers supporting climate mitigation and adaptation.	We measure the % contribution to climate mitigation and adaptation themes (revenue that is eligible and aligned with the EU Taxonomy Articles 10 and 11).	Medium to long-term	We reasonably expect companies and other issuers the scheme invests in to increase their contributions to climate mitigation and adaptation themes. <sup>6</sup> As a result, we reasonably expect the scheme’s contributions to climate mitigation and adaptation themes to also increase, through the scheme’s investment in those companies and other issuers.	Refer to Market risk above.
<b>Transitional:</b> Reputation	The opportunity for BTNZ to have a Sustainable Investment Strategy, with a clear climate ambition.	We measure our progress against the Net Zero Asset Management initiative commitments.	Short-term	In a constantly developing industry, we reasonably expect there may be changes to our commitments as internal and external developments occur and market practices change. These changes may inform changes to our Sustainable Investment Strategy and Sustainable Investment Policy, as relevant, as is current practice.	BTNZ has elected to utilise Adoption Provision 1, NZ CS 2 for FY24, exempting the disclosure of the anticipated financial impacts of climate-related risks and opportunities. We do not currently have a process to measure investment impact (positive or negative) on the Westpac Active Series (and the funds within it), that can be directly and clearly attributed to our climate ambition.

5. BTNZ has elected to utilise Adoption Provision 1, NZ CS 2 for FY24, exempting the disclosure of the anticipated financial impacts of climate-related risks and opportunities.

6. BTNZ recognises that the global and domestic economies are not moving as fast as the science recommends and that this departure creates a challenge in achieving our climate commitments. Whilst we acknowledge this may constrain our ambition, in the spirit of the Net Zero Asset Managers initiative, we remain committed to the challenge, and are working collaboratively with our underlying Investment Managers, to find solutions to these challenges.

## Transition aspects of the Investment Strategy for the Westpac Active Series.

### The business model for the investment scheme.

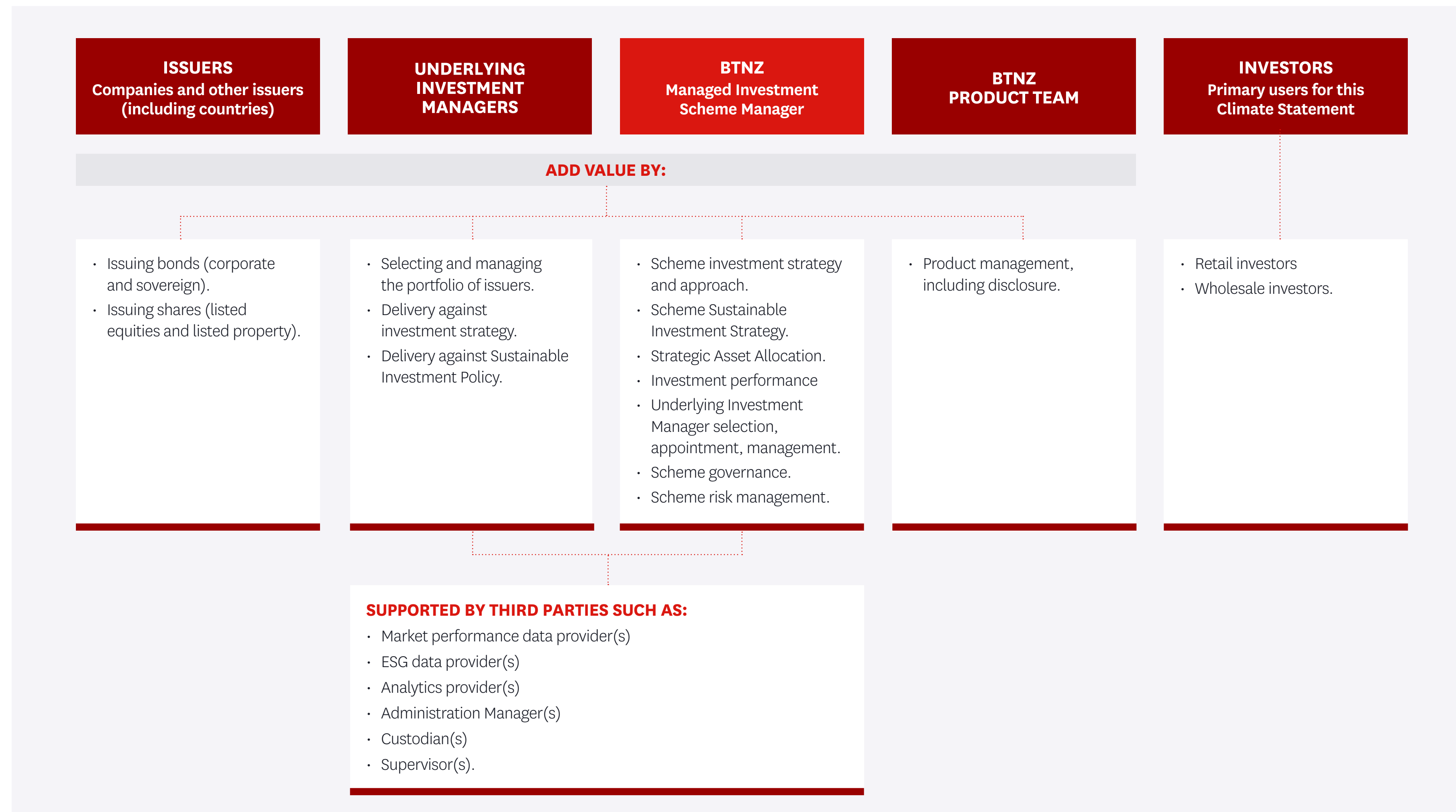
BTNZ is incorporated in New Zealand under the Companies Act 1993 and acts as Manager of managed investment schemes including the Westpac KiwiSaver Scheme, Westpac Active Series, and the Westpac Retirement Plan. We are a default KiwiSaver Provider.

BTNZ is responsible for the overall investment management of the Westpac Active Series (and the funds within it) including implementation of the investment strategy.

All investment decision-making responsibilities and authorisations are subject to the provisions of the governing rules of the relevant schemes and the requirements of applicable legislation. We must perform our responsibilities in accordance with the requirements of our New Zealand financial market services license as the manager of registered managed investment schemes under the Financial Markets Conduct Act 2013.

The business model we use to deliver the investment strategy for the Westpac Active Series (and the funds within it) is described on the right.

Figure D: The business model for the Westpac Active Series.





## Our investment purpose and approach.

### Investment purpose.

As one of NZ’s largest fund managers, we recognise the immense capacity and responsibility we have to drive sustainable value for our customers, people, communities and environment. We believe investing sustainably helps us achieve this vision and manage investment risk and opportunities.

### Investment philosophy and strategy.

The investment strategy for the scheme dictates capital deployment and funding decision-making.

The investment strategy for the scheme is based on the broad principles of diversification, value for money, the blending of investment strategies and selection of specialist underlying Investment Managers for each asset class, and sustainable investment. This is backed by a research-driven approach focused on identifying and managing risk and sourcing value-add opportunities. The use of these broad principles is intended to deliver more consistent risk-adjusted performance to investors.

BTNZ determines an appropriate investment strategy for the Westpac Active Series (and the funds within it).

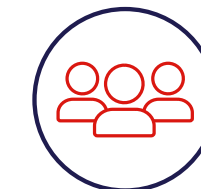
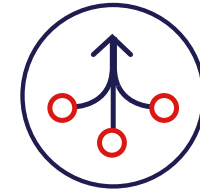
BTNZ has established a range of funds with different risk/return profiles to suit the needs of a wide range of investors. Each fund within

the Westpac Active Series has a specific investment strategy and objective and offers a different mix of investments.

### Sustainable investment philosophy and strategy.

The Sustainable Investment Policy applies to the management of the scheme. The purpose of this policy is to articulate BTNZ’s general approach to incorporating sustainable investment into BTNZ’s investment decisions. Sustainable investing refers to managing assets by integrating environmental (E), social (S) and corporate governance (G) factors into the investment management process. BTNZ’s approach to sustainable investment focuses on four key pillars: Exclusions, ESG Integration, Stewardship and Sustainable Themes.

Table 13: Our investment strategy.



#### Diversification

Diversification is achieved by investing across a range of growth and defensive (income) asset classes, and within each asset class investing in a diversified portfolio of issuers.

We achieve our desired market risk exposures for each fund through Strategic Asset Allocation.

#### Value for money

The overall investment strategy seeks to deliver appropriate value for money for investors (primary users).

#### Use of specialist Investment Managers

We adopt a multi-manager approach to diversify investment styles and generate more consistent performance outcomes.

We use both local and global managers.

Some assets are managed internally by BT Investment Solutions (NZ Cash and NZ Fixed Interest).

#### Sustainable investment

We aim to invest each fund in line with our Sustainable Investment Strategy and Sustainable Investment Policy.

We aim to invest in line with our climate commitments.

The approach we have adopted focuses on four key pillars.

These pillars are:

- Exclusions
- ESG Integration
- Stewardship
- Sustainable Themes.

**How climate-related risks and opportunities serve as an input into capital deployment and funding decision-making.**

Sustainable investment (which includes investing in-line with our climate commitments) serves as an input into our investment strategy. This includes investment analysis, capital deployment and funding decision-making.

Inputs occur at multiple levels for portfolio construction, manager selection and monitoring, and security selection (with varying degrees of maturity for each asset class). We continue to develop the processes for integrating climate-related risks and opportunities into the sovereign and corporate bond (fixed interest) asset classes. We will also continue to incorporate climate-related risks and opportunities into our Strategic Asset Allocation process.

**The current transition plan aspects of our Investment Strategy.**

BTNZ’s commitment to the transition to a low-emissions, climate resilient future was first articulated in our Sustainable Investment Strategy. This was first developed in 2020 and reviewed in June 2023.

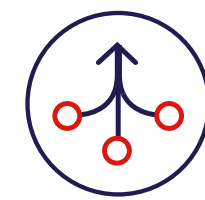
Our Sustainable Investment Strategy is supported by our Sustainable Investment Policy. Both the strategy and the policy set out how BTNZ positions itself as the global and domestic economy transitions towards a low-emissions, climate-resilient future. It

includes BTNZ’s climate-related commitment of supporting the goal of net zero GHG emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels. We are committed to aligning our assets under management to a 1.5°C target pathway. For further information on our climate commitments, baselines and phase in periods for each asset class, refer to the **Targets and Metrics** section.

We have focused on equities and listed property asset classes for the allocation of capital towards climate mitigation and adaptation themes. We will continue to investigate options to include other asset classes, such as corporate and sovereign bonds during the FY25 reporting period.

BTNZ will disclose its full transition plan in its FY25 Climate Statement, as required by NZ CS 1. For FY24, BTNZ employs Adoption Provision 3, NZ CS 2. For FY24, we have described our progress, including the current transition plan aspects of our investment strategy that have already been undertaken. This is provided in **Table 14**.

**Table 14: The current transition plan aspects of our Investment Strategy that we have completed.**



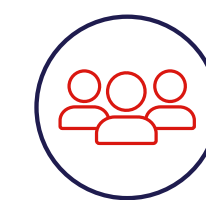
**Diversification**

The scheme continues to achieve diversification by investing across a range of asset classes and by using a variety of underlying Investment Managers.



**Value for money**

In November 2021, we allocated capital towards a climate investment strategy tracking to a 1.5°C pathway following an EU Paris-Aligned Benchmark regulation. This was completed in partnership with Legal & General Investment Management (LGIM) one of our underlying Investment Managers.



**Use of specialist underlying Investment Managers**

In September 2023, we changed two of our global equity Underlying Investment Managers to appoint managers with specialist knowledge in sustainable investment practices.

One of those managers, Mirova, agreed to integrate an allocation to climate mitigation and adaptation themes into the investment strategy.

Prior to their appointment, investment, operational and sustainable investment due diligence was undertaken.

Climate commitments – During 2023, we worked with our global equity and listed property managers to develop individual Climate Action Plans.<sup>7</sup> These plans set individual Investment Manager-level short and medium-term GHG emission reduction targets and contain the agreed management approach to achieve our climate commitments.



**Sustainable investment**

In December 2021, we released our updated Sustainable Investment Policy, which outlined our climate commitments.

Climate change has been integrated into our Sustainable Investment pillars as follows:

- **Exclusions** - In 2021, we expanded the scope of our exclusions to include additional categories of fossil fuel related issuers.
- **ESG Integration** – We continue to integrate environmental, social and governance factors into investment decisions and we expect our underlying Investment Managers to do the same.
- **Sustainable themes** – As methodologies and data became available, we began monitoring our investments in climate mitigation and climate adaptation.
- **Stewardship** – In 2021, we updated our stewardship engagement priorities, voting guidelines and collaboration initiatives to include climate change considerations.

We became a signatory to Climate Action 100+ which is an investor-led initiative to ensure the world’s largest corporate GHG emitters take necessary action on climate change.

<sup>7</sup> An action plan that contains the agreed short- and medium-term targets, actions, and the approach to be taken by each underlying equity and listed property Investment Manager to help achieve BTNZ’s climate commitments.

**The future transition plan aspects of our Investment Strategy.**

Our full transition plan will be provided in FY25. Currently planned aspects of our Investment Strategy are shown in **Table 15**.

**Table 15: The future transition plan aspects of our Investment Strategy.**

Diversification	Value for money	Use of specialist Investment Managers	Sustainable investment
<p>For the equity and listed property asset class, we will continue to develop our understanding around sector-level exposure to transitional risks.</p> <p>We will incorporate climate-related risks and opportunities into our Strategic Asset Allocation processes.</p>	<p>Our full transition plan will be provided in FY25.</p>	<p>In partnership with our underlying Investment Managers, we will continue to assess options to increase contributions towards our climate mitigation and adaptation themes.</p> <p>We will continue to monitor the Climate Action Plans of our individual underlying Investment Managers to continue working towards our short- and medium-term GHG emission reduction targets.</p>	<p>We will continue to implement our Sustainable Investment Policy commitments.</p> <p>We will continue to develop our processes to support the integration of climate-related risks and opportunities into our corporate and sovereign bonds asset classes. We are dependent upon investment strategies being developed for this asset class.</p>

**Achieving our climate commitments is reliant on companies and other issuers (including governments) reducing their GHG emissions.**

Through our Sustainable Investment Strategy and Sustainable Investment Policy, BTNZ is committed to supporting the global and domestic economy in its transition to a low-emissions, climate-resilient future.

BTNZ’s commitments are made in the expectation that issuers will follow through on their commitments to ensure the objectives of the Paris Agreement are met, including countries increasing the ambition of their Nationally Determined Contributions. However, BTNZ recognises that the global and domestic economies are not moving as fast as science recommends and that this departure creates a challenge in achieving our climate commitments. We will continue to invest in line with the risk/return expectations of the scheme. Whilst we acknowledge this may constrain our ambition, in the spirit of the Net Zero Asset Managers initiative, we remain committed to the challenge, and are working collaboratively with our underlying Investment Managers, to find solutions to these challenges.

Further, BTNZ acknowledges that additional challenges exist for some asset classes. These challenges include a lack of accurate, complete, and reliable data as well as a lack of internationally agreed net zero methodologies. Market practices in relation to these asset classes are expected to evolve over time.



# TARGETS AND METRICS

This section describes how BTNZ measures and monitors its climate-related risks and opportunities. It also provides a basis for climate-related targets and metrics upon which you can compare schemes and/or funds.

## Targets.

### Our GHG emissions reduction targets.

To help achieve an orderly transition, and to address our strategic risk, BTNZ has established short- (2025) and medium-term (2030) GHG emission reduction targets (as per Overview of our GHG emission reduction targets section). Our short- and our medium-term targets are based on the Science Based Target Initiative for Financial Institutions guidance and the UN-convened Net Zero Asset Owner Alliance Target Setting Protocol (Second edition).<sup>8</sup> Aligned with the 2030 Net Zero Asset Manager’s initiative (NZAMi) commitment we expect to review our targets at least every five years.

To measure progress against our short-term and medium-term targets we monitor both an absolute gross GHG emission and an intensity (carbon footprint) metric. We have been working with our equities and listed property underlying Investment Managers to develop Climate Action Plans to integrate short- (to 31 December 2025) and medium-term (to 31 December 2030) targets. As at 31 March 2024, Climate Action Plans had been agreed for most of the equities and listed property underlying Investment Managers. As at the date of publication of this Climate Statement, Climate Action Plans for all equities and listed property underlying Investment Managers have been agreed. The targets for the listed property assets contained in these Climate Action Plans are

the same reduction targets disclosed below for equities. As we are ahead of our schedule for phasing in the listed property asset class, the performance data below includes data for both equities and listed property asset classes.

We are aiming to phase in corporate and sovereign bonds asset classes in 2025 in the transition plan aspects of our strategy. The performance against the targets below includes listed properties. For certain asset classes, where GHG emissions data is not currently available or sufficient, we will set our baselines based on data availability. Derivatives, cash and cash equivalents are currently difficult asset classes for the investment industry to integrate climate targets into as the target calculation methodologies, data availability and product offerings are limited.

In accordance with our NZAMi membership commitment, we have made a long-term climate commitment to support the goal of net zero GHG emissions by 2050 or sooner by managing assets in line with a 1.5°C pathway. This commitment is based on the Paris Agreement and Intergovernmental Panel on Climate Change (IPCC) special report on global warming of 1.5°C.

BTNZ’s commitments are made in the expectation that companies and countries (governments) will follow through on their commitments to ensure the objectives of the Paris Agreement are met, including increasing

the ambition of their Nationally Determined Contributions. Whilst we acknowledge failure to follow through on such commitments would constrain our ambition, in the spirit of the NZAMi, we remain committed to the challenge, and are working collaboratively with our underlying Investment Managers, to find solutions to these challenges.

### Overview of our GHG emission reduction targets.

The targets below were set during the reporting period. Please see commentary above in relation to listed property target setting.

<b>Short-term target – 31 December 2025</b>	For equities; <ul style="list-style-type: none"> <li>• Absolute gross GHG emissions of 28.4% at linear or 41.3% at geometric progression compared to our baseline of 31 March 2019<sup>9</sup> (absolute target); and/or</li> <li>• GHG emissions footprint reduction of 28.4% at linear or 41.3% at geometric progression compared to our baseline of 31 March 2019 (economic emissions intensity target).</li> </ul>
<b>Medium-term target – 31 December 2030</b>	For equities; <ul style="list-style-type: none"> <li>• Absolute gross GHG emissions of 49.4% at linear or 60.3% at geometric progression compared to our baseline of 31 March 2019 (absolute target); and /or</li> <li>• GHG emissions footprint reduction of 49.4% at linear or 60.3% at geometric progression compared to our baseline of 31 March 2019 (economic emissions intensity target).</li> </ul>

8. <https://www.unepfi.org/net-zero-alliance/resources/target-setting-protocol-second-edition/>

9. Refers to the pathway to monitor the reduction of equities and listed properties absolute gross GHG emissions or carbon footprint. The manager is required to monitor the portfolio using their preferred management approach against either of the set pathways. Linear means management of the cumulative annual linear GHG emission reduction (4.2% p.a.) during the timeframe of our targets. Geometric means management of the cumulative annual geometric GHG emission reduction (7.6% p.a.). Linear reduction looks like a straight line on a graph, geometric progression is similar to a curve. Please refer to **Figure E** for a graphical presentation of the scheme’s linear and geometric reduction pathways.

**Offsets.**

BTNZ does not currently rely on the use of GHG emission offsets to achieve its short- or medium-term targets (or in respect of its 2050 commitment) and will continue to develop its position on the use of offsets.

**Performance against our targets.**

**Table 16** presents the performance against our targets by absolute gross GHG emissions and carbon footprint metrics for the Westpac Active Series, for equities and listed properties.

For information on how we calculate our GHG emissions, please refer to the GHG emissions section of this report, and **Appendix 3**.

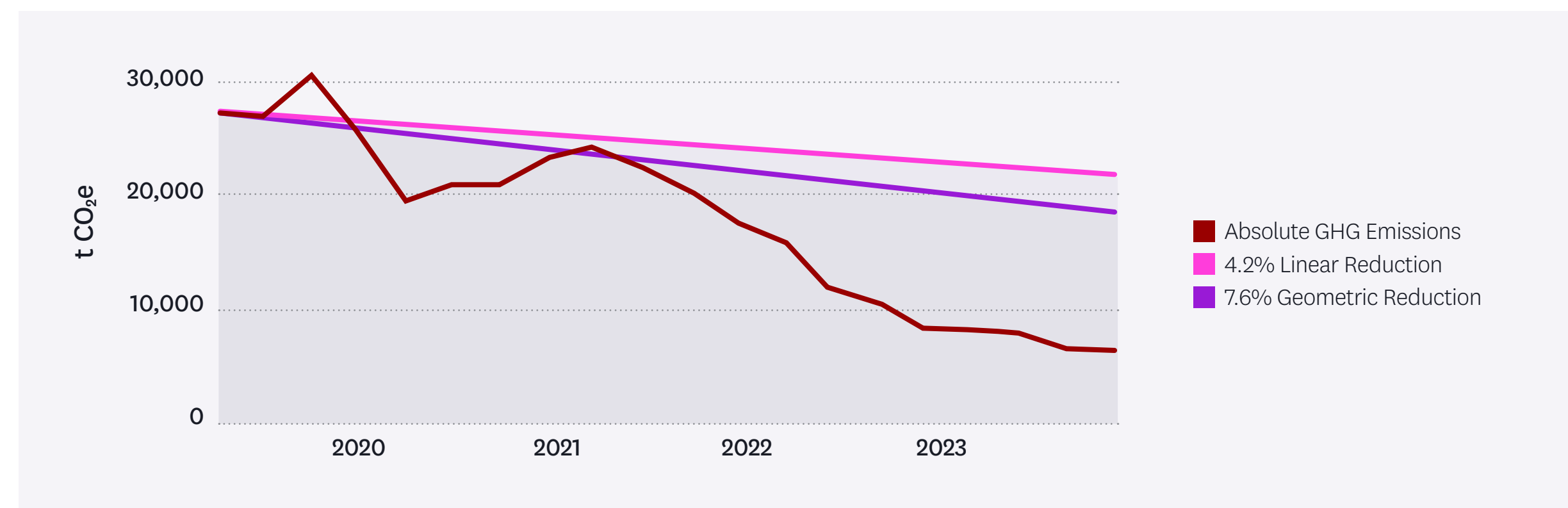
**Table 16: Performance against our targets by absolute gross GHG emissions and carbon footprint metrics for the Westpac Active Series, for equities and listed property.**

	% equities and listed property assets held	Equities and listed properties coverage ratio	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% equities and listed property assets held	Equities and listed properties coverage ratio	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% change in GHG emissions	% change in AUM
	31 March 2019 (baseline)	31 March 2019 (baseline)	31 March 2019 (baseline)	31 December 2023	31 December 2023	31 December 2023	From 31 March 2019 (baseline) to 31 December 2023	From 31 March 2019 (baseline) to 31 December 2023
<b>Absolute gross GHG emissions</b> (metric t of CO <sub>2</sub> e) (Scope 1 and 2 of equities and listed properties).	39.2%	68.2%	27,391.6	47.9%	88.6%	6,879.8	-74.9%	-49.6%
	% equities and listed property assets held	Equities and listed properties coverage ratio	Carbon footprint (t CO <sub>2</sub> e/\$m invested)	% equities and listed property assets held	Equities and listed properties coverage ratio	Carbon footprint (t CO <sub>2</sub> e/\$m invested)	% change in carbon footprint	% change in AUM
	31 March 2019 (baseline)	31 March 2019 (baseline)	31 March 2019 (baseline)	31 December 2023	31 December 2023	31 December 2023	From 31 March 2019 (baseline) to 31 December 2023	From 31 March 2019 (baseline) to 31 December 2023
<b>Carbon footprint</b> (metric t of CO <sub>2</sub> e /NZ\$m invested) (Scope 1 and 2 of equities and listed properties).	39.2%	68.2%	54.9	47.9%	88.6%	18.3	-66.6%	-49.6%

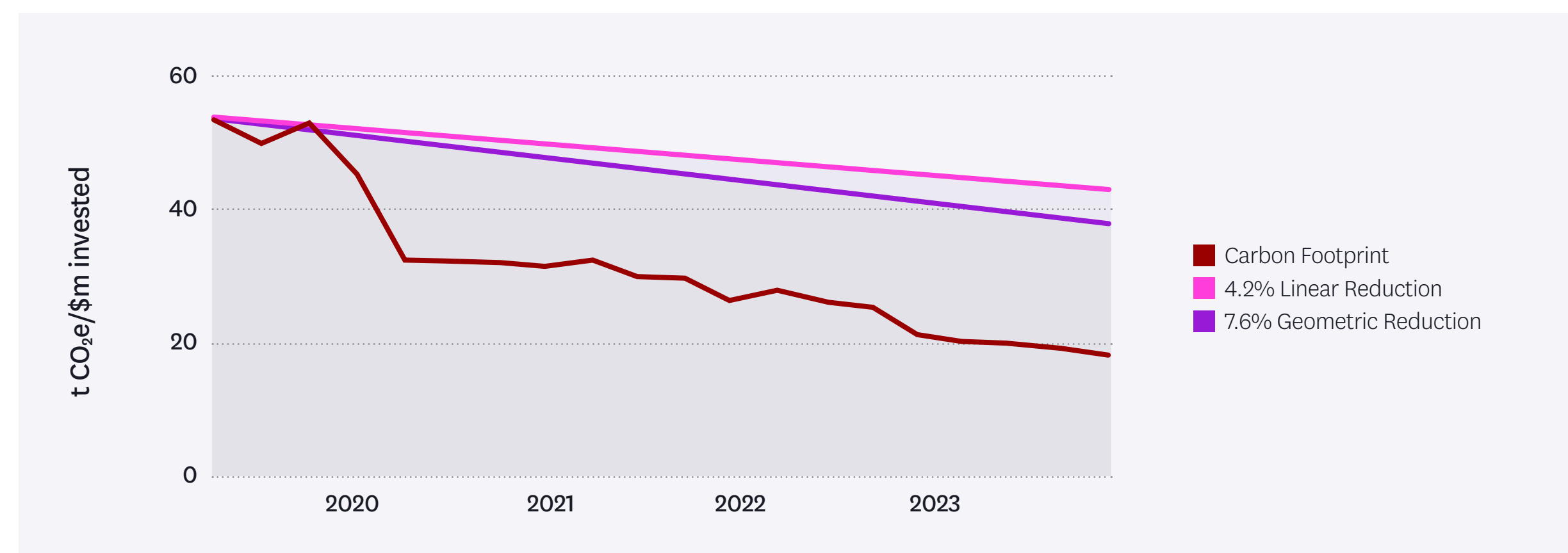
Figure E presents graphically the performance against our targets by absolute gross GHG emissions and carbon footprint metrics for the Westpac Active Series, for equities and listed properties.

Figure E: Graphic presentation of performance against our targets by absolute gross GHG emissions and carbon footprint metrics for the Westpac Active Series, for equities and listed properties.

**Absolute GHG Emissions (Scope 1 + 2).**



**Carbon Footprint (Scope 1 + 2).**



From 31 March 2019 to 31 December 2023, the Westpac Active Series’ carbon footprint reduced by 66.6%. During the same period, the absolute gross GHG emissions reduced by 74.9%. The reduction in absolute GHG emissions was larger than the carbon footprint due to a reduction in the Westpac Active Series’ total AUM.

A material driver of the changes in absolute GHG emissions over the period from 31 March 2019 to 31 December 2023, was a change in fund size (AUM). It was further affected by a variety of factors which also drove changes in the carbon footprint. These included changes to:

- Holdings of equities and listed properties;
- Underlying Investment Managers;
- Company value (Enterprise Value including Cash (EVIC));
- Companies’ GHG emissions and
- Data coverage and/or revisions.

Whilst the data is indicating we have achieved our short-term GHG emission reduction targets, changes in the factors described above may impact our continued achievement of this target. We are also aware that the global and domestic economies are not moving as fast as science recommends and that this creates a challenge in achieving our climate commitments in the future. Our forward-looking commitments are made in the expectation that companies and countries (governments) will follow through on their commitments to ensure the objectives of the Paris Agreement are met.

## Metrics.

### Overview of our climate-related risk and opportunity metrics.

This section provides our climate-related risks and opportunities metrics. At present, these metrics apply to the equities and listed property asset classes only. We are working towards adding in additional metrics related to other asset classes when data and/or methodologies become available.

**Table 17** provides a summary of the metrics we are using along with the baseline (base year) used for each metric, the date of the most recent available and most complete sustainable data, and the date of the most recent holdings data. To derive the metrics, the datapoint and the fund holdings are combined, and most are using a weighted-average methodology.

**Table 17: Summary of metrics.**

Metrics	We measure	Metric baseline	Most recent sustainable data date	Most recent scheme or fund holdings data date	Use of weighted average methodology
<b>The GHG emissions of the scheme (and funds within it)</b>					
<b>GHG emissions</b>	Absolute gross GHG emissions	31 March 2019	31 December 2022	31 December 2023	EVIC-weighted
<b>GHG emissions intensity</b>	Carbon footprint	31 March 2019	31 December 2022	31 December 2023	EVIC-weighted
	Weighted average carbon intensity	31 March 2019	31 December 2022	31 December 2023	Portfolio-weighted
<b>Supporting our climate-related opportunities: Industry-based metrics</b>					
<b>Climate mitigation and adaptation opportunities (sustainable theme) -</b> Working towards investing more in companies and other issuers supporting climate mitigation and adaptation	% of companies and other issuer's revenue eligible and aligned to the EU Sustainable Investment Taxonomy (Articles 10 and 11) definition	31 December 2021	31 December 2022	31 December 2022	Portfolio-weighted
<b>Capital deployment -</b> Capital deployed to investments which support a low-emissions, climate-resilient economy	% exposure to Paris-Aligned Benchmark strategy	31 December 2020	31 December 2023	31 March 2024	Portfolio-weighted
<b>Measuring our exposures to transitional risks and physical risks: Industry-based metrics</b>					
<b>Exposure to sectors vulnerable to higher transitional risk</b>	% AUM exposure to sectors vulnerable to higher transitional risk	31 March 2024	31 March 2024	31 March 2024	Portfolio-weighted
<b>Exposure to assets vulnerable to physical risk</b>	Total loss ratio (relative to cash flow) category – RCP2.6 (~2°C) / RCP8.5 (3.2°C to 5.4°C)	31 December 2021	31 December 2021	31 December 2021	Portfolio-weighted
<b>Implied Temperature Rise score</b>	We are working on assessing this metric and currently evaluating the appropriateness of the methodology and adequacy of the supporting data.				
<b>Other key performance indicators used to manage climate-related risks and opportunities</b>					
<b>ESG risk score (industry-based)</b>	ESG risk score	31 March 2019	31 March 2024	31 March 2024	Portfolio-weighted
<b>Internal emissions price</b>	We do not use an internal emissions price				
<b>Remuneration</b>	Not applicable	1 October 2023	Not applicable		



### Overall methodology for calculating each metric.

For the equity and listed property asset class metrics, we first determine the exposure weighting that each equity or listed property issuer has in the scheme and/or the funds within it. We then calculate the weighted average. Two important aspects of data and methodology we use are data coverage ratio and the use of weighted averages.

#### Data coverage ratio.

The % exposure ratio of equities and listed properties is calculated as:

- Exposure (%) equities and listed properties =  $\frac{\text{Sum of \$ market value of equities and listed property issuers in fund or scheme}}{\text{sum of \$ market value all issuers in fund or scheme}}$

For each relevant metric, the coverage ratio is calculated as:

- The sum of the market value of the equities and listed properties with available data (from a third-party data provider) in the scheme or fund, divided by the total market value of all equities and listed properties in the scheme or fund (excluding bonds, cash, and derivatives).

A coverage ratio is calculated for each metric applied to a scheme or fund.

### Use of weighted averages.

All metrics, unless otherwise indicated, are calculated as the weighted average of the equities and listed property assets held in the scheme or fund, using the data available. Each metric uses either a portfolio or EVIC (Enterprise Value including Cash) weight to determine its exposure for the equities and listed property issuers.

In the weighted-average calculations, the weight used can either be based solely on the market value of assets or incorporate the EVIC of each equity and listed property issuer as shown in the formulae below. All metrics in this section are calculated with equity and listed property issuers who have all data available to calculate the corresponding metric.

The rationale of which weight is applied is based on each metric’s methodology and aggregated into the relevant scheme or fund segmentation.

#### Portfolio equity and listed property weight is calculated as:

- $\frac{\text{[Market value of the equity or listed property issuer in the selected scheme or fund]}}{\text{[Sum of Market value of the equity or listed property issuer in the scheme or fund]}}$

#### EVIC equity and listed property weight is calculated as:

- $\frac{\text{[Market value of the equity or listed property issuer in the selected scheme or fund]}}{\text{[Market EVIC of the equity or listed property issuer in scheme or fund]}}$

### The GHG emissions of the scheme and funds.

As recognised in the guidance for MIS Managers, there are no materially significant Scope 1 and 2 emissions arising from the scheme (and the funds within it) itself. Instead, we report the scheme’s and the funds’ Scope 3 financed GHG emissions, which in this report covers the Scope 1 and 2 GHG emissions of the investee companies.

For the scheme, the primary source of GHG emissions lies within the downstream financed (invested) GHG emissions of the companies and other issuers we invest in. These invested GHG emissions are recognised and defined using the GHG Protocol “Scope 3 Standard”. Within this Climate Statement, we have provided information on companies (equities and listed property assets) only. This Climate Statement contains Scope 1 and Scope 2 emissions data only. Scope 3 coverage (including historical) is limited and incomplete at present and has been excluded from this Climate Statement due to challenges relating to comparability and accuracy for this data.

BTNZ will be introducing a process to measure corporate and sovereign bond GHG emission exposure in FY25. The data and methodology to calculate GHG emissions for cash and cash equivalents is not yet available.

There are a variety of GHG emissions measures we monitor:

Metric	Description	Unit
<b>Absolute gross GHG emissions: Sum of Scope 1 and 2</b>	The absolute Scope 1 and 2 GHG emissions associated per scheme or fund.	metric t CO <sub>2</sub> e
<b>Carbon (GHG) emission footprint: Scope 1 and 2</b>	Total GHG emissions for a scheme or fund normalised by the market value of the scheme or fund for Scope 1 and 2. This is used to understand emission intensities based on a monetary unit. This is also known as economic emissions intensity.	metric t CO <sub>2</sub> e/NZ\$M invested
<b>Weighted average carbon (GHG) emission intensity: Scope 1 and 2</b>	Total weighted average GHG emissions per million dollars of revenue of the companies held by the schemes or funds of Scope 1 and 2. This is used to understand the exposure to GHG emission intensive companies of the scheme or fund.	metric t CO <sub>2</sub> e/NZ\$M company revenue

For more information on our GHG emissions calculation methodology, assumptions, exclusions, limitations, and uncertainties, and how we calculate absolute gross GHG emissions, carbon footprint and carbon intensity, please refer to **Appendix 3**.

Obtaining information required to disclose GHG emissions relies on information from third parties. Due to delays in the availability of holdings data, BTNZ is disclosing GHG emissions as of 31 December 2023 instead of 31 March 2024. This date has a higher proportion of coverage (84% compared to 69% for 31 March 2024) across the scheme and funds.

For more information on the main drivers of reductions in GHG emissions, please refer to **Performance against our targets**, in this section.

Table 18: The performance of the equities and listed properties assets of the Westpac Active Series' (and the funds within it) invested GHG emissions.

Absolute gross GHG emissions (t CO <sub>2</sub> e, Scope 1 and 2)																
	% equities and listed property assets held	Data coverage ratio %	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% equities and listed property assets held	Data coverage ratio %	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% equities and listed property assets held	Data coverage ratio %	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% equities and listed property assets	Data coverage ratio %	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% equities and listed property assets held	Data coverage ratio %	Absolute gross GHG emissions (t CO <sub>2</sub> e)	% change in absolute GHG emissions
	31 March 2019 (baseline)	31 March 2019 (baseline)	31 March 2019 (baseline)	31 December 2020	31 December 2020	31 December 2020	31 December 2021	31 December 2021	31 December 2021	31 December 2022	31 December 2022	31 December 2022	31 December 2023	31 December 2023	31 December 2023	From 31 March 2019 (baseline) to 31 December 2023
<b>Balanced Trust</b>	54.2%	69.8%	10,217.0	57.4%	86.3%	9,063.2	63.1%	87.9%	7,370.3	56.8%	88.8%	3,390.3	60.2%	88.5%	2,810.6	-72.5%
<b>Conservative Trust</b>	18.5%	64.8%	2,107.5	19.9%	84.9%	1,554.1	22.0%	87.4%	1,124.5	18.1%	88.9%	495.8	20.2%	88.6%	398.5	-81.1%
<b>Growth Trust</b>	72.2%	68.2%	2,856.1	76.5%	86.0%	2,599.3	83.3%	87.8%	2,364.0	76.3%	88.9%	1,329.1	80.2%	88.6%	1,163.9	-59.2%
<b>Moderate Trust</b>	35.5%	67.5%	12,211.0	38.0%	85.6%	10,093.7	42.7%	87.7%	6,959.1	37.3%	88.8%	3,110.0	40.2%	88.5%	2,506.8	-79.5%
<b>Income Strategies</b>	The fund does not include equities or listed property exposure and is therefore excluded from the analysis															
<b>Westpac Active Series</b>	39.2%	68.2%	27,391.6	43.4%	85.9%	23,310.3	49.2%	87.8%	17,817.8	44.2%	88.8%	8,325.2	47.9%	88.6%	6,879.8	-74.9%

**Table 19: The performance of the equities and listed properties assets of the Westpac Active Series' (and the funds within it) carbon intensity.**

Carbon intensity (Scope 1 and 2, t CO <sub>2</sub> e / NZD million company revenue)			
	31 March 2019 (baseline)	31 December 2023	% change
Balanced Trust	100.7	51.0	-49.4%
Conservative Trust	99.2	51.2	-48.4%
Growth Trust	100.1	51.4	-48.6%
Moderate Trust	99.6	51.1	-48.7%
Income Strategies	The fund does not include equities or listed property exposure and is therefore excluded from the analysis		
Westpac Active Series	100.0	51.1	-48.9%

**Table 20: The performance of the equities and listed properties assets of the Westpac Active Series' (and the funds within it) GHG emission footprint.**

Portfolio GHG emission footprint (Scope 1 and 2, t CO <sub>2</sub> e /NZD million invested)			
	31 March 2019 (baseline)	31 December 2023	% change
Balanced Trust	56.1	18.3	-67.4%
Conservative Trust	53.3	18.4	-65.6%
Growth Trust	54.9	18.4	-66.5%
Moderate Trust	54.1	18.3	-66.2%
Income Strategies	The fund does not include equities or listed property exposure and is therefore excluded from the analysis		
Westpac Active Series	54.9	18.3	-66.6%

For more information on the methods, assumptions, exclusions, limitations, and uncertainties we apply in calculating performance of our GHG emission targets refer to, **The GHG emissions metrics of our funds** part of this section, and **Appendix 3** for the methodology.

## Supporting climate-related opportunities.

This section covers the metrics used to track the investments in climate-related opportunities:

- Capital deployed to a Paris-Aligned strategy.
- Capital allocated towards companies and other issuers with revenues supporting climate mitigation and adaptation (in line in the EU Sustainable Investment Taxonomy Articles 10 and 11).

These metrics will overlap in some instances.

### Capital deployed to a Paris-Aligned strategy.

Our capital deployment metric measures the exposure of each scheme (and the funds within it) to the Paris-Aligned Benchmark strategy managed by our underlying Investment Manager, Legal & General Investment Management (LGIM). The strategy integrates the 1.5°C target of the Paris Agreement into its portfolio construction process and is aligned to the EU Paris-Aligned Benchmark regulation.

We commenced allocating to the Paris-Aligned Benchmark strategy in 2021, following approval of our Sustainable Investment Strategy in 2020. Allocation to the Paris-Aligned Benchmark strategy has been increasing since 2021, consistent with achieving our overall investment goals and climate targets.

The weighted capital deployment metric for the scheme (and funds within it) is calculated as:

- Sum of market value of equity and listed property strategies managed to a Paris-Aligned Benchmark per fund or scheme/ total AUM per fund or scheme.

**Table 21** represents the exposure to a Paris-Aligned Benchmark strategy for the equities and listed property portion of the Westpac Active Series, and the funds within it.

### Capital allocated towards companies and other issuers with revenues supporting the climate mitigation and adaptation theme.

BTNZ is seeking to invest more in companies and other issuers that provide – and therefore derive their revenues from - climate mitigation and adaptation solutions. Climate mitigation and adaptation is defined by the eligibility and alignment of companies and other issuers’ revenue to the EU Sustainable Investment Taxonomy (Articles 10 and 11) definition.

- **Climate change mitigation** (Article 10 of the EU Sustainable Investment Taxonomy) refers to activities that contribute substantially to the stabilisation of GHG emissions in the atmosphere at a level consistent with the long-term temperature goal of the Paris Agreement through the avoidance or reduction of GHG emissions or the increase of GHG removals including through process and product innovations.

- **Climate change adaptation** (Article 11 of the EU Sustainable Investment Taxonomy) refers to adaptation activities that either substantially reduce the risk of the adverse impact of the current climate and the expected future climate on that economic activity, without increasing the risk of an adverse impact on people, nature or assets or activities that provide adaptation solutions.

**Table 21: % exposure to Paris-Aligned Benchmark strategy of the Westpac Active Series and the funds within it.**

% exposure to Paris-Aligned Benchmark strategy (exposure by fund)										
	% equities and listed property assets held	% exposure to Paris-Aligned Benchmark strategy	% equities and listed property assets held	% exposure to Paris-Aligned Benchmark strategy	% equities and listed property assets held	% exposure to Paris-Aligned Benchmark strategy	% equities and listed property assets held	% exposure to Paris-Aligned Benchmark strategy	% equities and listed property assets held	% exposure to Paris-Aligned Benchmark strategy
	31 December 2020	31 December 2020 (baseline)	31 December 2021	31 December 2021	31 December 2022	31 December 2022	31 December 2023	31 December 2023	31 March 2024	31 March 2024
Balanced Trust	57.4%	0%	63.1%	3.5%	56.8%	4.9%	60.2%	6.8%	60.4%	7.2%
Conservative Trust	19.9%	0%	22.0%	1.1%	18.1%	1.5%	20.2%	2.3%	20.5%	2.4%
Growth Trust	76.5%	0%	83.3%	4.3%	76.3%	6.5%	80.2%	8.9%	80.1%	9.4%
Moderate Trust	38.0%	0%	42.7%	2.2%	37.3%	3.2%	40.2%	4.5%	40.7%	4.9%
Income Strategies	The fund does not include equities or listed property exposure and is therefore excluded from the analysis									
Westpac Active Series	43.4%	0%	49.2%	2.6%	44.2%	3.8%	47.9%	5.4%	48.5%	5.8%

We are working with our underlying Investment Managers to encourage them to invest more in companies and other issuers that provide climate change mitigation and adaptation solutions. For BTNZ, this means working towards investing more in companies and other issuers that provide or adopt renewable energy, energy efficiency, climate mitigation or adaptation solutions to substantially reduce the extent of climate impacts on the environment, people and assets. Progress on implementing this is constrained by a lack of reporting by companies on their investments in climate change mitigation and adaptation, a lack of investment strategies, and issues with data availability. Additionally, data availability from companies outside the EU is even more limited. These issues result in low data coverage ratios. We expect this to improve moving forward.

This metric assesses the percentage of revenue that equities and listed properties assets per scheme/fund obtain from eligible activities (reported and estimated) aligned with the EU Sustainable Investment Taxonomy climate mitigation and adaptation articles.

The weighted climate mitigation and adaptation % revenue exposure metric for the scheme (and funds within it) is calculated as:

- Sum of (% revenue from eligible and aligned activity of equity and listed property issuers \* portfolio weight).

We use data from our third-party data provider who has developed a methodology to assess a company's alignment with the EU Sustainable

Investment Taxonomy requirements. Their methodology currently covers Articles 10 and 11 and is based upon their own activity-based research.

The research involves our third-party data provider identifying the share of a company's revenues attributed to economic activities aligned to the EU Taxonomy (Articles 10 and 11). Through their activity-based research, they seek to identify any company involvement in Taxonomy eligible activities (associated with climate change mitigation and adaptation). The next step our third-party data provider takes involves checking whether a company's identified EU Taxonomy eligible aligned activities meet the criteria for Articles 10 and 11 (climate change mitigation and adaptation) and other sustainability screens (such as companies and other issuers found to be in breach of minimum social safeguards, i.e. UN Global Compact principles).

**Table 22** represents the percentage of eligible and aligned revenue that equities and listed property issuers receive by providing climate change mitigation or adaptation solutions per scheme or fund.

**Table 22: Percentage of eligible and aligned revenue that issuers receive for the Westpac Active Series (and the funds within it) by providing mitigation or adaptation solutions.**

	% equities and listed property assets held		Climate mitigation and adaptation eligible and aligned revenues data coverage ratio %		Climate mitigation and adaptation eligible and aligned revenues (equities and listed property assets)	
	31 December 2021 (baseline)	31 December 2022	31 December 2021 (baseline)	31 December 2022	31 December 2021 (baseline)	31 December 2022
<b>Balanced Trust</b>	63.1%	56.8%	40.8%	52.6%	8.3%	12.4%
<b>Conservative Trust</b>	22.0%	18.1%	39.6%	52.6%	8.9%	12.5%
<b>Growth Trust</b>	83.3%	76.3%	40.8%	52.5%	8.7%	12.5%
<b>Moderate Trust</b>	42.7%	37.3%	40.5%	52.6%	8.6%	12.4%
<b>Income Strategies Trust</b>	The fund does not include equities or listed property exposure and is therefore excluded from the analysis					
<b>Westpac Active Series Scheme</b>	<b>49.2%</b>	<b>44.2%</b>	<b>40.6%</b>	<b>52.6%</b>	<b>8.5%</b>	<b>12.4%</b>

BTNZ used the above data points drawing on data as at 31 December 2022 as these data points represent the most accurate, complete, and reliable data that is available at the time of writing this Climate Statement.

**Measuring exposures to transitional risks and physical risks.**

This section covers the metrics relevant to measuring exposure to climate-related transitional and physical risks;

- Exposure to sectors vulnerable to higher transitional risk,
- Exposure to equities and listed property assets vulnerable to physical risk.

The scheme’s exposure to transitional risks and physical risks is through the underlying Investment Managers who construct the individual portfolios. As we do not construct portfolios directly (for equities and listed properties), these metrics will be primarily used in the future to monitor the performance of our underlying Investment Managers.

We are working on assessing the use of an Implied Temperature Rise metric and we are currently evaluating the appropriateness of the methodology and adequacy of the supporting data.

**Exposure to sectors vulnerable to higher transitional risk.**

The Task Force on Climate-related Financial Disclosures (TCFD) has identified non-financial sectors as more likely to be financially impacted than others due to their exposure to transitional risks. These sectors are grouped into four key areas: Energy; Transportation; Materials and Buildings; Agriculture, Food, and Forest Products.

The sectors vulnerable to higher transitional risk identified by the TCFD are listed below:

TCFD Sector	Energy	Transportation	Materials and Buildings	Agriculture, Food, and Forest Products
TCFD Industry	Oil and Gas	Air Freight	Metals and Mining	Beverages
	Coal	Passenger Air Transportation	Chemicals	Agriculture
	Electric Utilities	Maritime Transportation	Construction Materials	Packaged Foods and Meats
		Rail Transportation	Capital Goods	Paper and Forest Products
		Trucking Services	Real Estate Management and Development	
		Automobiles and Components		

We have mapped the scheme’s and the funds’ exposure to these sectors vulnerable to higher transitional risk for the equities and listed property assets. BTNZ intends to complete more sector exposure analysis in the coming years using both this data and the results of the scenario analysis.

An important step BTNZ has taken to reduce exposure to sectors vulnerable to higher transitional risk was the introduction of many fossil fuel exclusions in 2020, following approval of our Sustainable Investment Strategy in 2020. For more information on exclusions, refer to our Sustainable Investment Policy contained in **Appendix 1**.

The weighted exposure to sectors vulnerable to higher transitional risk metric for the scheme (and funds within it) is calculated as:

- Sum of equity and listed property issuers’ market value by each TCFD industry asset class/sum of equity and listed property issuers market value in each fund.

**Table 23** represents a snapshot in time as of 31 March 2024 of the scheme’s/each fund’s equities and listed property assets and the scheme’s/each fund’s exposure to sectors vulnerable to higher transitional risk.

**Table 23: Exposure (percentage) of equities and listed property assets of Westpac Active Series (and the funds within it) to sectors vulnerable to higher transitional risk**

	% equities and listed property assets held	Data coverage ratio %	Sector exposure (% of equities and listed properties)			
			Energy	Transportation	Materials and Buildings	Agriculture, Food, and Forest Products
<b>31 March 2024</b>						
<b>Balanced Trust</b>	60.4%	84.4%	3.9%	2.6%	16.7%	2.5%
<b>Conservative Trust</b>	20.5%	84.4%	3.9%	2.6%	16.7%	2.5%
<b>Growth Trust</b>	80.1%	84.1%	4.0%	2.6%	16.7%	2.4%
<b>Moderate Trust</b>	40.7%	84.3%	3.9%	2.6%	16.7%	2.5%
<b>Income Strategies Trust</b>	The fund does not include equities or listed property exposure and is therefore excluded from the analysis					
<b>Westpac Active Series</b>	<b>48.5%</b>	<b>84.3%</b>	<b>3.9%</b>	<b>2.6%</b>	<b>16.7%</b>	<b>2.5%</b>

**Exposure of equities and listed property assets vulnerable to physical risk.**

For the equity and listed property assets, the direct and indirect acute and chronic risks associated with climate change, and the subsequent associated financial losses for an issuer have been identified using our third-party data provider’s Physical Climate Risks Metrics dataset. Examples of losses that issuers could experience, and that have been captured by this metric, include physical asset damage, losses in production capacity and disruptions to critical infrastructure. The resulting metric is the Total Loss Ratio category.

The Total Loss Ratio category considers direct and indirect losses that listed equities and properties can experience. Direct losses are associated with the likelihood that climate hazards negatively impact the physical assets that the company owns and/or which the company has some level of control over. The indirect losses that an issuer can experience includes access to services and resources that the company does not own and/or have control over, including local critical infrastructure.

As the dataset includes the impacts of physical risk on an issuer, two climate change scenarios are addressed in this Total Loss Ratio category metric:

- Representative Concentration Pathway (RCP) 2.6 (a world transitioning to a future warming of ~2°C by the end of the century) and
- RCP8.5 (a scenario resulting in global warming ranging from 3.2°C to 5.4°C by 2100).

The weighted Total Loss Ratio (relative to cash flow) metric for the scheme (and funds within it) is calculated as:

- Sum of (portfolio weight of each equity or listed property issuer in fund or scheme \* total loss ratio of equity or listed property issuer).

The Total Loss Ratio is an accumulation of an issuer’s physical asset damage and productivity losses to 2100, compared to an issuer’s projected cashflow to 2100, with a discount rate of 7%.

Categorisation of severity is expressed through the issuer’s ability to cover losses relative to cash flow from 2022 to 2050. Categories of physical risk severity rank from **negligible, low, medium, high, severe, to severe (negative cash flow).**

This metric is a new metric for us and our third-party data provider. The data presented in Table 20 is based on limited coverage of our equities and listed properties in our funds. This is due to the limited amount of location specific disclosures made by companies at this time which are required to undertake a comprehensive physical risk analysis. For example, revenue, property, plant, and equipment broken down by country are not currently widely reported. Therefore, availability of data inputs to measure physical risk exposures, the methodology, data coverage, timeliness, and our approach to calculate, assess, and report on the physical risk is evolving. This means that in future, the categorisation of the severity of this metric is likely to differ and therefore be restated. We are also unable to provide comparative information and an analysis of the main trends evident from such a comparison against previous reporting periods. BTNZ cautions against reliance on this metric.

We have used the data as at 31 December 2021 as this is the data available from our third-party data provider at the time of preparing this Climate Statement. BTNZ intends to use this metric to monitor the physical risk exposure of the equities and listed property assets within the scheme (and the funds within it). As we do not construct portfolios directly, we intend to use these metrics in the future to monitor the performance of our underlying Investment Managers.

**Table 24** represents a snapshot in time as of 31 December 2021 to the exposure of equities and listed property assets within the scheme and/or fund vulnerable to physical risk.

**Table 24: Exposure of equities and listed properties assets of the Westpac Active Series (and the funds within it) vulnerable to physical risk.**

	Data coverage ratio %	% equities and listed property assets held	Total Loss Ratio (relative to cash flow) category – RCP2.6 to 2100	Total Loss Ratio (relative to cash flow) category – RCP8.5 to 2100
<b>31 December 2021</b>				
Balanced Trust	42.9%	63.1%	Low	Low
Conservative Trust	38.2%	22.0%	Low	Low
Growth Trust	40.6%	83.3%	Low	Low
Moderate Trust	40.8%	42.7%	Low	Low
Income Strategies Trust	The fund does not include equities or listed property exposure and is therefore excluded from the analysis			
Westpac Active Series	<b>41.5%</b>	<b>49.2%</b>	<b>Low</b>	<b>Low</b>

**Other key performance indicators used to manage climate-related risks and opportunities.**

**Internal emissions price.**

Internal emissions pricing is a mechanism by which issuers can put a value on tons of CO<sub>2</sub>e equivalent. As an asset manager, we do not use an internal emissions price, as this is not an appropriate measure for our business model.

**Remuneration.**

BTNZ’s climate commitments form part of its Sustainable Investment Policy. For FY24, the Chief Executive’s remuneration performance scorecard includes the KPIs related to achieving third-party certification/recognition in BTNZ’s Sustainable Investment Policy. BTNZ operations are managed by WNZL, therefore the remuneration is aligned to the WNZL financial year of 1 October 2023 to 30 September 2024.

**ESG risk score.**

To support the integration of ESG factors, we monitor the ESG risk scores of our equity and listed property issuers. The ESG risk score, provided by our third-party data provider, helps identify and understand important ESG factors of companies and other issuers. Examples of ESG factors include climate change, biodiversity, and water quality. For more information on ESG integration, please refer to **Appendix 1.**

The weighted ESG Risk score for the scheme (and funds within it) is calculated as:

- Sum of (ESG risk score of equity or listed property issuer \* portfolio weight).

The ESG risk score ranges from 0 (low) to 100 (high). A lower score indicates fewer ESG risks within an issuer.

**Table 25** portrays the weighted average ESG risk score for equities and listed property assets of the Westpac Active Series (and the funds within it).

**Data assumptions, exclusions, limitations, and uncertainties.**

For more information on our GHG emissions metric methodology, assumptions, exclusions, limitations, and uncertainties, and how we calculate absolute gross GHG emissions, carbon footprint and carbon intensity, please refer to **Appendix 3**.

Data used to measure climate-related risks and opportunities for the other metrics also comes with a variety of limitations and uncertainties. Key limitations and uncertainties are summarised below.

- **Timing of the publication of climate-related and financial metrics:** The metrics we use rely on the application of a point-in-time exposure aligned with enterprise value data. There may be a lag in companies' and other issuers' sustainable or holding data reporting (i.e., EVIC, Revenue and Market Values), which may not fully align with the period for companies' or other issuers' financial reporting or the balance date.
- **Data exclusions and coverage:** Reported data in this section is restricted to equities and listed property assets within the scheme or fund and excludes all other asset

classes. We are working on integrating and reporting on the funds'/scheme's corporate and sovereign bonds assets. Reported figures exclude data where there is no identifier code for which either or both of our chosen third-party data providers have insufficient available data or no identifier code.

- **Market value fluctuation:** When using EVIC as the denominator, the calculated metrics might change because of fluctuating market prices of the assets held and lags with the EVIC data.
- **Currency fluctuations:** We report using New Zealand Dollars based on data being made available to us by our third-party data provider(s). We rely on the data provider(s) to apply their exchange rate methodology to report to us in NZD. Changes in exchange rates can impact on some of our intensity measures accordingly. Where financial data is provided in a foreign currency, this is converted to a New Zealand Dollar equivalent on the date of the analysis.
- **Third-party data providers:** We rely on data provided by third-party data provider(s) being accurate, complete, reliable, and timely. For some metrics, the data provider(s) has applied their own process to estimate data, which includes averaging across industry sectors and/or using other factors. The data provider(s) may also update their coverage and methodology or detect issues post the generation of this Climate Statement. We

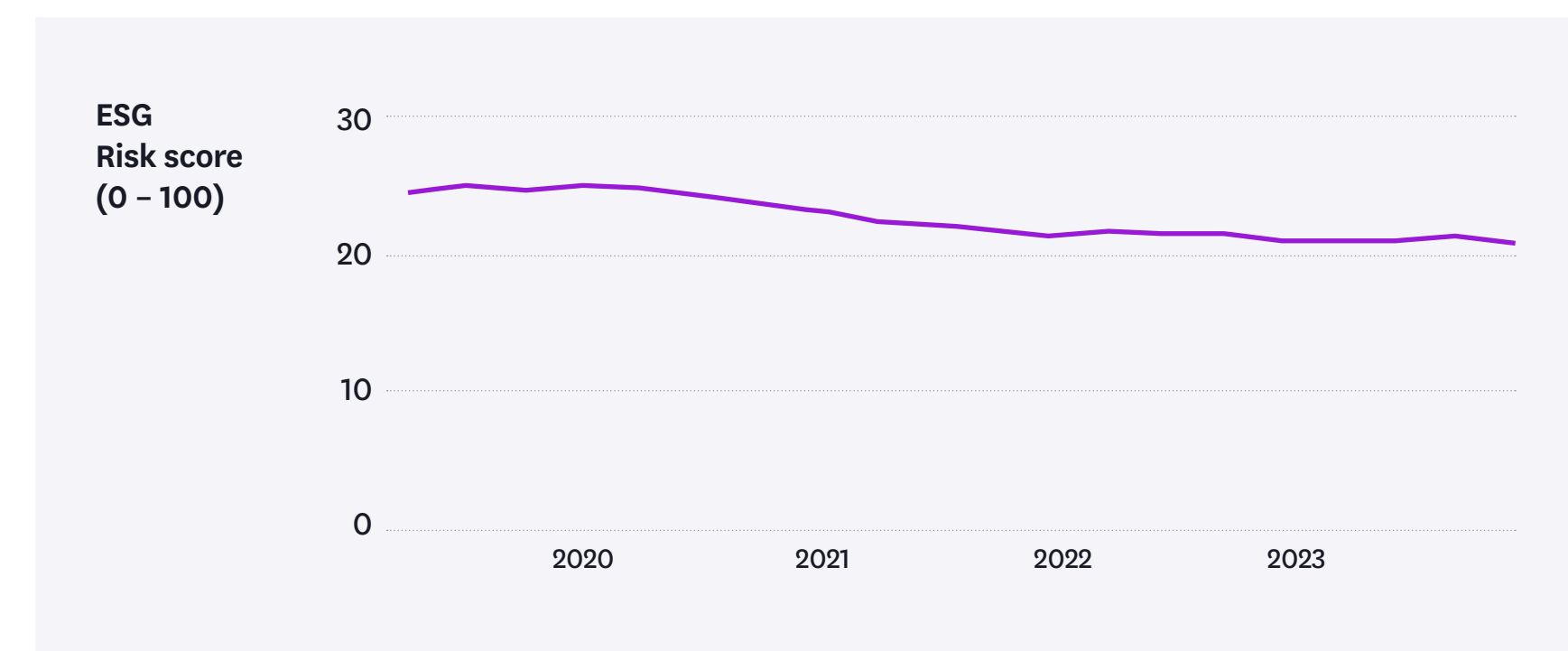
are under no obligation to update this Climate Statement following receipt of more accurate, complete, and reliable data from our third-party data providers. However, there is a potential for metrics to be restated in future Climate Statements.

- **Data availability and uncertainty:** Data availability and uncertainty can impact an issuer's climate-related metrics. This may in turn impact the accuracy of the climate metric. Furthermore, where relevant, for some metrics data coverage is limited and as such we have disclosed the percentage of data coverage for those metrics. As data coverage improves, the metric may change as a result. Where there is no data for an issuer, the issuer has not been included in our calculations. We note that sustainability and financial data is frequently based on estimates or proxy data. We continue to work with our data providers and internally to improve the quality of the data.

**Table 25: ESG risk score for equities and listed property assets of the Westpac Active Series (and the funds within it).**

	% equities and listed property assets held		Data coverage ratio %		ESG risk score	
	31 March 2019 (baseline)	31 March 2024	31 March 2019 (baseline)	31 March 2024	31 March 2019 (baseline)	31 March 2024
Balanced Trust	72.2%	60.4%	85.8%	98.2%	24.7	20.7
Conservative Trust	54.2%	20.5%	84.3%	98.2%	24.2	20.7
Growth Trust	35.5%	80.1%	85.4%	98.2%	24.4	20.7
Moderate Trust	18.5%	40.7%	85.1%	98.2%	24.4	20.7
Income Strategies Trust	The fund does not include equities or listed property exposure and is therefore excluded from the analysis					
<b>Westpac Active Series</b>	<b>39.2%</b>	<b>48.5%</b>	<b>85.3%</b>	<b>98.2%</b>	<b>24.5</b>	<b>20.7</b>

**Figure F** portrays graphically the weighted average ESG risk score for equities and listed property asset classes for the Westpac Active Series (and the funds within it).





# IMPORTANT INFORMATION

This Climate Statement is prepared in response to BTNZ's obligations under New Zealand's Financial Markets Conduct Act 2013. It outlines BTNZ's approach to managing the climate-related risks and opportunities associated with the potential to impact the Westpac Active Series (and the funds within it). The information covers the reporting period 1 April 2023 to 31 March 2024. This Climate Statement has a focus on climate and does not reflect the totality of the investment scheme's activities.

We recommend you seek independent advice before acting or relying upon any of the information contained within this Climate Statement. This Climate Statement is based on BTNZ's understanding of information which is novel, developing and complex, and on incomplete and emerging data and the judgements of BTNZ and third parties. For this reason, BTNZ cautions reliance on this Climate Statement. All opinions, statements and analyses expressed are current at the time of writing and from sources which BTNZ believes to be accurate, complete and reliable but are based on information that has not been independently verified.

The information contained in this Climate Statement does not constitute an offer.

## Climate change ambition.

BTNZ recognises that the global and domestic economies are not moving as fast as science recommends and that this creates a challenge in achieving our climate commitments.

BTNZ's climate commitments are made in the expectation that issuers (which includes companies and countries) will follow through on their commitments to ensure the objectives of the Paris Agreement are met, including (for countries) increasing the ambition of their Nationally Determined Contributions. Whilst we acknowledge this may constrain our ambition, in the spirit of the Net Zero Asset Managers initiative, we continue to work collaboratively with our underlying Investment Managers, to find solutions to these challenges.

Further, BTNZ acknowledges that, for some asset classes, additional challenges exist. These challenges include lack of accurate, complete and reliable data as well as lack of internationally agreed net zero methodologies. Market practices in relation to those disclosures is expected to evolve over time. Furthermore, achievement of our climate commitments is impacted due to contributions into and withdrawals from the scheme (and funds within it). These changes in fund size can impact our absolute GHG emissions targets.

## Underlying Investment Managers.

We rely on underlying Investment Managers to manage the funds and to make investment decisions. These decisions will impact the outcomes of each fund and cannot be predicted with certainty. Where we delegate to external underlying Investment Managers, we select those managers using a multifaceted decision-making process and regularly monitor and review them.

## Forward-looking statements.

This Climate Statement contains forward-looking statements, including targets, commitments, plans, forecasts, climate scenarios and assumptions. We use words such as 'will', 'may', 'expect', 'intend', 'seek', 'would', 'should', 'could', 'continue', 'plan', 'aim', 'goal', 'target', 'probability', 'risk', 'forecast', 'projection', 'potential', 'likely', 'estimate', 'anticipate', 'believe', or other similar words to identify forward-looking statements.

While forward-looking statements naturally carry a degree of uncertainty, this is further exacerbated given measurement and data availability challenges. These forward-looking statements reflect our current views, expectations, and intentions at the publication date of this Climate Statement. Although BTNZ considers forward-looking statements have a reasonable basis at the date of this Climate Statement, these statements are not certain and are subject to known and unknown risks and uncertainties, which are, in many instances, beyond our control. The judgements and data presented in this Climate Statement are not a substitute for judgements and analysis made independently by the reader.

Climate-related risks cannot be evaluated in the same way as more conventional financial risks. Reasons for this include:

- Their unprecedented nature and complexity. Climate risks may manifest themselves over short, medium and long-term time horizons, and how these play out are inherently uncertain.

- Understanding about how different climate-related risks could interact continues to evolve.
- Climate-related risks may also interact with non-climate-related risks and compound impacts in ways not currently anticipated.
- Climate change and the related impacts may be irreversible if certain limits are exceeded.

These factors lead to significant uncertainties which require assumptions and judgement. This may mean that forward-looking statements may be inaccurate. Actual future results, performance, outcomes, or circumstances may be materially different from those expected at the time this Climate Statement was prepared. This may further affect our ability to meet our climate commitments.

While BTNZ has prepared this Climate Statement based on our current knowledge, expectations, and intentions and in good faith, given the uncertainty around the evolution and impact of climate change, we reserve the right to change our views and intentions in future as new information becomes available to us.

## Measurement of GHG emissions and other metrics.

Measuring GHG emissions and other climate-related metrics is an inherently challenging task. We have aimed to apply consistent principles in how we measure and report GHG emissions and other climate-related metrics, and recognise that these are estimates and, in some cases, remain subject to significant

uncertainty. Climate-related metrics require many methodological choices, estimates, judgements and assumptions.

Further information on methodologies used for our key metrics in this Climate Statement are contained in:

- Appendix 3: Calculating the GHG emissions inventory: Basis for Preparation
- Appendix 4: Glossary of key terms

Over time we expect that, our climate-related metrics will change as new methodologies emerge, and data accuracy, completeness and reliability improve. Furthermore, other developments could materially impact the metrics contained within this Climate Statement. This may mean subsequent statements do not allow a reader to compare metrics from one reporting period to another on a direct like-for-like basis. As a result, we cannot rule out the potential for restatement of metrics.

## Data sources.

This Climate Statement is based upon processes and data available at the time of preparation. Should any new data become available, we are under no obligation to retrospectively update this Climate Statement.

BTNZ relies on third-party data providers, and their internal data validation processes, to provide accurate, complete, timely and reliable data. Our third-party data providers in turn rely on data provided by issuers.

We draw on a range of external data, which includes Sustainalytics data sets. The information, data, analyses, and opinions contained herein:

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### **No financial advice.**

The material in this Climate Statement is provided for information purposes only and is not advice, recommendations or opinions in relation to any BTNZ products or services. The information in this Climate Statement is general, and does not take into account the investment objectives, financial position, or needs of any particular investor or potential investor. Investors should not place undue reliance on the disclosures in this Climate Statement and should read the important guidance, assumptions, limitations and important notices throughout this Climate Statement.

### **Contact us.**

Our registered office is Westpac on Takutai Square, 16 Takutai Square, Auckland 1010.

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- Emailing [investments@westpac.co.nz](mailto:investments@westpac.co.nz)
- Writing to PO Box 695, Wellington, 6140

BTNZ is the scheme provider and issuer, and Westpac New Zealand Limited is a distributor of the Westpac Active Series and the funds within it. You can get a copy of the Product Disclosure Statement from any Westpac branch in New Zealand. The scheme and the funds within it are subject to investment and

other risks, including delays in payment of withdrawal amounts in some circumstances, and loss of investment value, including principal invested.

None of BTNZ (as manager), any member of the Westpac group of companies, The New Zealand Guardian Trust Company Limited (as supervisor), or any director or nominee of any of those entities, or any other person guarantees the scheme's performance, returns or repayment of capital. The information in this report is subject to changes to government policy and law and to the applicable managed investment scheme. Investments do not represent bank deposits or other liabilities of Westpac Banking Corporation ABN 33 007 457 141, Westpac New Zealand Limited or other members of the Westpac Group of companies.

### **Locations of disclosure.**

This Climate Statement is available on the:

- Climate Related Disclosures Register;
- Westpac New Zealand website.



# APPENDICES

# SUSTAINABLE INVESTMENT

Full policy.

March 2023.



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This material is current as at the date at the start of this Sustainable Investment Policy and is subject to change.

BT Funds Management (NZ) Limited is the scheme provider and issuer, and Westpac New Zealand Limited is a distributor, of the Westpac KiwiSaver Scheme, Westpac Active Series, Westpac Premium Investment Funds and Westpac Retirement Plan. Download the relevant product disclosure statement at [westpac.co.nz](http://westpac.co.nz).

Investments made in the Westpac KiwiSaver Scheme, Westpac Active Series, Westpac Retirement Plan, Westpac Premium Investment Funds and the Westpac Wholesale Trust Investments do not represent bank deposits or other liabilities of Westpac Banking Corporation ABN 33 007 457 141, Westpac New Zealand Limited or other members of the Westpac group of companies. They are subject to investment and other risks, including possible delays in payment of withdrawal amounts in some circumstances, and loss of investment value, including principal invested. None of BT Funds Management (NZ) Limited (as manager), any member of the Westpac group of companies, The New Zealand Guardian Trust Company Limited, or any director or nominee of any of those entities, or any other person guarantees the Westpac schemes mentioned, performance, returns or repayment of capital.

The material in this Sustainable Investment Policy is provided for information purposes only and is not a recommendation or opinion in relation to the Westpac schemes mentioned.

# Our Sustainable Investment Policy in a nutshell

This is the Sustainable Investment (SI) Policy for BT Funds Management (NZ) Limited (BTNZ, we, us, our). We are the investment arm of Westpac in New Zealand. This policy can also be called a Responsible Investment Policy.

## What is sustainable investing?

Sustainable investing refers to managing assets by integrating environmental, social and governance (ESG) factors and contributing to sustainable themes such as climate action. We build this into our investment analysis and decision making as we believe investing sustainably will contribute towards a more sustainable economy.

## Why does sustainable investing matter?

As one of NZ's largest fund managers, we recognise the immense capacity and responsibility we have to drive sustainable value for our customers, people, communities and environment. We believe investing sustainably helps us achieve this vision and manage investment risk and opportunities.

## What are we committed to?

BTNZ is a signatory to the United Nations Principles for Responsible Investment (UN PRI). This means we are publicly committed to integrating ESG factors into our investment decisions.

We are a member of the Responsible Investment Association Australasia (RIAA), the Investor Group on Climate Change and Climate Action 100+. Our open funds (excluding cash funds<sup>1</sup>) have been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program.



The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any

person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence

We are committed to the Net Zero Asset Managers initiative and are a recognised public supporter of the Task Force on Climate-related Financial Disclosures (TCFD).

We are committed to supporting the goal of net-zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels. We are committed to aligning our investments to a 1.5°C pathway.

BTNZ has fully factored the integration of the Sustainable Investment Policy into our disclosed fees.

## How we invest sustainably.

Our approach to sustainable investment has four key pillars. We use these pillars to guide our investment decisions, either directly through our domestic cash and fixed interest team or through our third-party underlying investment managers<sup>2</sup>.

Each pillar aims to protect or enhance value. For us, value includes financial, environmental, and social value.



More information on each of our pillars can be found from section 3 onwards.

## How we're currently implementing this SI Policy.

Please see **Appendix 2** for an update on the current implementation of this SI Policy.

<sup>1</sup> RIAA does not currently assess cash funds as part of the Certification Program.

<sup>2</sup> Refers to investment firms investing on our behalf. Find more about our underlying investment managers [here](#).

## 1. Introduction.

### 1.1 Purpose.

BT Funds Management (NZ) Limited's purpose is to help our people, our communities, and our customers financially, to grow a better New Zealand. For this reason, we have established this SI Policy.

### 1.2 Scope.

This SI Policy is applicable to BTNZ, the investment arm of Westpac in New Zealand.

BTNZ is a member of the Westpac Group of companies and a licensed managed investment scheme manager regulated by the Financial Markets Authority.

This SI Policy applies to the investment management services provided by BTNZ. These include our management of the Westpac KiwiSaver Scheme, Westpac Active Series, Westpac Retirement Plan, Westpac Premium Investment Funds, and the Westpac Wholesale Trust investments utilised by third party institutions or schemes. This document sets out the general approach to incorporating SI into BTNZ's investment decision making; it does not provide in-depth details of the processes applied to implementation. Please see **Appendix 2** for an update on the current implementation of this SI Policy.

### 1.3 Responsibility and accountability.

Ultimate oversight of our SI commitments rests with the BTNZ Board (Board), BTNZ Investment Committee (BTIC) and the Chief Executive Officer for BTNZ.

The Board, BTIC and the Chief Executive Officer for BTNZ are responsible for approving BTNZ's Sustainable Investment Strategy, setting key performance indicators (KPIs) and monitoring of performance against the SI Policy. The BTNZ Head of Investment Solutions and the Investment Solutions team are responsible for implementation of this SI Policy and for reporting progress on KPIs and alignment with this policy to the Board, BTIC and the Chief Executive Officer for BTNZ.

### 1.4 Policy statement review.

We believe that approaches to sustainable investment are constantly evolving and maturing. As such, our sustainable investment commitments and processes are not 'set and forget'. Rather, we strive to continually improve.

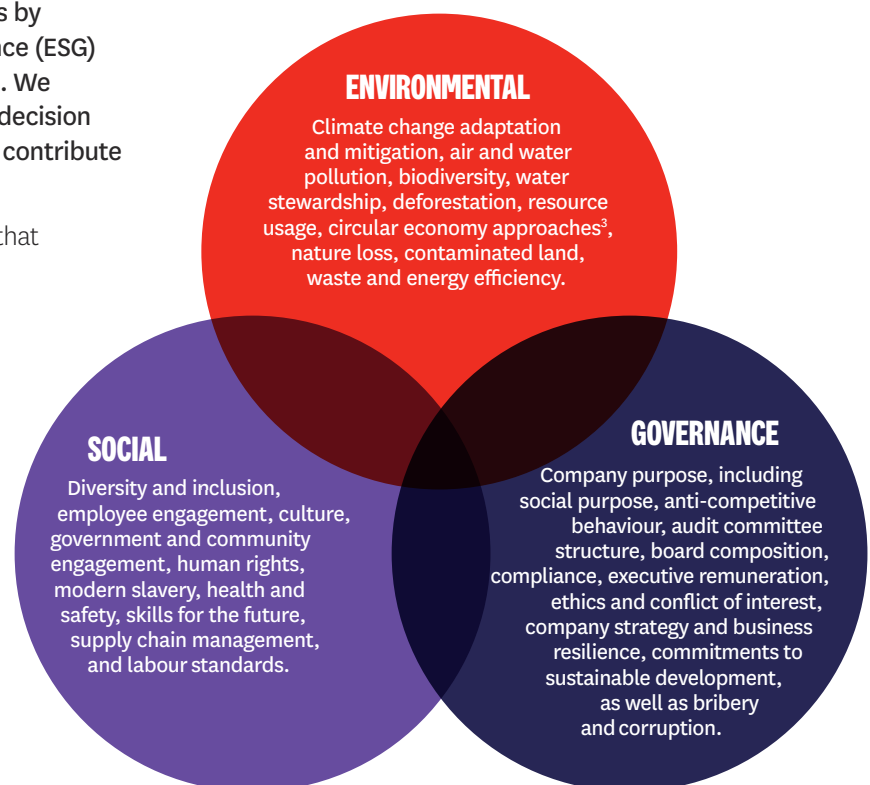
We aim to review this SI Policy annually, or more frequently as required, to ensure it remains current and fit-for-purpose.

## 2. What is Sustainable Investing (SI)?

Sustainable investing refers to managing assets by integrating environmental, social and governance (ESG) factors and contributing to sustainable themes. We integrate this into our investment analysis and decision making as we believe investing sustainably will contribute towards a more sustainable economy.

This diagram shows some of the key ESG factors that can be considered:

We assess different ESG factors in different contexts, as appropriate. For example, some factors may be important to a particular company or other issuer, others may impact a certain country or industry and others will be globally relevant.



<sup>3</sup>A circular (as opposed to linear) economy is one in which resources are built to be returned into new products and by-products are used to generate other products.

### 3. Why is SI Important?

As one of NZ's largest fund managers, we recognise the immense capacity and responsibility we have to drive sustainable value for our customers, people, communities and environment. We believe investing sustainably helps us achieve this vision and manage investment risk and opportunities.

#### 3.1 Our sustainable investment beliefs.

At BTNZ we have integrated sustainability into our investment beliefs. We believe:

- **ESG Integration** – that investing sustainably helps us better manage investment risks and opportunities and helps us deliver positive environmental, social, and economic value.
- **Climate change** – that climate change presents materially significant systemic and financial risks and opportunities.
- **Fiduciary duty** – that investing sustainably is in the best interests of our investors.
- **Stewardship** – that stewardship (or active ownership) adds a positive dimension and reduces risks by supporting the realisation of long-term value.
- **Ambition** – that it is important to continuously improve by setting ourselves ambitious targets and collectively working with our people and underlying investment managers to achieve them.
- **Discipline and accountability** – that it is important to back our SI commitments with discipline and accountability and to expect the same from our underlying investment managers.
- **Disclosure** – it is important to objectively measure and disclose the difference we are making to our society and our environment, and we are working with this goal in mind.

#### 3.2 How will SI affect my investment returns?

As we believe sustainable investment is important, we do not invest in companies and other issuers that fall outside of our sustainable investment criteria<sup>4</sup>. We recognise this means there are less investments that we can choose from, which may impact financial performance. However, we believe that investing sustainably helps us better manage investment risks and opportunities, which supports financial performance.

### 4. BTNZ's SI industry commitments and collaborations.

**BTNZ takes its responsibilities for the integration of ESG factors seriously and actively supports a number of industry collaborations.**

#### 4.1 United Nations Principles for Responsible Investment (UN PRI).

BTNZ is a signatory to the UN PRI<sup>5</sup>. This means we are publicly committed to integrating ESG factors into our investment decisions.

The UN PRI initiative comprises a global network of investors and financial industry participants who are committed to integrating ESG factors, including climate change, into their investment processes and ownership policies. The initiative also promotes transparency by signatories as to their engagement activities and the integration of ESG factors within our investment decision-making process.

The UN PRI is a set of six aspirational principles: ESG integration, stewardship, disclosure, promotion, collaboration, and communication. BTNZ believes the UN PRI provides an important universal framework for signatories to structure their approach to ESG integration. BTNZ has therefore integrated the principles into its beliefs and investment approach.

Being a signatory reflects the growing awareness and expectation by investors to have their savings invested responsibly, and to have their money make a positive difference to the environment and society<sup>6</sup>.

As a signatory, BTNZ reports and is assessed on our ESG integration performance against other signatories on an annual (or as otherwise required by the UNPRI) basis and provides performance transparency reports for signatories to share. The requirements are ongoing, and the membership is renewed on an annual basis.

#### 4.2 Our other SI commitments and industry collaborations.

We recognise we have a responsibility to support the industry in its efforts to address global ESG factors, most notably climate change. We have a duty as investors to work towards delivering a fair and equitable low-emission climate-resilient future, and to support collaborative corporate, industry and government actions.

These collaborative actions support wider systemic change, long-term value creation and protection, and are aligned with our SI Policy commitments – especially around climate change.

In addition to being a signatory to the UN PRI, BTNZ is an active member of the following:

- **Responsible Investment Association of Australasia**, which champions responsible investing and a sustainable financial system in Australia and New Zealand, and is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. BTNZ actively contributes to RIAA-led industry collaborations.

<sup>4</sup> For more information on how we manage our exclusion, including how we divest if any any investment are inadvertently made, please see 6.4 below

<sup>5</sup> <https://www.unpri.org>

<sup>6</sup> <https://responsibleinvestment.org/wp-content/uploads/2022/04/From-Values-to-Riches-2022-Charting-consumer-demand-for-responsible-investing-in-Aotearoa-NZ.pdf>



- **Investor Group on Climate Change**, which is a collaboration between Australian and New Zealand institutional investors focusing on the impact of climate change on investments and encouraging investment practices that address relevant risks and opportunities.
- **Net Zero Asset Manager initiative**, which includes a commitment to net-zero GHG emissions by 2050 or sooner and alignment of our assets under management to a 1.5°C temperature rise pathway compared to pre-industrial levels. We are developing a climate change action plan in line with the Net Zero Asset Manager initiative.
- **Climate Action 100+**, which is an investor-led initiative to ensure the world's largest corporate GHG emitters take necessary action on climate change.
- **Toitū Tahua Centre for Sustainable Finance**, which means we are committed to supporting the implementation of the Sustainable Finance Forum's Roadmap for New Zealand.
- **Aotearoa New Zealand Investor Coalition for Net Zero**, which is an initiative aiming to accelerate climate action through pledges by asset owners and asset managers.
- **Stewardship Code for Aotearoa New Zealand**, which provides a clear framework to steer companies on critical issues, including climate and sustainability. BTNZ contributed to the development of the Code, and is a Founding Signatory.
- **Task Force on Climate-related Financial Disclosures (TCFD)**, which BTNZ is a registered public supporter of. The TCFD is a recommended climate-related reporting framework to inform investment decisions based on the company's reported climate performance..

We have a strong preference to work with underlying investment managers who are signatories to the UN PRI and have similar commitments to industry collaboration.

### 4.3 Third-party certification.

The Westpac KiwiSaver Scheme, Westpac Active Series and Premium Investment Funds that are open to further investment as at the date of this Policy<sup>7</sup> have been certified by the Responsible Investment Association Australasia (RIAA) according to strict practices required under the Responsible Certification Program, with the exception of cash funds (as cash funds have been excluded from the Certification Program for new certification since 2020).

RIAA's Program is the leading initiative for distinguishing quality responsible investment products in the region and is the longest running independent responsible investment product certification program in the world.

RIAA's RI Certification Symbol (Certification Symbol) signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Certification Symbol also signifies that Westpac KiwiSaver Scheme, Westpac Active Series and Premium Investment Funds adhere to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product.

The Certification Symbol is a Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Certification Symbol and Westpac KiwiSaver Scheme, Westpac Active Series and Premium Investment Funds' methodology, performance and stock holdings can be found at [www.responsiblereturns.co.nz](http://www.responsiblereturns.co.nz), together with details about other responsible investment products certified by RIAA<sup>8</sup>.

## 5. An overview of our approaches to SI.

Our approach to SI focuses on four key pillars. We rely on these pillars to guide our investment analysis and decisions, both directly and through our external underlying investment managers.



Each pillar aims to protect or enhance value. For us, value includes financial, environmental, and social value.

This results in a broader, more comprehensive approach to investment analysis and decision-making which covers external underlying investment manager selection, security selection and stewardship.

In some asset classes, such as cash and cash equivalents, there may be limited opportunities to take into account our sustainable themes. We however use stewardship and integrate new opportunities where possible to drive sustainable outcomes.

<sup>7</sup>The following funds closed for new investments have been excluded from certification: all Westpac Retirement Plan Funds, Westpac Active Series Income Strategies Trust.

<sup>8</sup>The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold a Financial Advice Provider licence.

## 6. Pillar I: Exclusions.

We do not invest in companies and other issuers that operate outside of our sustainable investment criteria.

For more information on how we manage our exclusion, including how we divest if any any investment are inadvertently made, please see 6.4 below<sup>9</sup>.

### 6.1 What companies<sup>10</sup> do we exclude?

#### How we decide what to exclude.

Our rationale for excluding companies is based upon the series of factors, including whether the:

- Company contravenes our climate commitments such as through the fossil fuel and coal exclusion listed below.
- Company is breaching minimum social safeguards and/or significant harm standards defined by RIAA.

Our current asset exclusions are outlined below. We rely on advice from our third-party ESG research provider(s) for screening criteria, standards, and assessments.

#### We exclude:

##### Minimum social safeguards.

- Companies and other issuers in breach of international human rights, labour protection and/or environmental standards as enshrined in the ten principles of the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights and their underlying conventions and treaties as assessed by our third-party research providers. The UN Global Compact is a voluntary initiative aimed at implementing universal sustainability principles. It comprises ten principles that define the minimum fundamental responsibilities that companies are expected to meet in relation to human, labour, environmental and anti-corruption rights.
- When determining not to invest in a company breaching these principles, we assess the data from our ESG research providers, the underlying investment manager's views and the effectiveness of their stewardship strategies with the company. We may choose to take additional time to divest while we review these factors.

##### Controversial and other weapons.

- Companies deriving any revenue from the manufacturing of controversial weapons or components or services of the core weapons systems.
- Companies deriving any revenue from the manufacturing of nuclear, biological or chemical weapons.

- Companies deriving any revenue from their involvement in depleted uranium or white phosphorus mining.
- Companies involved in the manufacture of cluster munitions or anti-personnel mines.
- Companies deriving any revenue from both manufacturing and selling assault weapons to civilians.

##### Tobacco products.

- Companies deriving any revenue from the manufacture of tobacco products.

##### Oil and gas fossil fuels.

- Companies that have their primary business activity in the oil and gas drilling, oil and gas equipment and services, integrated oil and gas, oil and gas exploration and production defined by Global Industry Classification Standards.
- Companies deriving more than 10% of their revenue from oil or gas exploration, production or refining.
- Companies deriving more than 10% of their revenue from oil or gas exploration in Arctic regions.
- Companies deriving more than 10% of their revenue from the extraction of oil sands.
- Companies deriving more than 10% of their revenue from shale energy exploration, extraction and/or production.

##### Thermal coal extraction and substantial power generation from coal<sup>11</sup>.

- Companies that have their primary business activity in the coal and consumable fuels subindustries as defined by Global Industry Classification Standards.
- Companies deriving more than 10% of their revenue from the extraction of thermal coal.
- Companies deriving more than 50% of their revenue from the generation of electricity from thermal coal.

##### Predatory lending.

- Companies deriving any revenue from "predatory lending" practices.

##### Whale meat processing.

- Companies deriving any revenue from the processing of whale meat.

### 6.2 What countries do we exclude?

Our rationale for excluding countries is based upon those countries being subject to New Zealand, Australia, United Kingdom, United States, European Union or United Nations Security Council sanctions.

<sup>9</sup>If we use derivative based instruments or if in the rare instance third-party or exchange traded funds, we aim to align to our exclusions as closely as possible. For third-party or exchange traded funds this alignment would at a minimum include our fossil fuel and weapons exclusion required by our default KiwiSaver status.

<sup>10</sup>Where we refer to companies within this pillar, we refer to both shares and debt issued by companies, including corporate-like issuers (e.g. development banks) and government entities. This excludes asset-backed securities and the coverage of government related entities is limited (e.g. municipalities).

<sup>11</sup>For the avoidance of doubt, this exclusion does not apply to the extraction of coking coal, which is used in steel production.

On an annual basis, we also assess and exclude countries based upon their political stability, corruption levels, and civil liberties. For these, internal thresholds are used. For this component, exclusion commitments apply to government, state, municipal and currency investments.

When determining not to invest in a country, we also assess the likely long-term impact the exclusion will have on potential investment returns and overall portfolio risk.

### **6.3 Other exclusions we may apply.**

Occasionally, we may exclude other companies or issuers that do not align with our Sustainable Investment values, approaches, or beliefs.

We may also choose to no longer invest in a company or issuer where they are not responding adequately and positively to stewardship activities, and/or holding an exposure to the company is expected to negatively impact investment performance.

When determining to no longer invest in a particular company or issuer, we assess these factors together with the likely long-term impact of the exclusion on investment performance and portfolio risk.

These criteria may change over time with amendments reflected in subsequent versions of this Policy.

### **6.4 Managing our exclusions.**

Where investments are delegated to underlying investment managers our strong preference is to appoint any external underlying investment managers under an investment management agreement where the underlying assets are held directly by our custodian(s). This enables us to have more control over investment guidelines including exclusions.

We manage our exclusions through a series of controls. Exclusion constraints are hard coded into compliance management systems pre-trade, with the aim of preventing a trade into an excluded company or other excluded issuer – either by BTNZ or our underlying investment managers. Post-trade monitoring is undertaken by our underlying investment managers. In addition, our custodian undertakes compliance monitoring.

In partnership with our third-party ESG research providers, we review excluded companies and other issuers on a quarterly basis. Additionally, we may take into account our underlying investment managers' views or the effectiveness of their stewardship strategies for the social safeguards, country exclusions and other exclusion categories and, will regularly review our position. Our country exclusion framework relies on publicly available reports and data sources. The exclusion list and notice letter are then provided to our underlying investment managers, domestic cash and fixed interest team, compliance team and custodian.

Where an investment is inadvertently made into an excluded company or issuer, divestments are required by the underlying investment manager normally within seven business days, and no later than ten business days. In the event of a breach of the exclusion requirements, the underlying investment managers are required to notify us immediately. For the social safeguards category, we may take additional time to divest.

The majority of breaches in these Policy commitments are minor and remediated within ten business days, and accordingly are not considered to have a material consequence on portfolio performance.

In the rare instances where a third-party fund or exchange traded fund is held, we will aim to align the fund closely to our Policy, and at a minimum will incorporate fossil fuel and weapon exclusions required as a default KiwiSaver provider.

The exclusions criteria are applied where we hold direct securities, but do not currently apply to the same extent for derivative based investments (e.g. futures). Where derivative based investments are used, the reference index for the derivatives contract may include exposure to excluded securities. Where possible, we will seek to choose contracts which incorporate our exclusions.

For some exclusions, we apply a revenue threshold. This threshold is the percentage of estimated or reported revenue earned by the company from a particular excluded activity, based on the latest year of data from ESG data provider(s). This means that when the company's estimated or actual annual revenue from the activity is less than the revenue threshold, the exclusion of that company is not triggered.

Implementation of the exclusion criteria can be affected by the accessibility and accuracy of data, and depends on accurate information, interpretations or assessments from our third-party service providers or by our underlying investment managers. This may result in inadvertent holdings in investments we, and or our underlying investment managers, are seeking to exclude. In this event, as soon as this has been identified, the relevant underlying investment manager is required to divest within the defined timeframes.

Certain securities may potentially not be included in our country exclusions category where the country of use or origin cannot be determined due to location data constraints. Furthermore, as the benefitting country is not always able to be correctly and confidently identified, singular events of non-compliance are not considered to constitute a material breach of the country exclusion commitment.

## 7. Pillar II: ESG Integration.

We integrate important ESG factors into our investment decisions and expect our underlying investment managers to do the same. By doing so, we aim to create long-term value, and/or avoid undue risks.

### 7.1 External underlying investment managers.

Where investment mandates are delegated to underlying investment managers, we integrate ESG through:

- **Appointed underlying investment managers:** Our underlying investment managers are required to be aware of, and observe, our SI Policy. We communicate our SI requirements in advance and include SI-related clauses in investment management agreements.
- **Underlying investment manager monitoring and review:** Through ongoing engagement, we regularly keep our underlying investment managers aware of our SI Policy and commitments. We also undertake regular performance reviews of our underlying investment managers to assess their efforts to implement our SI Policy commitments.
- **Underlying investment manager reporting:** We require ongoing disclosure from our underlying investment managers in line with our SI Policy commitments.
- **Underlying investment manager selection:** Prior to appointment of a new underlying investment manager, we undertake a formal assessment of their competency and approach to integrating important ESG factors. This includes an assessment of whether the underlying investment manager is a leader in ESG integration, whether they are a signatory to the UN PRI, reviewing of third-party assessments, certification, ratings of their ESG performance, and, assessing evidence of their approach to ESG integration into investment decisions. We also review their stewardship practices and their ability to meet our SI Policy commitments.

### 7.2 Internal underlying investment manager.

Our domestic cash and fixed interest team (internal team or internal underlying investment manager) are developing a process to integrate ESG factors throughout the investment lifecycle. This includes:

- **Research:** We undertake research for key ESG factors as part of our initial issuer analysis. We cross-check our investments against our negative screening requirements (exclusions) and apply a broad-based ESG rating.
- **Portfolio construction and security selection:** Our goal is to improve sustainable outcomes, including climate change and/or our other sustainable themes, through security selection and engagement.

- **Portfolio monitoring:** Once an investment has been made, our goal is to internally monitor the ESG performance of the issuer.

## 8. Pillar III: Stewardship.

We define stewardship as the responsible management of our customers' long-term investments.

### 8.1 What is stewardship?

Stewardship is about using our influence over current or potential underlying investment managers, companies and other issuers, policy makers, service providers and other stakeholders – often collaboratively – to create and protect long-term value. For us, value includes financial, environmental and social value.

### 8.2 Why is stewardship important?

BTNZ recognises the importance of active stewardship. BTNZ engages in active stewardship to encourage sustainable business practices, address climate change, improve corporate governance and transparency.

We implement active stewardship by exercising of voting rights, engaging with companies and other issuers either directly through our internal team or via our underlying investment managers, and collaborating with the industry.

We believe stewardship helps promote higher standards of corporate governance, which contributes to long-term value creation and protection, thereby reducing risk and increasing the long-term return to our customers. For this reason, stewardship is considered a core component of how we and our underlying investment managers integrate important ESG matters into our investment decision-making processes.

### 8.3 Voting.

Voting is an integral part of the suite of stewardship tools we and our underlying investment managers use to bring a voice to a company on ESG factors that matter. Our voting seeks to improve companies' financial, environmental, social and governance outcomes by addressing business risks and supporting our key sustainable themes.

Votes are cast by our underlying investment managers, who vote on our behalf. We require our underlying investment managers to abstain from voting where a conflict of interest exists.

We maintain a set of voting principles (as provided in Appendix 1) as guidance for our underlying investment managers. These voting principles are guidelines and our underlying investment managers may apply their own voting policy and use their discretion to deviate from any voting principle, where appropriate.

In addition, our underlying investment managers may, on our behalf, file a shareholder resolution or proposal. Their participation in the voting process helps to ensure we are working to protect our customers' interests.

#### 8.4 Engagement.

Our underlying investment managers conduct regular analysis, monitoring, and engagement with companies and other issuers. A primary objective of this engagement is to positively influence companies and other issuers to improve their ESG-related performance, accountability, and disclosure.

We require our underlying investment managers to take an active engagement approach, emphasising direct dialogue with companies and other issuers on ESG matters that have the potential to impact on long-term value. The breadth, depth and frequency of engagement will vary significantly based on a variety of factors including the nature of the risks and opportunities, the openness and willingness to engage by the issuer, and the size or nature of the investment.

Our engagement aims to focus on the following areas for companies (and other issuers, as appropriate). We encourage our underlying investment managers to do the same.

- **Long-term business plan:** The company's business model, purpose (including social purpose), strategy, and ongoing performance, as well as developments both within and external to the company that might affect its long-term value and the risks it faces.
- **Approach to key ESG factors:** The company's approach to identifying and managing the key environmental, social and governance factors that may influence their sustainable long-term success. We assess how they are strengthening their ability to positively contribute to our targeted sustainable themes if applicable.
- **Governance:** The effectiveness of the company's governance structures. This includes developing an understanding of the quality of company governance and disclosures against relevant national or international corporate governance codes, including the explanations given for any deviations.
- **Climate change mitigation:** We encourage companies and other issuers to set science-based targets, aligned with a 1.5°C pathway, for Scope 1, 2 and 3 GHG emissions<sup>12</sup>.
- **Climate change adaptation:** We encourage companies and other issuers to direct revenue to addressing climate change adaptation. This includes ensuring companies are increasing their revenue, capital expenditure and operational expenditure towards green objectives as per the EU Sustainable Investment Taxonomy (EU 2020/852).

- **Improve the environment:** We encourage companies and other issuers to measure, report on, and reduce negative impacts on biodiversity, ecosystems and water quality through application of circular economy or similar approaches. We encourage investment to address the environmental objectives in the EU Sustainable Investment Taxonomy (EU 2020/852).
- **Quality of disclosures:** The quality of the company's financial and non-financial disclosures. We encourage companies to use recognised frameworks and standards for integrated reporting. These may include, but are not limited to, the Global Reporting Initiative Standards, the International Sustainability Standards Board Standards, the EU Sustainable Finance Disclosure Regulation, and the TCFD Framework.

#### 8.5 Engagement Escalation.

We recognise that, in some circumstances, escalation through enhanced engagement may be necessary.

Enhanced engagement means advising the company of the decision to put it on a watchlist and an enhanced engagement programme. Our underlying investment managers are responsible for undertaking engagement escalation at their discretion.

If enhanced engagement does not lead to the desired change, BTNZ, through our underlying investment managers, may decide to exclude the company from its investment portfolio. BTNZ considers this exclusionary approach to be an action of last resort, to be taken only if enhanced engagement does not succeed.

#### 8.6 Industry Collaboration.

We see stewardship through collaboration with other stakeholders as a positive, effective, and efficient mechanism for enacting change and to help us achieve our sustainable investment goals.

We collaborate with our underlying investment managers, advisers, investment consultants, auditors, third-party data providers, other asset managers and fund managers, governments, standard setters, and industry bodies.

While we do collaborate with others, we also respect that in some cases they may have differing views.

For an overview of the collaborations see section 4.2.

<sup>12</sup> Refers to different Greenhouse gas emissions from owned, controlled, indirect sources and value-chains.

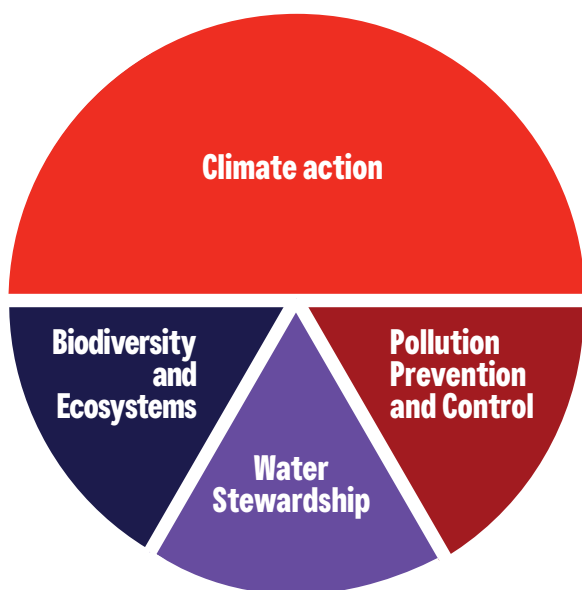
## 9. Pillar IV: Sustainable themes.

Our highest priority currently is to invest more in our climate action theme. We are also growing our investment in other themes such as biodiversity and ecosystems, water stewardship, and pollution prevention and control. These sustainable themes will help support positive outcomes, and our aspiration to be a sustainable investment leader.

We have previously referred to sustainable themes as positive outcomes. Where we refer to positive outcomes in or outside of this Sustainable Investment Policy, for example on the website or in the short summary SI policy, we are generally referring to sustainable themes content in this section.

We recognise that everyone needs to make significant changes to limit global temperature rises. We believe we have a role to support a climate-resilient, low-emissions economy. We also believe climate change is not to be viewed in isolation, as it has profound impacts on ecosystems and biodiversity.

Through our sustainable themes pillar, we are working to establish and then increase the level of investment we hold in companies and other issuers across five of the environmental objectives outlined in the European Union's Sustainable Investment Taxonomy on the establishment of a framework to facilitate sustainable (EU Regulation 2020/852)<sup>13</sup> as the standards are further defined by the EU. In the absence of a global sustainable standard, the EU Regulation is widely recognised as the most comprehensively defined and respected regulated approach.



### 9.1 The sustainable themes.

In line with our goal of delivering targeted positive environmental outcomes, we are working towards investing more in the key themes identified in Articles 10, 11, 12, 14 and 15 of the EU Sustainable Investment Taxonomy EU 2020/852 into our process<sup>14</sup>. The current key sustainable themes are listed below. However we are not limited to these themes, and may choose to invest in other themes from time to time. Our underlying investment managers are working towards implementation of these sustainable themes. Depending on the maturity of the asset class and/or the approach of our underlying investment managers, progress towards these commitments will occur at different times<sup>15</sup>.

### 9.2 Climate action.

Climate action is our highest priority and is currently the most evolved of our sustainable themes. The principles of sustainable contribution to climate change mitigation and adaptation are set out in Articles 10 and 11 of the EU Sustainable Investment Taxonomy. For us, this means working towards investing more in companies and other issuers that provide or adopt renewable energy, energy efficiency, climate mitigation or adaptation solutions in order to substantially reduce the extent of climate impacts on the environment, people and assets.

At BTNZ, we are committed to supporting the goal of net-zero greenhouse gas (GHG) emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels. We are committed to aligning our investments to a 1.5°C pathway.

We are working towards integrating climate change risk and opportunity into investment decisions. We intend to develop a climate action plan and report on our progress annually.

We are committed to identifying, assessing, and managing our climate-related risks and opportunities in line with the recommendations of the New Zealand Climate-related Disclosure standards.

Please see **Appendix 2** for an update on the current implementation of this Sustainable Investment Policy.

<sup>13</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>

<sup>14</sup> Deciding to invest in a company in line with these themes forms only one investment factor in our overall assessment of the issuer.

<sup>15</sup> We monitor our underlying investment managers biannually on their compliance with these commitments and balance these outcomes with portfolio performance. Please see **Appendix 2** for an update on the current implementation of this Sustainable Investment Policy.

### 9.3 Other sustainable themes being established.

There are three other sustainable themes that we are working to further identify opportunities and grow our investments in:

- **Biodiversity and Ecosystems.** For us, this means working towards investing more in companies and other issuers that are contributing substantially to nature and biodiversity conservation, sustainable land use and management, sustainable agriculture practices or sustainable forest management practices, as set out in Article 15 of the EU Sustainable Investment Taxonomy.
- **Water Stewardship.** For us, this means working to invest more in companies and other issuers that are contributing substantially to water stewardship (such as reducing water contamination, improving water management, reducing water usage, increasing efficiency or security of supply), as set out in Article 12 of the EU Sustainable Investment Taxonomy.
- **Pollution Prevention and Control.** For us, this means working towards investing more in companies and other issuers whose activities are contributing substantially to pollution prevention and control (such as by improving air, water, and soil quality) or who are working to minimise adverse human health and environmental impacts from the production, use or disposal of chemicals, as set out in Article 14 of the EU Sustainable Investment Taxonomy.

### 9.4 Alignment with the EU Sustainable Investment Taxonomy.

As the EU Sustainable Investment Taxonomy (2020/852) standard is not yet fully implemented, access to reliable and accurate third-party data is limited. We expect data availability (aligned with the EU Taxonomy) to improve over the next 12 to 24 months. In the interim, because our systems to capture the data have not been developed, we are not yet able to reliably capture and report against four of the five selected criteria. We are relying on our underlying investment managers to target, measure and report on their estimated contributions to these sustainable themes using their own frameworks or their third party data in the meantime.

We also expect to be able to include commitments to socially themed investments, in addition to our selected environmental themes, once a globally recognised sustainable investment standard (taxonomy) for social investments has been developed and implemented. In the interim, we encourage our underlying investment managers to select, target, measure and report on their estimated contributions to their nominated social investment themes.

### 10. Conflicts of Interest.

BTNZ maintains an internal Conflicts Management Policy which (a) prescribes the mechanisms by which conflicts must be managed; and (b) describes the process for assessing conflicts and determining the approved conflicts management arrangements. BTNZ also requires each of its underlying investment managers to have a Conflicts Management Policy in place and to share with BTNZ any conflicts of interest that have occurred, such as through stewardship activities.

### 11. Approved by:



Nigel Jackson  
CEO, BTNZ

March 2023

# Appendix 1: BTNZ's Voting Principles

The key principles that guide our and our investment manager's voting decisions for listed companies are<sup>16</sup>:

## General.

- We expect the identification and integration of key ESG factors, including within business strategy, board responsibilities, and risk management.
- We expect a company to have a clearly defined social purpose.
- We expect a commitment to transparency and public disclosure of key ESG factors, including against our sustainable theme objectives, through recognised frameworks and standards.

## Alignment of company actions with our sustainable theme objectives on climate change, biodiversity, pollution prevention and water stewardship.

We aim to:

- Vote in support of the adoption of a robust climate action plan with adequate budget and personnel.
- Vote in support of the adoption of science-based targets aligned with a 1.5°C pathway covering scope 1, 2 and 3 Greenhouse gas emissions.
- Vote in support of assessment and disclosure of climate-related risks and opportunities in line with TCFD.
- Vote in support of investments to reduce or adapt to physical and transitional climate risk.
- Vote in support of increases in budget for climate mitigation.
- Vote in support of investments to improve sustainable land and marine use, supply chains and natural capital outcomes.
- Vote in support of actions to improve water stewardship, including water use, water quality, wastewater quality and quantity.
- Vote in support of actions to reduce, reuse and adopt circular economy approaches to product stewardship.
- Vote against deforestation, land or marine degradation, unsustainable agricultural or marine practices, harm to threatened species, or the use of non-certified sustainable palm oil.

## Social.

- We expect companies to actively embrace the UN Global Compact principles and discontinue actions that contravene these principles.
- We expect the promotion of a diverse and inclusive workforce including meaningful policies demonstrating tangible outcomes.
- We expect proactive human capital management, attention to cultural rights, payment of a living wage and reducing pay gaps, and encouragement of employee participation.

- We expect disclosures of modern slavery assessments and actions to minimise impacts.
- We expect companies to have an effective whistleblowing program and anti-corruption process.
- We will vote in support of actions positively and actively supporting local communities.

## Governance.

- We expect well-structured governance including responsibility to manage social and environmental impacts.
- We expect boards and management with diverse skills, experiences, backgrounds, age, nationality, ethnicity, gender and sexuality.
- We expect at least one female on boards; in well-governed markets at least 30% of board members shall be female and/or identify as LGBTQIA+.
- We expect 30% of board directors to be independent (this means no working, material business, representative, family or other close ties).
- We expect the roles of Chairman and Chief Executive to be held separately.
- We expect and support the appointment of an independent external financial auditor.
- We expect membership of an audit committee to be non-executive. Members of both audit and remuneration committees should be listed in annual reports. It is preferred that only non-executive directors sit as members of remuneration committees.

## Remuneration and Board tenure.

- We expect remuneration structures to be simple, long-term oriented and aligned with shareholder value, and to encourage responsible risk taking.
- We expect board tenure to be limited to 12 years with regular independent board effectiveness reviews.
- We expect board and executive compensation and incentive payments to be fully and transparently disclosed and linked to long-term value creation and long-term company performance, climate action, and social purpose.
- We expect termination payments should not be excessive and we expect disclosure of any contingent liabilities to be made.

## Ownership and Shareholder Rights.

- We do not support actions that curtail or dilute the voting or economic rights of shareholders.
- We expect companies to seek approval from shareholders before making political donations.
- We expect transparency of political lobbying activities (in AGMs or annual reports) and alignment of those with the company's social purpose.

<sup>16</sup>Our underlying investment managers have discretion to cast a vote in a manner which seeks to achieve improved long-term value. Any divergence from these principles, for example by using and applying their own policies, is therefore not expected to have a material consequence to the financial performance of the investment. Accordingly, divergence from these principles is not considered to be a material breach of our SI Policy commitments



# Appendix 2: BTNZ's current implementation status of the Sustainable Investment Policy

## Annual Customer Report.

We will report on the progress we've made on our sustainable investment journey. Our annual customer report will provide a full description of our current progress on sustainable investing. Our first customer report is scheduled to be published in 2023.

The four Sustainable Investment pillars of this Policy vary in their complexity, and our ability to implement and measure. As a result, we are at different stages of implementation for each pillar. For example, exclusions are relatively simple to implement, control for and check compliance against. In contrast, sustainable themes are more difficult to implement and measure. As a result, we are in the early stages of establishing our sustainable themes.

## Westpac Sustainability Report.

BTNZ also publishes its results relating to sustainable investment each year through the Westpac Sustainability Report. A few key highlights from the 2022 Sustainability report for BTNZ are:

- Named a Responsible Investment Leader in RIAA's 2022 Benchmark Report and was named a finalist in the Mindful Money Best Net Zero and Climate Action Investor.
- Continued engagement with policy makers, industry groups, companies and governments we invest in on climate and sustainability actions.
- Actively supported the introduction and became a founding signatory of the New Zealand Investment Stewardship Code.

You can find the most recent report at [westpac.co.nz/sustainable](https://westpac.co.nz/sustainable)

## Disclaimer.

The information provided in this Appendix 2 is for information purposes only and is not intended to provide a recommendation or opinion in relation to any managed investment scheme offered by BTNZ. The content on this page does not form part of our Sustainable Investment Policy (Policy) and is only intended to provide a general idea of the current implementation of the Policy.



## Appendix 2: Climate scenario analysis.

### Additional scenario narratives, driving forces and key policy assumptions.

We partnered with and relied on Mercer to develop our climate-related scenarios. We partnered with Mercer so we could utilise their scenarios (which have been built upon those developed by Ortec Finance and Cambridge Econometrics) and information.

Table 26: Additional scenario narratives, driving forces and key policy assumptions.

	4°C Failed Transition	<2°C Orderly Transition	1.5°C Rapid Transition
<b>Physical risks considered (driving force)</b>	<p>In the Failed Transition pathway, the planet will be around 2°C warmer than pre-industrial levels by 2050, reaching 4.3°C by the end of the century.</p> <p>This warming will force the rise in the number and severity of climate-related extreme weather events. The frequency of extreme weather events is expected to increase from 900 per year in 2023 to around 3,100 events by the end of the century. Of these, 81% of event losses (such as storms, hurricanes, floods, bushfires) are estimated to be attributable to climate change under the Failed Transition pathway in 2100.</p> <p>Corresponding direct losses are expected to increase from US\$274 billion in 2023 to US\$1.7 trillion in 2100 and a corresponding increase in the GDP impact from US\$545 billion in 2023, to nearly US\$2.6 trillion by 2100 (globally).</p>	<p>In the Orderly Transition pathway, average global warming peaks at over 1.8°C in 2070 and then begins to gradually decline.</p> <p>Extreme weather events are expected to increase from a frequency of 900 per year in 2021 to 1,360 in 2050 and nearly double to 1,580 in 2100, globally.</p>	<p>In the Rapid Transition pathway, average global warming stabilises at 1.5°C. Restricting global warming greatly limits the increase in frequency and severity of extreme weather events going forward.</p> <p>The frequency of extreme weather events is expected to increase from 900 per year in 2023 to 1,430 events by the end of the century, globally. About 59% of events in 2100 are estimated to be attributable to climate change under the Paris Orderly and Disorderly pathways.</p> <p>Corresponding direct losses arising from extreme weather events are expected to increase from US\$274 billion in 2023 to US\$791 billion, globally.</p>
<b>Energy pathways (driving force)</b>	<p>In the Failed Transition pathway, global primary fuel demand increases by 70% over the period from 2020 to 2060. The share of different primary fuels remains relatively stable.</p>	<p>Global primary fuel demand decreases by about 39% by 2050 relative to 2020.</p> <p>Fuel demand increases by about 24% between 2050 and 2060 because of the increasing use of bioenergy with carbon capture and storage (BECCS) to offset emissions in hard-to-abate sectors.</p> <p>The share of coal decreases the most between 2020 and 2060, from 34% to 8% in the fuel mix. While the share of gas decreases by 9 percentage points to 20% by 2060, the share of oil does not change significantly over the timeframe (from 27% to 21%).</p> <p>At the same time, the proportion of biofuels (including biofuels + carbon capture and storage) increases fivefold over the 2020 to 2060 period.</p>	
<b>Electricity generation technology (driving force)</b>	<p>In the Failed Transition pathway, fossil fuel technologies are responsible for most production. From 2020 to 2060, they provide more than half of total electricity generation (64% in 2020 and 68% in 2060). Coal comprises 46% of total generation while gas provides 22% in 2060. The share of nuclear generation is relatively stable and remains around 10%. The share of wind power remains 6% between 2020 and 2060, while solar photovoltaics (solar PV) share grows from 2% to 10%.</p>	<p>Fossil fuels are largely phased out from power generation. The share of coal, oil, and gas reduces from nearly 64% to 1% over the 2020 to 2060 timeframe.</p> <p>The nuclear share in the total generation goes up to 21% in 2040 from 10% in 2020 but reduces to 9% in 2060.</p> <p>The share of renewables increases steeply over time, with solar PV leading the way. By 2060, solar PV becomes responsible for 49% of the total generation. That, compared to its 2% share in 2020, is a very fast expansion. Onshore wind deployment also increases, its share grows from 5% to 15% by 2050, but its share reduces to 3% by 2060.</p> <p>While hydro generation declines from 14% to 5% by 2060, the share of carbon capture and storage technologies grows up to 15% by 2050, and 24% by 2060.</p>	
<b>Transport (driving force)</b>	<p>In the Failed Transition pathway, the global passenger transport mix shifts from being predominately diesel and petrol internal combustion engines (ICEs) in 2020 (10% and 62% of the vehicle fleet respectively) to a more heterogeneous mix of different vehicle types. Electric and hybrid vehicles are more widely used, however, less than in the Rapid Transition pathway. By 2060, hybrid and electric vehicles make up 23% and 30% of the vehicle mix, while petrol and diesel ICEs comprise 30% of the vehicle fleet.</p>	<p>Diesel and petrol vehicles will be phased out by 2050. Low emission vehicles will be dominated by electric vehicles (making up 97%) by 2060.</p>	

	4°C Failed Transition	<2°C Orderly Transition	1.5°C Rapid Transition
<b>Key policy assumptions (driving force)</b>	<p>Policies in the Failed Transition pathway are assumed to be a continuation of the existing policy regime with the same level of ambition. With ‘the same level of ambition’ we mean that for many of the existing policies, how they will look and be materially implemented in 5-10 years from now is not fully known, therefore, for the future, we assume that policy does not significantly deviate from what is already in place (modest growth rates in taxes consistent with previous year-on-year growth for example).</p> <ul style="list-style-type: none"> <li>Interventions to lower the relative cost of renewables are successful in a selection of regions (EU, India, China) – the changes in prices and investment costs due to these policies are captured in our macro-economic model.</li> <li>Certain countries implement modest biofuel blending requirements (EU Member States, US, Canada, Brazil, China, India), which reduces the carbon intensity of fuel used in passenger transport in these regions.</li> </ul>	<p>In both transition pathways, ambitious policy regimes are pursued to encourage greater decarbonisation of the electricity sector and to reduce emissions across all sectors of the economy.</p> <ul style="list-style-type: none"> <li>An EU-style emissions trading scheme is extended to cover all world regions and most sectors (excluding passenger transport and households).</li> <li>The global carbon price is assumed to grow in real-terms and reaches \$109/t CO<sub>2</sub> by 2030 and \$419/t CO<sub>2</sub> by 2050 (in 2020 prices).</li> <li>Policies to support the take-up of electric vehicles have been put in place.</li> <li>Significant investments in energy efficiency measures reduce fuel demand across most sectors of the economy.</li> <li>Investment in solar and electrical heating reduces the demand for fossil fuels for home heating.</li> <li>Policies to support the take-up of lower-carbon steel alternatives are put in place. In other industry sectors, process emissions are assumed to decrease steadily over the timeframe.</li> <li>Investment subsidies for carbon capture and storage (CCS) reduce costs faced by investors and makes the deployment of these technologies more attractive in the electricity sector. CCS investment subsidies help to kick-start those technologies but are gradually phased out as the technologies become more cost-competitive (starting from second half of 2020s for biomass CCS, and from 2035 for biogas CCS and fossil + CCS). All CCS investment subsidies are phased out by 2050.</li> <li>Generous feed-in tariffs to lower the cost of various renewable technologies are introduced. Those subsidies are gradually phased out starting in 2035 as renewable technologies are increasingly cost effective.</li> <li>Coal electricity generation is gradually phased out by 2050, as supply of cheap renewables rises to replace it.</li> </ul>	
<b>Macroeconomic factor: Impact on GDP</b>	<p>Regional differences are large; at temperatures below 5°C, an increase in average temperature is expected to have a positive impact on GDP growth, while for countries with higher current average temperatures, global warming likely has large negative impacts on output.</p>	<p>Overall, global transition impacts are relatively small but positive up to around 2030. Initial positive impacts on GDP are driven in the short term by the stimulus effects of investment in low-carbon electricity generation and in the longer term, by the combined effects of continued investment in energy efficiency improvements and changes in real consumer incomes. China is the strongest global driver of the initial investment stimulus, though India is also an important driver of income and consumer spending growth. Output in large fossil fuel exporting economies such as the US and Canada falls, which contributes to a negative GDP impact in these regions, following the dynamics of the fossil fuel exporter narrative.</p> <p>In many states, there is a significant increase in government revenues due to higher carbon taxes. These revenues are ‘recycled’, and government budgets balanced by reducing taxes elsewhere in the economy. In regions where the changes to consumer incomes are very large due to large tax incomes under this new tax regime, increases in consumer spending drive the bulk of the observed increase in GDP.</p> <p>Gradual physical impact on GDP is calculated from the expected temperature increase, combined with the current temperature. Regions with average temperatures currently below 5°C (such as Finland and Iceland) experience initially positive GDP growth impacts from warming, while countries with higher average temperatures experience large negative impacts on GDP growth (e.g. India and Brazil). On a global level, the net impact on GDP from any further warming is negative, and the impacts on a regional level are uniformly negative in the long run.</p>	
<b>Macroeconomic factor: Impact on inflation</b>	<p>Under this scenario, physical risk impacts are most prevalent. Global warming leads to decreasing crop yields for most crop types, due to volatile precipitation and stronger summer heat waves. This increases the prices of agricultural products, food, and the general price level of the economy, placing an upward pressure on inflation. Countries with a high food share in household expenditure and those with diets based on heat sensitive food types are more affected.</p>	<p>The world experiences inflation pressure in the short term due to the investment stimulus. Carbon prices make fossil-based energy more expensive, pushing up prices. Later in the modelled period, the switch to cheap renewables leads to declining electricity prices. Towards the end of the modelled period, the application of expensive CCS and BECCS puts upward pressure on inflation.</p> <p>The Rapid and Orderly Transition world needs large amounts of investments in low-carbon electricity generation and energy efficiency improvements to reach net zero emissions by 2050. These investments increase income and price levels in the economy. As the investment stimulus is concentrated in the early years of our modelled timeframe, it acts as a short-run stimulus for inflation.</p> <p>In the Rapid and Orderly Transition scenarios, ambitious global carbon pricing is introduced throughout the modelling period. Carbon prices make fossil fuels and fossil-based electricity more expensive which pushes up price levels and inflation. This factor increases inflation in the early years in regions where fossil fuels are important in the power sector. As fossil fuels are phased out, high carbon prices have moderate impacts on inflation in the later years of the timeframe, only through the remaining demand for fossil fuels, or fossil-based CCS use.</p>	

### Appendix 3: Calculating the GHG emissions inventory: Basis for Preparation.

**Purpose.**

This appendix outlines how we calculate the schemes and funds in scope for reporting for the financed (invested) GHG emissions inventory for equities and listed properties asset classes.

This appendix includes the standards the GHG emissions have been measured in accordance with, the consolidation approach used, and the sources of GHG emission factors used (as applicable to an invested GHG emissions inventory).

This appendix also provides our assumptions, identified specific exclusions, and an explanation as to why the exclusions have been made (such as data availability).

**Recognising the GHG emissions across the investment value chain – scope.**

BT Funds Management (NZ) Limited (BTNZ), as a scheme manager, manages investments (such as the Westpac Active Series) on behalf of its clients.

As the manager of registered schemes and funds, there are no materially significant Scope 1 or 2 GHG emissions. As BTNZ is a subsidiary of Westpac New Zealand Limited, GHG emissions associated with BTNZ’s scope 1 and 2 emissions (for example, staff electricity use) are captured by, and form part of, Westpac New Zealand Limited’s annual GHG emission inventory.

For the registered scheme and funds, the primary source of GHG emissions lie within

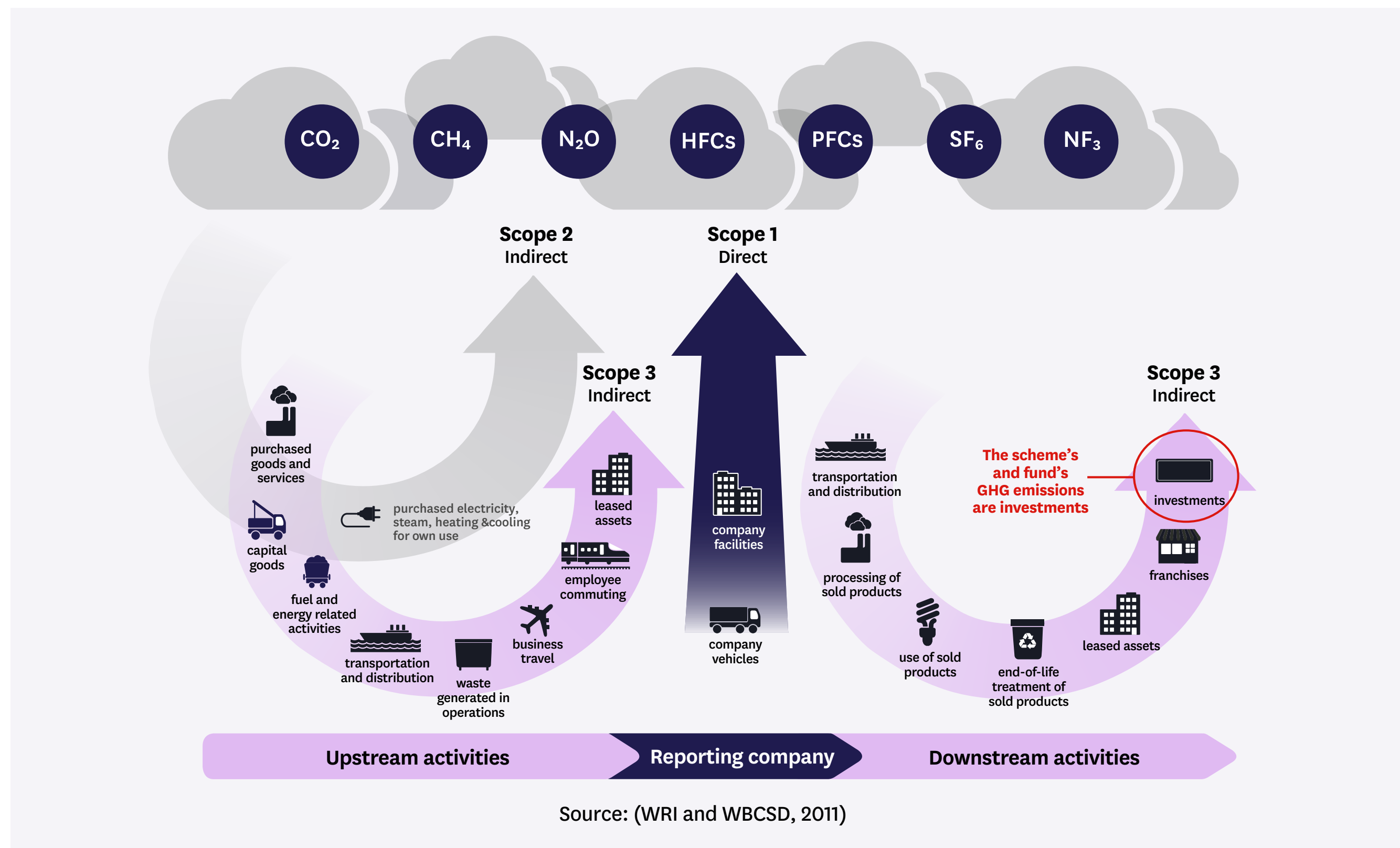
the downstream GHG emissions, within the financed (invested) emissions. These invested GHG emissions are recognised and defined using the GHG Protocol “Scope 3 Standard”<sup>10</sup>, providing the requirements and guidance for

companies and other organisations to prepare and publicly report a GHG emissions value chain inventory (Scope 3 GHG emissions).

Figure G below explains the different scopes and identifies where the invested GHG

emissions lie within the overall investment value chain. Using the Scope 3 Standard, invested GHG emissions are classified as **Scope 3, Category 15**. BTNZ reports its equity and listed property asset classes as Scope 3, Category 15 emissions.<sup>11</sup>

Figure G: Overview of GHG Protocol scopes and emissions across the value chain.



10. Corporate Value Chain (Scope 3) Standard | Greenhouse Gas Protocol (ghgprotocol.org)

11. Corporate Value Chain (Scope 3) Standard | Greenhouse Gas Protocol (ghgprotocol.org)

### Standards used to measure the schemes and fund’s GHG emissions inventory.

To derive the invested GHG emissions inventory of the scheme, and the funds within it, we used the GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard (also referred to as the Scope 3 Standard).

To calculate the invested GHG emissions for the two asset classes equities and listed properties, the scheme and funds uses the Global GHG Accounting and Reporting Standard for the Financial Industry<sup>12</sup> published by the Partnership for Carbon Accounting Financials (PCAF).

Part A of the PCAF Standard provides detailed methodologies to measure absolute gross GHG emissions associated with equities and listed property securities. The capturing of GHG emissions, and their conversion to carbon dioxide equivalent (CO<sub>2</sub>e) is undertaken by the relevant issuers and is as supplied to us via our data provider. Based on our understanding from our data provider, issuers generally utilise the GHG Protocol to develop their inventories. This protocol requires issuers to capture seven categories of GHG emissions (CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, PFCs, SF<sub>6</sub> and NF<sub>3</sub>).

### Consolidation approach adopted.

The Scope 3 Standard has three consolidation approaches available: the equity share approach, the financial control approach, and the operational control approach. These approaches help define the organisational boundary for a GHG emissions inventory, and the selection of approach affects whether the

scheme’s and funds’ value chain GHG emissions are categorised as direct emissions (i.e., Scope 1) or indirect emissions (i.e., Scope 2 and 3 emissions).<sup>13</sup>

In accordance with PCAF Standard, which allows only two of these three options, the scheme and its funds have adopted the financial control approach, which allows for consistent reporting of financed (invested) emissions as Scope 3, Category 15 (investments) GHG emissions. Using the **financial control** approach, the scheme and its funds therefore report on the GHG emissions that each company and other issuer has and where the scheme and its funds have the potential to benefit economically from the issuer’s activities.

### Attribution of GHG emissions.

According to the PCAF Standard (s.4.1), GHG emissions from investments should be allocated to the scheme and its funds based on the proportional share of lending or investment in the borrower or investee (for us this is the issuer).<sup>14</sup> Attribution is therefore based on the

annual GHG emissions of investee/issuer, and as a result, GHG emissions are reported on at least an annual basis.

PCAF stipulates that to measure GHG emissions, these attribution principles apply:

- Financed GHG emissions are always calculated by multiplying an attribution factor (specific to that asset class) by the GHG emissions of the borrower or investee.
- The attribution factor is the share of absolute gross annual GHG emissions of the borrower or investee allocated to the loan(s) or investment(s).
- The attribution factor is calculated by determining the share of the outstanding amount of loans and investments of a financial institution over the total equity and debt of the company, project, etc. to which the financial institution has lent money or in which it has invested capital. For equities and listed properties this is the Enterprise Value including Cash (EVIC).

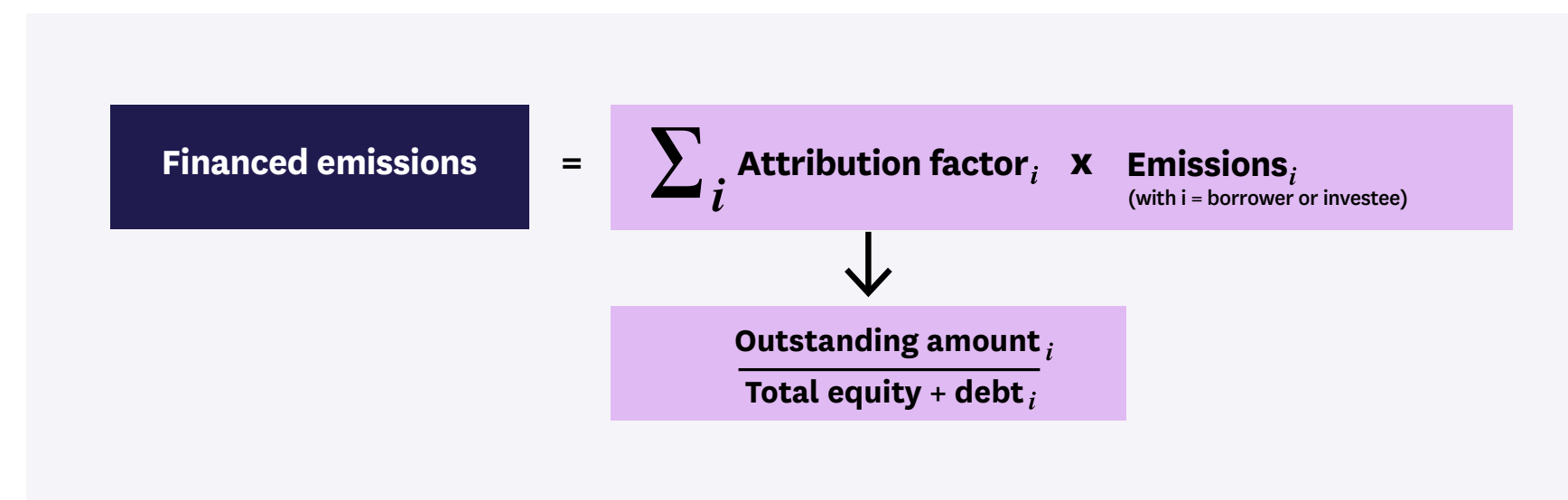
Ref: PCA (2022)<sup>15</sup>

### GHG Accounting Period.

The GHG reporting period for the scheme and its funds aligns with the scheme’s Fiscal Year, 1 April to 31 March, and is in line with PCAF s.4.2 on requirements for reporting financed emissions.

Due to issues accessing accurate, reliable and complete data, BTNZ has derived its GHG emission figures for 31 December 2023 using the latest available GHG emissions data as of 31 December 2022. This was then weighted and aggregated with the holdings data as of 31 December 2023.

Figure H: The general approach to calculate financed emissions.



12. PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition <https://carbonaccountingfinancials.com/standard>  
 13. PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition. <https://carbonaccountingfinancials.com/standard>  
 14. PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition. <https://carbonaccountingfinancials.com/standard>  
 15. PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition. <https://carbonaccountingfinancials.com/standard>

### Financed GHG emissions metrics.

There are a variety of metrics the scheme (and the funds within it) use to measure invested emissions, as shown in **Table 27**. Under the financial control approach, Scope 3, Category 15 (investment) GHG emissions are attributed in proportion to the scheme and its funds' share of exposure to each company or issuer relative to the total value of the issuer.

**Table 27: Summary of metrics used by the scheme (and funds within it) when measuring and assessing invested GHG emissions.**

Metric	Description	Unit
<b>Absolute gross GHG emissions: Sum of Scope 1 and 2</b>	The absolute Scope 1 and 2 GHG emissions emitted associated with the scheme or fund	metric t CO <sub>2</sub> e
<b>Carbon (GHG) emission footprint: Scopes 1 and 2</b>	Total GHG emissions for a scheme or fund normalised by the market value of the scheme or fund for Scope 1 and 2. This is used to understand emission intensities based on a monetary unit. This is also known as economic emissions intensity.	metric t CO <sub>2</sub> e / NZ\$M invested <sup>16</sup>
<b>Weighted average carbon (GHG) emission intensity: Scopes 1 and 2</b>	Total weighted average GHG emissions per million dollars of revenue of the scheme or funds of Scope 1 and 2. This is used to understand the exposure to GHG emission intensive companies of the scheme or fund.	metric t CO <sub>2</sub> e / NZ\$M company revenue

### Current asset class exclusions from the GHG Emissions Inventory.

The scheme (and funds within it) include a diversified set of asset classes. These asset classes include equities, listed property, fixed interest split into sovereign debt and corporate debt, and cash.

For some asset classes, a lack of available data or lack of agreed methodology to calculate their GHG emissions means they are currently excluded from the calculations. A summary of current asset class exclusions is outlined in **Table 28** below.

For example, some cash or bond securities require the corresponding financial institution (e.g., a bank) to disclose their financed emissions. For some asset classes, a lack of an established calculation methodology (e.g., commodities) means they currently cannot be captured in the GHG emissions inventory.

**Table 28: Summary of asset class exclusions adopted for the scheme and fund's invested GHG emissions inventory.**

Asset class	Standard/ methodology used	Included in emissions inventory (Yes/No)	Key reason(s) for current exclusion
<b>Equities and listed properties (international and domestic)</b>	PCAF, Listed Equity and Corporate Bonds (Chapter 5.1) <sup>17</sup>	Yes The sum of Scopes 1 and 2	Scope 1 and 2 coverage is generally either reported through companies or has been estimated by our data provider for companies and other issuers. Scope 3 coverage (incl. historical) is limited and incomplete at present and therefore limits comparability and accuracy over time and has therefore been excluded from this report. This is a deviation from the PCAF requirement on reporting for Scope 3 for the oil, gas, and the mining sectors to start from 2021 onwards and for the transportation, construction, buildings, materials, and industrial sectors from 2023 onwards.
<b>Corporate bonds</b>	PCAF, Listed Equity and Corporate Bonds (Chapter 5.1)	No	BTNZ currently does not have an approach to collect and map GHG emissions for corporate bonds. Not all unlisted corporate issued bonds provide their GHG emissions inventories.
<b>Sovereign bonds</b>	PCAF, Sovereign Debt (Chapter 5.7)	No	We will commence covering our sovereign bond asset class in 2025.
<b>Sub-sovereigns, municipals, supranational, multi-lateral and intranational bonds as agency debt</b>	-	No	Lack of defined methodology. Lack of available data. PCAF notes "it is challenging to extend the Sovereign Bond methodology to sub-sovereign and municipal counterparties due to very limited data availability and because these counterparties are not directly subject to international GHG emissions inventory standards (e.g. by the United Nations Framework Convention on Climate Change.)"
<b>Green or sustainable bonds (known use of proceeds)</b>	-	No	Not explicitly captured by the PCAF standard, however, where data is available, the bond is captured as a Sovereign Bond or a Corporate Bond.
<b>Commodities</b>	-	No	Lack of defined methodology. Lack of available data.
<b>Cash and derivatives</b>	-	No	Lack of defined methodology. Lack of available data.
<b>Asset backed and residential mortgage-backed securities</b>	-	No	Lack of defined methodology. Lack of available data.

16. We are provided with figures in NZD by our external data provider FactSet, and are therefore reliant on their exchange rate methodology from other currency sources it has drawn on.

17. Note that PCAF 5.4 lists Commercial Real Estate investments listed in the stock market as classified as listed equity and is referred to 5.1.

**Calculating the scheme’s and funds’ invested GHG emissions inventory – equities and listed properties asset class.**

Table 29 presents the formulas used to calculate the invested GHG emissions for the scheme’s or funds’ equities and listed property assets.

EVIC is defined as enterprise value including cash, which is the sum of the market capitalisation of ordinary shares at fiscal year-end, the market capitalisation of preferred shares at fiscal year-end, and the book values of total debt and minorities’ interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.<sup>18</sup> EVIC is calculated as: Enterprise Value + short term investments.

Table 29: Formulas used to calculate GHG emissions for equities and listed property.

Metric	Formula	Unit	Baseline
Total gross GHG emissions of the portfolio: Total emissions (Sum of Scope 1 and 2)	$\sum_i \frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 emissions}_i$	metric t CO <sub>2</sub> e	March 2019
Carbon (greenhouse gas) emission footprint (for Scopes 1 and 2) (economic intensity)	$\sum_i \frac{\frac{\text{current value of investment}_i}{\text{issuer's EVIC}_i} \times \text{issuer's Scope 1 and Scope 2 emissions}_i}{\text{current portfolio value (NZ\$M)}}$	metric t CO <sub>2</sub> e/ NZ\\$M invested	March 2019
Carbon (greenhouse gas) emission intensity (for Scopes 1 and 2) (WACI)	$\sum_i \frac{\text{issuer's Scope 1 and Scope 2 emissions}_i}{\text{Sales Revenue NZ\$M}_i} \times \text{portfolio weight}_i$	metric t CO <sub>2</sub> e/ NZ\\$M company revenue	March 2019

18. PCAF (2022). The Global GHG Accounting and Reporting Standard Part A: Financed Emissions. Second Edition. <https://carbonaccountingfinancials.com/standard>



**Methodology overview of our third-party data provider.**

Our third-party data provider supplies us comprehensive coverage of GHG emissions data through the collection of issuer reported data and fills remaining gaps with estimated data. To supplement the reported data, multiple estimation model techniques are used depending on the type and availability of data (i.e., source type hierarchy). One of the approaches they use is the multi-factor estimation model, which estimates the Scope 1 and 2 GHG emissions of the issuer. This estimation is based on factors related to company size, along with factors specific to sub-industry, activity, and country.

Their GHG emissions dataset has two source types of data - reported and estimated. As each company will only be assigned one emissions value, a source type hierarchy has been developed as depicted in **Figure I**. This will depend on the availability and type of company data.

The PCAF data quality score associated with reported vs. estimated data is not provided by our third-party data provider.

Given that reported data falls high on the hierarchy and the estimation models are built on reported emissions data, it is important that the reported data is reliable and of high quality. For exceptional cases, our third-party data provider may disqualify the reported data and an estimated value will be used instead. Reasons for disqualification include,

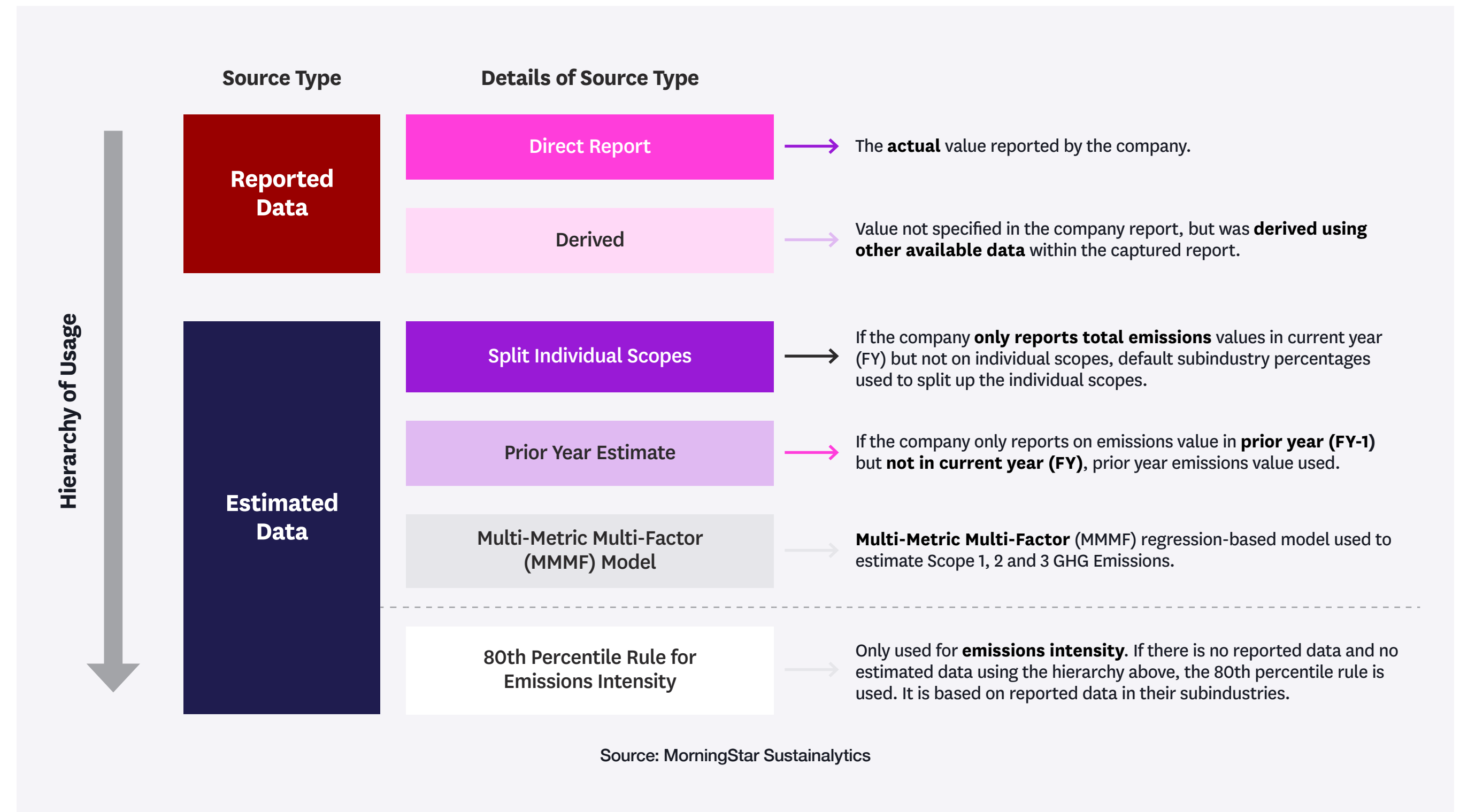
uncertain units of measurement, exceptionally high intensity values (e.g., contradictory unit references on different sections of the company reports); and inconsistent and erroneous reporting from year-to-year (e.g., frequent corrections and restatements).

**Equity and listed property: methods, assumptions, exclusions, limitations, and uncertainties.**

When calculating the invested GHG emissions for equities and listed properties, the following limitations and assumptions apply:

- **Timing of the publication of GHG emissions and financial data:** Invested GHG emissions reporting relies on the application of whole-of-year GHG emissions and activity data to provide a point-in-time exposure aligned with enterprise value data. There may be a lag in companies and other issuers GHG emissions or holding data reporting (i.e., EVIC, Revenue and Market Values), which may not fully align with the period for companies or other issuers financial reporting or the balance date. This may mean that GHG emissions data presented for a point in time in this disclosure does not represent the GHG emissions of the companies or other issuers at that time. Because of delays in receiving GHG emissions from issuers, where we have stated dates, these refer to the date of the holdings within the fund used to weight and aggregate the emissions.

**Figure I: Source type hierarchy.**



- **Market value fluctuation:** When using EVIC as the denominator, calculated invested GHG emissions might change because of fluctuating market prices of the asset held, as mentioned as a limitation in the PCAF guidance. A market value fluctuation correction (referenced to as ‘an inflation correction’ in the PCAF standards documentation) can be applied and reported in addition to unadjusted figures. However, due to this being a limitation as per the PCAF standard, the presentation of adjusted data is in line with the PCAF standard.
- **Currency fluctuations:** We report using New Zealand Dollar figures based on data being made available to us by our third-party provider(s). We rely on the data provider(s) to apply their exchange rate methodology to report to us in NZD. Changes in exchange rates can impact the economic intensity and WACI accordingly. Where financial data is provided in a foreign currency, this is converted to a New Zealand Dollar equivalent, on the date of the analysis. With regards to GHG measures, where FX conversion is required to calculate estimated Scope 1 and 2 measures, this is converted to USD using providers’ internal FX conversion process.
- **Data availability and uncertainty:** Data availability and uncertainty impact the issuer’s reported GHG emissions. PCAF acknowledges that data comparability,

coverage, transparency, and reliability of data provided by issuers varies. GHG emissions data used for the current Climate Statement is as at 31 December 2022 due to the dataset for this date being the most accurate, complete and reliable. We are under no obligation to update this Climate Statement as more accurate, complete and reliable data becomes available from our third-party data provider.

- **Data uncertainty:** BTNZ will report on GHG emissions metrics for issuers only where a reasonable quality of data is available. The reasonableness of the data has been evaluated by our third-party data provider using their methodologies. Where reported data is not available, an estimation methodology has been applied, which is derived from averaging across industry sectors and other factors. This may impact coverage of metrics per portfolio. Coverage of metrics per portfolio will be reported to mitigate disclosure concerns. Our data provider is developing their own methodology for data quality (PCAF) scores.
- **Data coverage and issuer identification:** Data presented is unadjusted (except for a maintained list of companies and other issuers that have been exempt due to known data confidence or other issues) and is the data coverage available at the time of reporting. As data coverage improves, the GHG emissions reported by companies or other issuers can also increase. Data

coverage is impacted by companies and other issuers not being supplied with the correct Securities Identification Research Entity ID (REID) by our research provider. This can present challenges when issuers merge, and/or the REID number cannot be clearly linked to the investee/issuer and as such their underlying GHG emissions data. Therefore, obtaining a 100% holdings coverage ratio is difficult. Data coverage is also impacted by the availability of reported data by companies and/or the ability for our data provider to estimate data based on the availability of alternative values from published data.

- **Third-party data:** BTNZ will report on GHG emissions metrics for issuers only where a reasonable quality of data is available. This has been determined by our third-party data provider using their methodology. We rely on data supplied by our third-party data provider. We are therefore reliant on the accuracy, coverage, scopes, estimates and reported data being regularly updated by our data provider. Our data provider relies on companies’ and other issuers’ reported data, supplemented with activity, and estimated GHG emissions. The data provider applies their own methodology using a Multi Factor Model to estimate GHG emissions where data is not provided by companies. The estimation model draws on averages across sectors and other factors (using economic and activity-based research) and aggregates

across all GHG emission gases reported by companies and other issuers. There is a variation between the year GHG emissions are presented by a company or other issuer (timing of those differs depending on location and therefore the financial year end or other relevant factors (i.e., relevant regulation) that drive timing of GHG emission data released by companies and other issuers) and this being updated by our third-party data provider. Therefore, data provided by our third-party data providers and reported within this Climate Statement does not reflect GHG emissions of the reporting year.

- **Global Warming Potential’s (GWP):** GWPs are determined by countries and are applied by companies and other issuers based on their assessment of location of operation or application of a certain standard (such as the GHG Emission Protocol). Our third-party data provider does not modify the GWP equivalences reported by companies and other issuers and for estimated GHG emissions, uses an aggregate of all gases reported by issuers, drawing on CO<sub>2</sub>e figures.
- **Data quality of our third-party data provider:** Our third-party provider is committed to delivering products and services that conform to a high degree of quality. Activities include:
  - Accuracy – taking all commercially reasonable steps to ensure research and

data is correct and precise. Any identified data inaccuracies are investigated promptly and remediated in accordance with the third-party provider’s Incident Management Process.

- Data consistency – delivering research and data in a consistent format, structure, and method.
- Completeness – taking all commercially reasonable steps to provide comprehensive and extensive research and data.
- Timeliness – taking all commercially reasonable steps to make data available in a timely manner.

## Appendix 4: Glossary of key terms.

<b>1.5°C pathway to net-zero GHG emissions by 2050</b>	A pathway to net-zero greenhouse gas (GHG) emissions by 2050, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels.
<b>Asset class</b>	An asset class is a grouping of assets (or securities) that share common characteristics. BTNZ funds are made up of a mix of some or all the following asset classes; cash and cash equivalents; corporate and sovereign bonds; equities; and listed property.
<b>Assets under management (AUM)</b>	The total market value of all the assets (securities) that a financial institution manages on behalf of its customers.
<b>Baseline (year)</b>	An historical base date (in this Climate Statement, a specific year) against which an entity’s metric is tracked over time.
<b>Benchmark</b>	In the investment context, a standard or point of reference for evaluating the performance of a scheme or fund.
<b>Cash and cash equivalents</b>	Refers to assets such as cash on hand and bank deposits, as well as short-term, highly liquid investments that are readily convertible to known amounts of cash such as floating rate notes, commercial paper, and other money market securities.
<b>Climate Action Plan</b>	An action plan that contains the agreed short- and medium-term targets, actions, and the approach to be taken by each underlying equity and listed property Investment Manager to help achieve BTNZ’s climate commitments.
<b>Climate mitigation and adaptation</b>	Climate change mitigation (per Article 10 of the EU Sustainable Investment Taxonomy) refers to activities that contribute substantially to the stabilisation of GHG emissions in the atmosphere at a level consistent with the long-term temperature goal of the Paris Agreement through the avoidance or reduction of GHG emissions or the increase of greenhouse gas removals including through process and product innovations. Climate change adaptation (per Article 11 of the EU Sustainable Investment Taxonomy) refers to adaptation activities that either substantially reduce the risk of the adverse impact of the current climate and the expected future climate on that economic activity, without increasing the risk of an adverse impact on people, nature or assets or activities that provide adaptation solutions.
<b>Climate-related opportunities</b>	The potential positive impacts from climate change on an investment scheme or fund. Investment performance can benefit from potentially increased investment returns by investing in opportunities to adapt to and mitigate the impacts of climate change (such as resource efficiency, renewable energy, new products, and services, and building in climate resilience).
<b>Climate-related risks</b>	The potential negative impacts of climate change on an investment scheme or fund. Climate-related risks can originate from the physical risks of climate change (such as increased droughts, sea level rise, increased storms) and/or from transitional risks (such as new and/or changes to climate-related policies, reputational risks, heightened litigation risks, and market and technology risks through the climate transition).

<b>Climate-related scenario</b>	A plausible, challenging description of how the future may develop, based on a coherent and consistent set of assumptions about key driving forces and relationships covering both physical and transition risks in an integrated manner. Climate-related scenarios are not intended to be probabilistic or predictive, or to identify the ‘most likely’ outcome(s) of climate change. They are intended to provide an opportunity for entities to develop their internal capacity to better understand and prepare for the uncertain future impacts of climate change.
<b>Corporate and sovereign bonds</b>	A debt instrument issued by a company (corporate) or government (sovereign) entity that promises to pay the investor a specified amount of interest for a specified time, with principal to be repaid when the bond matures.
<b>Enterprise value including cash (EVIC)</b>	The sum of the market capitalisation of ordinary shares at fiscal year-end, the market capitalisation of preferred shares at fiscal year-end, and the book values of total debt and minorities’ interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values. EVIC is calculated as Enterprise Value + short term investments (including cash).
<b>Environmental, social and governance (ESG)</b>	Environmental, social and governance factors are sustainability factors that assist assessing companies and other issuers on their environmental, social and governance performance. ESG integration refers to the ongoing consideration of ESG factors within an investment analysis and decision-making process with the aim to improve risk-adjusted returns.
<b>Equities</b>	Equities (or shares) represent a part ownership stake in a company or other entity. This ownership stake gives shareholders the potential for capital gains and dividend payments, through owning a share in the company’s profits. Equities are generally listed on a stock exchange and are usually traded via a centralised exchange.
<b>EU Paris-Aligned Benchmark (EU PAB)</b>	An index where the underlying assets are selected in such a manner that the resulting benchmark portfolio’s GHG emissions are aligned with the long-term global warming target of the Paris Climate Agreement and is also constructed in accordance with the minimum standards laid down in the relevant legislation.
<b>EU Taxonomy</b>	The EU Taxonomy is designed to help investors identify environmentally sustainable economic activities. The EU’s Taxonomy Regulation, which entered into force on 12 July 2020, lays out six environmental objectives that set the framework for the EU Taxonomy.
<b>Greenhouse gas (GHG)</b>	The gases in the atmosphere that absorb the wavelengths of radiation that a planet emits, resulting in the greenhouse effect, which contributes to a rise in the surface temperature of the Earth. The main greenhouse gases included in the Kyoto Protocol are carbon dioxide (CO <sub>2</sub> ), methane (CH <sub>4</sub> ), nitrous oxide (N <sub>2</sub> O), hydrofluorocarbons (HFCs), nitrogen trifluoride (NF <sub>3</sub> ), perfluorocarbons (PFCs), and sulphur hexafluoride (SF <sub>6</sub> ).
<b>Gross Domestic Product (GDP)</b>	The market value of all final goods and services produced within an economy in a given period of time (output definition) or, equivalently, the aggregate income earned by all households, all companies, and the government within the economy in a given period of time (income definition).
<b>Holdings data</b>	Refers to the scheme and/or fund’s investments into companies or other issuers.

<b>Impact</b>	The effect, or result, of a material climate-related risk or opportunity occurring. An impact is the consequence of climate change on the scheme (and the funds within it).
<b>Intergovernmental Panel on Climate Change (IPCC)</b>	The United Nations body which releases report assessing the science related to climate change.
<b>Listed properties</b>	Property companies whose predominant business is ownership and/or development of property, which are listed on a stock exchange and are usually traded via a centralised exchange.
<b>Managed Investment Scheme (MIS)</b>	A MIS comprises multiple managed funds. A managed fund is an investment that is managed by a professional fund manager. Money from individual investors is pooled with other investors' money. The fund will have rules for how the money can be spread across different types of investments. It's the fund manager's job to choose those investments. Each managed fund has a strategy. This determines the assets the fund invests in, the level of risk to investors, expected returns and the costs of managing it.
<b>Materiality</b>	<p>The NZ Climate Standards state that information is material if "omitting, misstating or obscuring it could reasonably be expected to influence the decisions that primary users make" based on this Climate Statement. The Climate Standards then also state that the responsibility of making materiality judgements lies solely with the issuer, in this case BTNZ. To aid with making materiality judgements, we determine materiality by considering internal and external factors, such as whether the matter:</p> <ul style="list-style-type: none"> <li>• Could reasonably be expected to influence an investment decision;</li> <li>• Has been consistently raised by our primary users;</li> <li>• Could plausibly impact the Westpac Active Series in the short, medium, and/or long-term;</li> <li>• Has the potential for direct financial impact on the Westpac Active Series;</li> <li>• Has the potential for reputational risk;</li> <li>• Has a direct impact on the low-carbon transition and</li> <li>• Is relevant and needed to provide context.</li> </ul>
<b>Nationally Determined Contributions (NDC)</b>	Commitments made by individual countries outlining their intended contributions to achieving the goals of the Paris Agreement.
<b>Net Zero Asset Manager's initiative (NZAMi)</b>	NZAMi is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C; and to supporting investing aligned with net zero emissions by 2050 or sooner.
<b>Net Zero GHG emissions</b>	<p>We define Net Zero GHG emissions consistent with NZAMi, as meaning net zero GHG emissions (t CO<sub>2</sub>e) by 2050 or sooner, in line with global efforts to limit warming to 1.5°C above pre-industrial levels.</p> <p>Organisations are considered to have reached a state of net zero when they have reduced their net GHG emissions to zero, with any remaining GHG emissions attributable to that organisation being fully neutralised by like-for-like removals exclusively claimed by that organisation, either within the value chain or through purchase of valid offset credits.</p>

<b>Network for Greening the Financial System (NGFS)</b>	A group of central banks and financial supervisors working together to accelerate the transition towards a sustainable economy.
<b>New Zealand Climate Standards (NZ CS)</b>	Climate Standards issued by the External Reporting Board that comprise the climate-related disclosure framework.
<b>Paris Agreement</b>	A global commitment, agreed at COP21 in Paris in 2015, to limit the increase in the global average temperature to below 2°C above pre-industrial levels.
<b>Partnership for Carbon Accounting Fundamentals (PCAF)</b>	A global industry-led initiative focused on standardizing how financial institutions measure and disclose the GHG emissions associated with their loans and investments.
<b>Reporting period</b>	1 April 2023 – 31 March 2024
<b>Representative Concentration Pathway (RCP)</b>	RCPs, adopted by the IPCC, seek to capture how our climate may change in the future by making predictions of how concentrations of greenhouse gases in the atmosphere will change in future because of human activities. The numerical values of the RCPs (2.6, 4.5, 6.0 and 8.5) refer to the concentrations in 2100.
<b>Science Based Target initiative for Financial Institutions (SBTi-FI)</b>	An initiative aimed at empowering financial institutions to align their lending and investment activities with the goals of the Paris Agreement.
<b>Securities Identification Research Entity ID (REID)</b>	The mechanism BTNZ uses to assign a unique identification to each security within a scheme or fund.
<b>Strategic Asset Allocation (SAA)</b>	The process by which BTNZ sets out the asset class mix for each fund based on its risk and return objectives over the long-term.
<b>Sustainable Investment</b>	Managing assets by integrating environmental, social and governance (ESG) factors and contributing to sustainable themes such as climate action. We build this into our investment analysis and decision making as we believe investing sustainably will contribute towards a more sustainable economy and help us manage investment risk and opportunities.
<b>Sustainable Investment Strategy</b>	Our Sustainable Investment Strategy is a key component of our overall investment strategy and sets out our ambitions around sustainable investment (which includes climate).
<b>Task Force on Climate-related Financial Disclosures (TCFD)</b>	The global Financial Stability Board (FSB) created the TCFD to develop recommendations on the types of information that companies should disclose to support investors, lenders, and insurance underwriters in appropriately assessing and pricing a specific set of risks related to climate change.
<b>Value chain</b>	The full range of activities, resources and relationships related to an entity's business model and the external environment in which it operates. A value chain encompasses the activities, resources, and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end of life.

