2 October 2021

Rt Hon Jacinda Ardern
Parliament
Wellington, 6160
Email: j.ardern@ministers.govt.nz

Open Letter on the Ethics of Investment

Dear Prime Minister,

Thank you for all you and your team are doing to confront the climate emergency. You may not be aware that investment funds, contrary to their claims, don't seem to be making their decisions on ethical grounds, and this will significantly hinder attempts to meet the threat of climate warming and deal with human rights abuses.

None of the funds investigated by Wise Response Society[1] has passed the ethical test. Some very worrying trends have emerged instead. If these trends are representative (and we believe that many of them are very likely to be so),[2] then the investment sector is not assisting the transition to a safe, carbon-neutral world. If the sector fails to limit its investment portfolios to companies that care for people and the planet, it becomes part of the problem.

This will seriously jeopardise any transitions and decisive actions implied by our declaration of a climate emergency and called for by the UN Secretary General to avoid climate catastrophe. If investors were to receive reliable information about funds, they could help avoid high risk outcomes by means of their investment choices.

We identify five major problems:

- the values that guide the funds are usually not sufficiently comprehensive or wide-ranging to cover the social and environmental relationships in the ethical domain
- the dominant international ESG framework (Environment, Social and Governance) is relatively weak, and often acts as a smokescreen for Business-As-Usual
- the application of these so-called ethical frameworks is often flawed and far from transparent
- the portfolios of all the funds we reviewed contain banks listed among the 60 banks that invested a total of $3.8 trillion into fossil fuels from 2016–2020
- the engagement and reporting practices of these funds are inadequate and lack transparency.

AMP Capital exemplifies the inadequacy of the values currently used by investment funds. By speaking only of ethical principles of harm to or denial of humanity as they apply to the social domain, they exclude environmental matters.

A more serious example is the ESG framework promoted by the UN Principles of Responsible Investment (UNPRI). The problem with UNPRI is that it advocates taking ESG factors into account,

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[1] Wise Response is a broad coalition of scientists, engineers, lawyers, artists, sportspeople etc. who are urging New Zealand to face up to the question "As demand for growth exceeds earth's physical limits, causing unprecedented risks, what knowledge and changes do we need to secure New Zealand's future wellbeing?" Our website - www.wiseresponse.org.nz - contains more information, including references to the case studies and Wise Response's other initiatives. Our Patrons are Sir Alan Mark and Sir Geoffrey Palmer.

[2] An unpublished survey estimated that around 90% of New Zealand Kiwisaver funds are invested directly or indirectly in banks or their products that then invest in fossil fuels.

but fails to define what is ethically right or wrong about social behaviour, environmental impact or governance behaviour. According to the Reporting Exchange, there were more than 1,700 different ESG-related guidelines worldwide in 2019.[3] The funds we examined that used the ESG framework failed to define the ethical concepts they used. Therefore, it was impossible to determine if their values were adequate.

We found that Citi and Bank of America are among the banks issuing a new deal for Russian coal giant SUEK, just two months before COP26. Another example is Deutsche Bank, JP Morgan Chase and Standard Chartered, who broke their promises by lending US $1 billion to Adani coal mines for its Australian mine.

Recommendations

To be ethical a fund needs to:

1. define its values
2. identify what types of investment will be excluded from selection
3. engage with companies and investments where differences exist in desired performance
4. report on the results of that engagement.

1. We recommend that investment fund directors adopt statements of values using ethical language. To be comprehensive, those statements should include both social and environmental responsibilities. They should also be sufficiently thorough to generate the secondary concepts, schema and sets of obligations that define a relationship and guide behaviour. These statements and frameworks then need to be validated.

2. The reasons for divestment need to be openly stated. If funds choose to attempt to change company behaviour through engagement, the purpose and outcome of the engagement needs to be regularly reported.

3. Wise Response has registered complaints for some of the Funds with the Financial Market Authority and the Commerce Commission. But we believe that the situation is too urgent and important for case-by-case application. We recommend that Government requires all Funds to abide by the steps we have outlined.

These guidelines would help investors to contribute positively to the challenge of a low carbon economy. Thank you for considering our proposals.

Yours sincerely,

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List of Funds surveyed to date and at www.wiseresponse.org.nz - AMP Capital; AMP Wealth Management; Generate; New Zealand Superannuation Fund; Pathfinder; Simplicity.

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[3] Economist. 3 Oct 2020. The proliferation of sustainability accounting standards comes with costs. Retrieved from https://www.economist.com/business/2020/10/03/the-proliferation-of-sustainability-accounting-standards-comes-with-costs