

18 April 2022

Mr Tom Simcock,
Manager, Financial Markets
Hīkina Whakatutuki, Ministry of Business, Innovation & Employment
Level 12, Te Puāwai o te Aroha,
25 The Terrace, PO Box 1473,
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Dear Tom,

Settings for Investment with Ethical and Environmental Standards

Thanks for the meeting on 11 April to clarify matters raised with the Prime Minister and the Hon Dr David Clark, Minister of Commerce and Consumer Affairs, concerning ethical investment practice. The main points we took from the meeting were as follows.

MBIE is the Government Department that is responsible for this through the Financial Markets Authority Act and the Financial Markets Conduct Act. The Ministry for the Environment is responsible for mandatory climate-related financial disclosures as well as partly responsible for the NZ Green Investment Finance bank.

MBIE considers its major responsibility with Kiwisaver Funds has been to ensure that the funds are able to meet the financial needs of investors, particularly regarding retirement. But in Hon David Clark's letter of 16 November last year, he stated that the Government is proactively taking steps to encourage ethical and sustainable investing when it comes to our environment. Default Kiwisaver funds are now not able to be directly invested in fossil fuel production and illegal weapons. This investment limitation has a narrow range and does not apply to investing in banks and finance companies that fund fossil fuel producers. It presumably also does not include other parts of the fossil fuel industry, such as distributors and others in the fossil fuel supply chain.

Our Concerns

We raised a number of concerns about the current focus and restricted limit of the ethical factors that are included in Kiwisaver.

First, there are many studies to indicate that investing responsibly does not come at an extra financial cost. Friede et al aggregated evidence from over 2,200 such studies, and concludes that it does not¹.

Moreover, the majority of assessments of Environmental, Social and Corporate Governance (ESG) do not use validated definitions of ESG. For an example of validation, go to the Simplicity article on the

¹ Friede, G, Busch, T, and Bassen, A. 2015. ESG and financial performance: aggregated evidence from more than 2000 empirical studies. Journal of Sustainable Finance & Investment. Retrieved from <http://www.tandfonline.com/doi/pdf/10.1080/20430795.2015.1118917>

The Interfaith Centre for Corporate Responsibility website which includes a longer-term perspective (<https://www.iccr.org/our-approach/esg-investing-financial-performance>)

Morgan Stanley website (<https://www.morganstanley.com/ideas/the-esg-advantage-in-long-term-investing>) and Bloomberg (<https://bloom.bg/3rT6lvJ>)

WR website². Ranking processes are very problematic. Many ranking methods of ESG companies, such as the MSCI methodology, are crude and unreliable³.

In addition, when considering whether an action should be included in the moral domain or not, the cost is not relevant. We say that murder is wrong, not because of the cost impact on an investment, but because it is one of the rules that society considers necessary for the welfare of its citizens and society generally. This means that what is to be included in the moral domain is a prior consideration to cost. Evaluate investment options from an ethical point of view, and then consider whether to invest on grounds of return.

Second, the restriction of only fossil fuel production and illegal weapons does not represent the much wider range of matters traditionally included within New Zealand's moral domain. Human rights and worker protection are just two obvious examples. Reference was made during the meeting to the article on Simplicity available on the Wise Response website⁴. Section 2.1 deals with social responsibilities, and 2.2 with environmental responsibilities. Section 2.3 contains a checklist for assessment of these responsibilities that can be applied universally to any fund or organization.

Third, the requirement that default Kiwi saver Funds must have an ESG policy on their website is a useless requirement. As mentioned in the letter to the Prime Minister, according to one study, there were more than 1,700 different ESG-related guidelines worldwide in 2019. If it is a requirement for MBIE to ensure that investors are not misled, MBIE should follow their own advice and not mislead investors.

Next Steps

As a result of the discussion, we have three requests

1. We understood from our discussion that we agreed on the need for the development of an ethical framework for investment. This should involve not just the financial sector, who have no training in the development of Codes of Conduct, or Ethical Charters, or Statements of Ethical Principles. Until recently, it was perceived wisdom in the sector that social and environmental factors should not impede the search for the best return. That is now slowly changing. This does not mean that industry could not contribute. We attach, as an example, extracts from the Annual Report in 2020 of Wesfarmers. However, a wider input from outside the financial and commercial sector is critical.

You stated that you could not commit to the development of such a framework due to your current work load. So instead, we ask that you advocate for this to be included and given the necessary priority. We will also advocate this in our respective forums, as well as recommending this to the Minister.

2. **Secondly, we ask for an immediate extension of the restriction on investment in fossil fuel production to include any financial institution, including banks, that fund fossil fuels, and other distributors in the supply chain. This should be extended to all Kiwisaver funds, not just those in the default category.**

² <http://wiseresponse.org.nz/?s=simplicity>

³ <https://www.msci.com/documents/1296102/21901542/ESG-Ratings-Methodology-Exec-Summary.pdf>

⁴ http://wiseresponse.org.nz/wp-content/uploads/2021/06/Simplicity__Vanguard_F.pdf

3. **It is also critical for MBIE to communicate with the FMA, to ensure that the current loopholes allowing 'false advertising' of business-as-usual investments being advertised as 'ethical' or 'sustainable' or both, be closed as soon as possible.** A longer-term project will be for government to develop credible guidelines for what constitutes 'ethical' and 'sustainable' investment. The current situation, which allows for financial institutions to essentially lie to their customers, is making it difficult for investment companies that are actually 'ethical' and/or 'sustainable' to gain a foothold in the market. Right now, it is very difficult, if not impossible for an investor to determine if an investment is 'ethical/sustainable' or not.

Thank you again for the opportunity to discuss MBIE's responsibility in ensuring our investments meet ethical and environmental standards and areas where current settings fall short. We look forward to your reply.

Yours sincerely,



Professor Emeritus Liz Slooten, Department of Zoology, Otago University
Chair of Wise Response, on behalf of Wise Response Society
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Cc

Right Honourable Prime Minister, Jacinda Ardern
Hon Dr David Clark, Minister of Commerce and Consumer Affairs

The Wise Response Society 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

Appendix

In Wesfarmers Annual Report 2020 it is stated that:

Over recent years much has been said and written about the need for companies to consider the interests of all stakeholders, not just their shareholders. As we have made very clear, that has always been Wesfarmers' philosophy. While we are very clear that providing satisfactory returns to our shareholders is our primary purpose, we have always qualified that by pointing out that we could never achieve that objective over the long term if we did not protect and enhance the interests of our other stakeholders – our team members, customers and suppliers – and if we did not take care of the environment or support the communities in which we operate.

In their Sustainability Report they state

We recognize that in a world with finite natural resources, the traditional 'linear' business model that relies on a take-make-waste extractive industrial approach is not sustainable in the long term. Over the last 18 months, our businesses have worked to develop a circular economy strategy. In some divisions this has involved the development and use of advanced life-cycle assessment models to evaluate and prioritize the environmental impacts of products over their life-cycle, along with customer insights and detailed materials studies using leading global specialists. At Kmart and Target, these activities have confirmed plastic, polyester, cotton, wood, chemical use, water impacts, packaging, greenhouse gas and waste diversion as priorities.