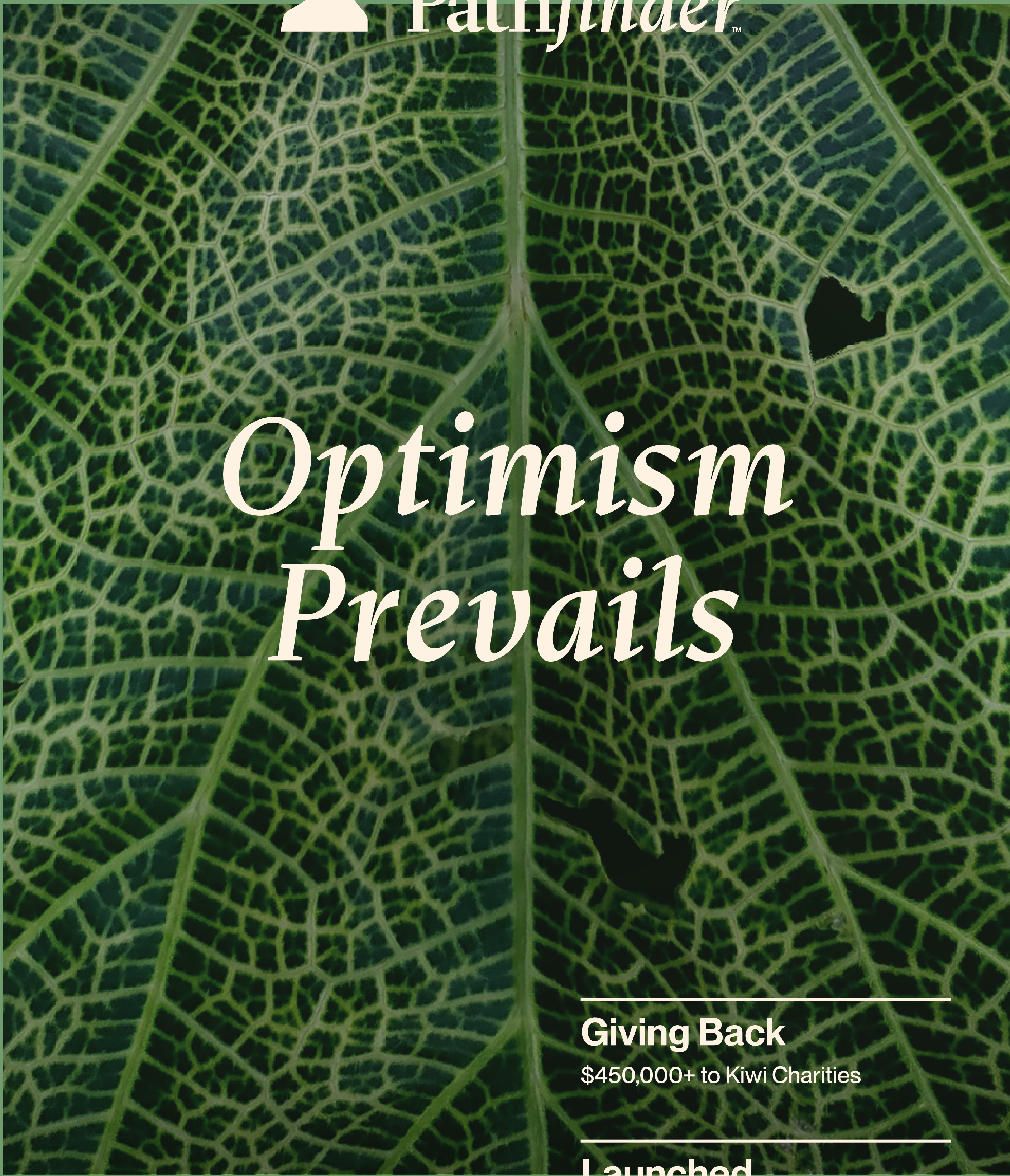
Pathfinder™



Optimism Prevails

Giving Back

$450,000+ to Kiwi Charities

Launched

Green Bond Fund

Investing In Better

Urban Mining & Community Housing

Sustainability Report 2023

Contents

Our 2023 Report

Picture: Ivan Bandura

About this report

Welcome to the Pathfinder Sustainability Report for 2023

At Pathfinder, we have a phrase ‘no one should have to choose between an ethical investment and a profitable one’. This inspires us to discover the intersection between good returns and good generally. This report is our annual chance to tie the two together.

Last year our Sustainability Report dived deeply into climate change; what it means, why it matters and how we can invest in a climate positive way.

This year we’re showcasing what ‘walking the talk’ looks like for an ethical fund manager – from launching a market-first dedicated Green Bond Fund (an impact fund invested in clean transportation, clean water access, increasing resilience to extreme weather events and renewable energy supply networks) to taking an active role in stewardship.

And, for those who read our report last year, you’ll notice this year’s report has a new look.

In April we updated our brand and website – to showcase our commitment to balancing the duality of clear ethics with strong returns. We’re loving our refined look and hope you do too.

It has been a difficult year for financial markets and people alike, with inflation and a cost-of-living crisis, however we remain committed to activating a movement towards investing in better, to favouring optimism over despair.

CEO letter

At Pathfinder, we strive to generate great returns for our investors, however our purpose goes much deeper. It is about the relationships we have with our employees, suppliers, communities and stakeholders ... and that includes the environment.

I truly believe that capitalism is part of the solution to the world's problems – but it needs to be done differently. We need to have longer-term time horizons and thinking, and a wider awareness of the risks and costs that business creates. We also need to be good stewards (which is why we've joined the Aotearoa Stewardship Code - see page 29 for more).

Being B Corp certified helps us stay focused on this mission. This certification verifies a business is meeting high standards of performance, accountability, and transparency across all aspects of its operations – from employee benefits to supply chain practices. I'm proud Pathfinder was an early adopter of this certification in Aotearoa New Zealand.

What I love about Pathfinder being part of the B Corp ecosystem is it makes us think more deeply about our business. It forces us to think beyond product – to the underlying business and its embedded principles. It required us to add 'purpose' and 'stakeholder' clauses to our company constitution to be transparent and confirm our commitment.

Of course, there's no denying economic times are still as tough as they were in 2021 and 2022. But even with the cost-of-living crisis, there are simple choices we can all make to support sustainable solutions. This year again shows that where you put your money counts.

2023 saw the fourth anniversary of our KiwiSaver, with our investment returns since inception showing you can invest ethically and have good performance. The numbers back up the duality of our mission – that individual wealth and collective wellbeing can go hand in hand.

We need to continue to invest with optimism, it gives us hope that what we are investing in can make a difference. And this gives us the drive to keep pushing ourselves to focus on more positive investing.

On behalf of the Pathfinder team, thank you for believing in our mission and for supporting our work. We will continue to let optimism prevail and take action through our investments to generate good returns and create a better and more considered future for all.

Top five *highlights*

01.

All 3 of our KiwiSaver Funds (Growth, Balanced and Conservative) achieved top 5 rankings for 3-year returns during 2023.*

02.

Donating $459,383.09 to 18 charities.

03.

Launching our Green Bond strategy.

04.

Winning Mindful Money's Best Ethical KiwiSaver Fund award for the third year in a row.

Taking out the supreme accolade at the 21st Sustainable Business Network Awards: Transforming Aotearoa New Zealand Award.

05.

Continuing to invest in private, local companies creating impact for New Zealand and the world. These include businesses that support social housing, develop solutions for mining e-waste and create biodegradable bandages.

*Source: In their respective categories as ranking in Morningstar KiwiSaver Quarterly Surveys from 30 September 2022 to 30 September 2023.

How Pathfinder is tracking on key metrics.

This table shows some key metrics in relation to Pathfinder's business as a fund manager for the years ended 31st March 2022 and 31st March 2023.

Scorecard

Topic	2021	2022	2023	Comment
Donations to charities	$101,950	$279,391	$459,383	Our donations increased by 64% over the prior year.
Awards and recognition of our ethical investing	Mindful Money; Good Returns/ ResearchIP; B Corp; RIAA	Mindful Money; Good Returns / ResearchIP; B Corp, RIAA	Mindful Money; Good Returns; B Corp, RIAA, SBN Awards	We won the Best Ethical KiwiSaver Provider for the third year in a row at the Mindful Money Ethical and Impact Investment Awards 2023. And we won the Supreme award for Transforming Aotearoa NZ at the Sustainable Business Network Awards.'
Investment in low carbon power relative to Benchmark*	3.3x	2.2x	2.7x	We're leading the way with low carbon investments and the market is following.
Investment in low carbon vehicles relative to Benchmark*	7x	2.1x	1.1x	Between 2022 and 2023, more low carbon vehicle technologies came into the market, meaning the benchmark has increased pretty rapidly while Pathfinder's performance has remained more consistent - still tending to improve year on year but on a much smaller scale.
% of funds invested in Green Bonds	n.a	2%	18.1%	Our investment in Green Bonds has grown significantly with the launch of our Green Bond Fund
% of companies we invest in that are committed to science based emissions reduction targets (SBTi)	28%	49%	45%	In 2023 we expanded our monitoring to include all companies in our funds. This means we're tracking against a larger number of investments – growing from approximately 160 to around 300.
% of companies we invest in that set targets consistent with warming of 2 degrees Celsius or less	18%	29%	32.5%	The proportion of companies we invest in that set targets consistent with the Paris Agreement goals has increased.
% of the time we voted	99.1%	99.3%	99.8%	While we'd like to be voting 100% of the time, there can be logistical, regulatory or other reasons why this is not achieved. We are proud of our current record of 99.8%.

Key metrics cover all funds, except for the low carbon power and low carbon vehicles metrics, see Appendix A for these, which are only from the KiwiSaver Growth fund. *Benchmark: we use the iShares MSCI ACWI ETF for Pathfinder's listed equity holdings.

Section Two

Leaders in *Ethical* Investment

CIO letter

Our sustainability report gives us a chance to pause and reflect on our performance over the last year. Most fund managers would interpret “performance” narrowly - simply what investment returns they generated for their investors. Of course, that is a major part of “performance” but at Pathfinder, we take a more holistic view of what this means.


Paul Brownsey

The entire Pathfinder team feel a huge responsibility in managing our client’s long-term savings. For many people, the cash lump sum they generate through their KiwiSaver will be significant, as they transition into earning less in retirement. This is a responsibility our investment team takes very seriously – generating the best returns we can for our investors. We also have responsibility to invest in a way that minimises harm to society and the environment, while maximising the positive impact where possible.

Happily, these are not conflicting objectives. The performance of our funds has been strong since inception. We have had great returns that were achieved through investing ethically.

Research, and our experience, shows that companies that think about the wider impact of how they behave are often better at important things, such as risk management, efficient use of capital, and thinking about future events that could have a negative impact on their earnings. One of the tools we use for this are Environmental, Social and Governance (ESG) data. ESG is a very misunderstood term in the investment industry. Slap an “ESG” badge on your fund and it immediately attracts a glow of goodness, sometimes irrespective of what you actually invest in

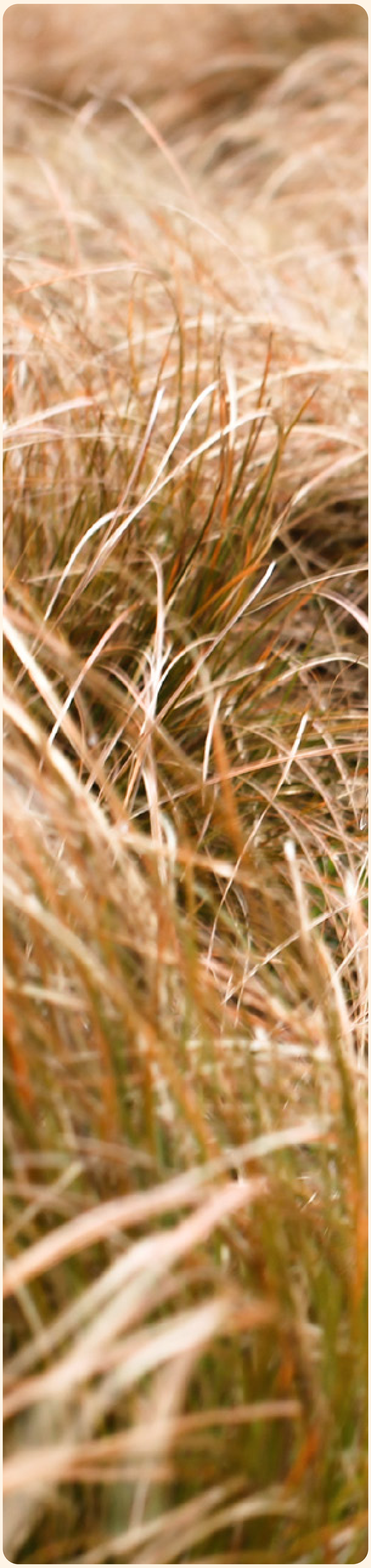
Yet ESG data tells us nothing about the product a company produces – it merely is a measure of whether a company has policies in place to measure their environmental risks, policies and reporting. It literally says nothing about whether a company is good, bad or indifferent. As an example, tobacco manufacturing companies regularly feature in ESG datasets as having particularly high scores. Yet no investor who cares about company ethics or good investment returns would invest in a tobacco company. As an example, British American Tobacco with a very high ESG score (an A grade on one of our databases) has had a five-year return of -0.4% per annum versus a global equity market return of +8.5% per annum. Therefore, ESG data is not a solution for how we should invest – it’s just another set of financial risk management data we can use with our judgement and experience. Our job is to make sure we consider all aspects of “performance”, which is why we publish our sustainability report.

Our investment team is proud of what Pathfinder has achieved over the last year. We look forward to continuing our work to grow our investors’ savings next year as well.

Why we choose *active* management

We treat your money with as much care as if it were our own. That's why we don't believe in sitting on the sidelines when it comes to ethical investing. Instead, we are active managers.

Picture: Colton Jones



Being active managers means we get to select stocks relevant to each type of ethical fund we offer.

Outside of the three pathfinder KiwiSaver funds (Growth, Balanced and Conservative) we have a suite of managed funds. All our funds are covered by the same Ethical Investment Policy and all are actively managed. Four of these funds invest solely in listed shares – our Global Water Fund, Global Responsibility Fund, Ethical Trans-Tasman Fund and Global Property Fund. One fund, the Green Bond Fund, invests only in fixed income securities (more information on this fund is available on page 49). The remaining fund, the Ethical Growth Fund, is diversified across both shares and bonds and is very similar to our Pathfinder KiwiSaver Growth Fund.

Our Global Water Fund was launched in 2010 and has been running now for 13 years. The investment drivers relevant when we launched – namely feeding the world's population, climate change and water infrastructure building and replacement, are as relevant today as they were then. It was the first sustainably-themed fund launched by us and remains popular with our investors.

The way we actively manage your funds

Being an active manager means we are agile. The world changes around us and we can change our investment strategies with it.

The opposite of active management is passive management, which is done by seeking to track a broad market or market sector.

Passive managers often hold thousands of companies. While passive investing can be cost-effective, it can also be inflexible by being locked into the companies held and unable to react to market conditions.

By contrast, as active managers, we target 100 – 200 companies in our portfolios. The benefit of this active approach is we can handpick companies in a way passive index-tracking managers simply can't do. We can focus on performance and choose companies that align with our Ethical Investment policy.

The benefits of active management particularly play out when investing in unlisted or private companies.

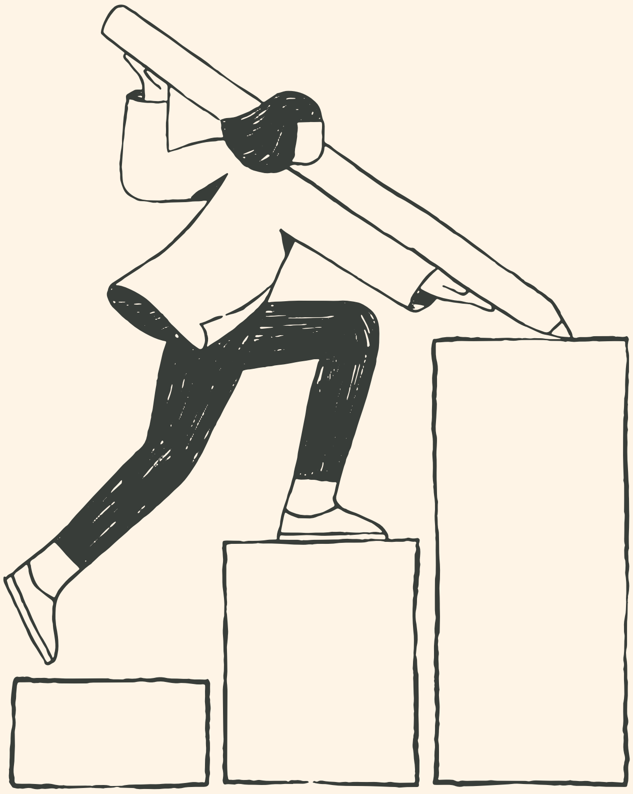
"Private investments are very active in terms of the analysis and decision-making we have to use to choose the right companies," explains John Berry, Pathfinder's CEO. "You just cannot do it passively."

Active management means higher fees

Of course, to make research-based investment decisions, we have a team of investment professionals, who do quality research. Their research and expertise in actively managing your money aims to outperform the market.

"With most things in life, if you want more features or higher quality, it costs. This general rule is true for everything from ice-cream to stereo systems. It's a mystery to me why we don't treat investing the same way," says John Berry. "There's a reason why some providers have higher fees. It could be because they have a team of active investment managers, they let you speak to a human on the end of the phone, or they offer you the opportunity to speak to a financial advisor at no cost," continues John Berry.

Looking at this in the context of KiwiSaver providers, for example, we see that over the 10 years to 30 September 2023, the top actively managed KiwiSaver growth fund outperformed the top passive KiwiSaver growth fund by over 2%* per annum after fees. That's a huge amount over 10 years and will have a meaningful impact on the balance of an investment.



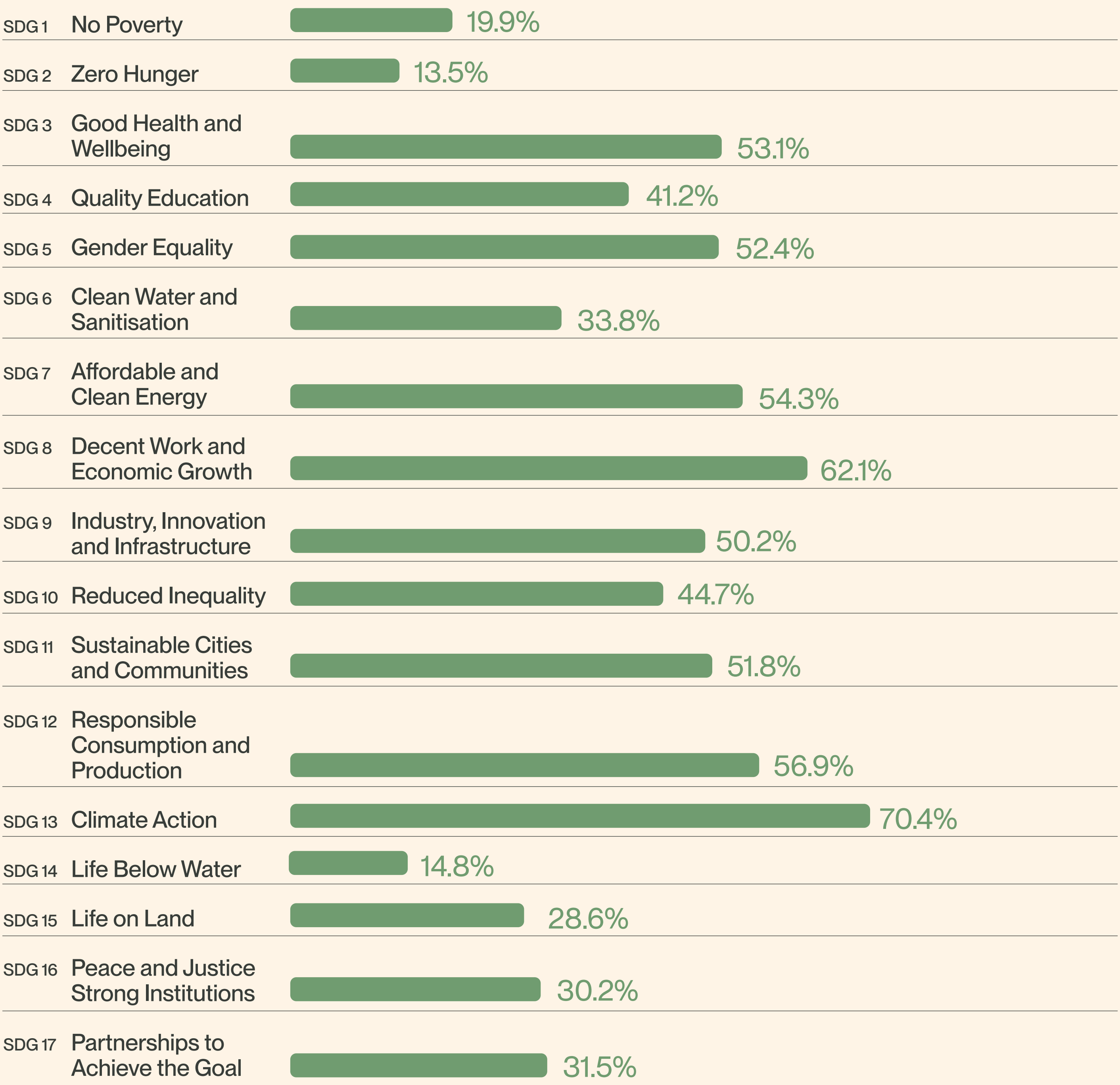
> "Over the 10 years to 30 September 2023, the top actively managed KiwiSaver growth fund outperformed the top passive KiwiSaver growth fund by over 2%* per annum after fees."

*Source: Data for Growth Funds from the Morningstar KiwiSaver Report: 30 September 2023. Past performance is no guarantee of future returns. We encourage all investors to seek financial advice prior to making investment decisions.

Actively choosing positive investment themes

As well as excluding investments that do not respect people, animals or the planet, having an in-house ESG analyst and an Ethics and Investment Committee, we also aim to tilt our KiwiSaver portfolio towards positive investment themes. The goal? To create individual wealth and wellbeing by investing in the things our society needs most, such as healthcare and community housing.

Our positive investment themes are matched to United Nations Sustainable Development Goals (SDGs), which act as a blueprint to achieve a better and more sustainable future for all. We aspire for our investing to contribute to the SDGs.



Here are our five investment themes and the SDGs they relate to:

Energy used for electricity, heat and transport makes up around three quarters of global emissions. To reduce emissions, we support renewable energy and innovative technologies around energy transmission and storage.

SDG7: Affordable and Clean Energy

This focuses on products/services, technologies and infrastructure that give lower energy consumption and greater efficiency. This may include investing in companies creating sustainable data centres or electric vehicles.

SDG7: Affordable and Clean Energy

1 in 9 people lack access to safe drinking water. This is a basic human right that improves health and reduces the spread of infectious diseases. We aim to contribute to solving this crisis by investing in water-related technologies.

SDG6: Clean Water and Sanitation

Like safe drinking water, living in a warm, dry house is a basic human right. We want to make sure everyone in Aotearoa New Zealand has this opportunity, so we support community housing projects that share this goal.

SDG3: Good Health and Wellbeing, SDG11: Sustainable Cities and Communities.

We look to make investments that support human rights, healthy communities, biodiversity, climate action and bringing an end to animal cruelty.

SDG1: No Poverty, SDG2: Zero Hunger, SDG3: Good Health and Wellbeing, SDG4: Quality Education, SDG5: Gender Equality, SDG8: Decent Work and Economic Growth, SDG10: Reduced Inequality, SDG13: Climate Action

Pictures: Usukhbayar Gankhuyag, Natalya Letunova, Ivan Bandura, Manurewa Positive Capital, Georgi Kalaydzhiev

What ethical looks like to us

We define ethical investing as the practice of using an ethical framework, based on principles, as a primary filter for how to select investments.

Check out the four principles that underpin both our exclusions and our positive investing themes.

Pathfinder's principles

(what we think is right)

Think holistically:

Consider the broad impact of our decisions, insist on the rights of humanity and nature to co-exist in a healthy, supportive, diverse and regenerative way.*

Lead bravely:

Challenge and rethink the present whilst also imagining a better future.

Be change makers:

Favour momentum over inertia and optimism over despair.

Be good ancestors:

Work to leave things better than we found them.

* Inspired by the Hannover Principle. **Picture:** Damir Omerovic

Exclusions

We also use exclusions. This is an ethical investment strategy of intentionally avoiding specific industries or activities which are seen as causing significant harm.

Below are our exclusions which we group in relation to people, animals and planet (our three filters, which we view our investments through – see page 19). Details on how these apply are included in our Ethical Investment Policy. We cannot categorically say we eliminate all of these, and indeed exceptions can be granted by us, reflecting the complexity of investing and ethical grey areas. For example, there can be:

1. Issues sourcing data about a company's activities
2. Thresholds accepted of allowable revenue from particular sources (see Appendix D)
3. Rare occasions where we need to have a company in a portfolio to properly manage the financial risk for our investors

Respecting People

We seek to avoid:

- Weapons: military, civilian & controversial
- Military contracting services
- Alcohol
- Recreational Cannabis
- Gambling
- Adult entertainment
- Tobacco

Respecting Animals

We seek to avoid:

- Animal testing
- Factory farming
- Livestock export
- Animals for entertainment
- Whaling

Respecting Planet

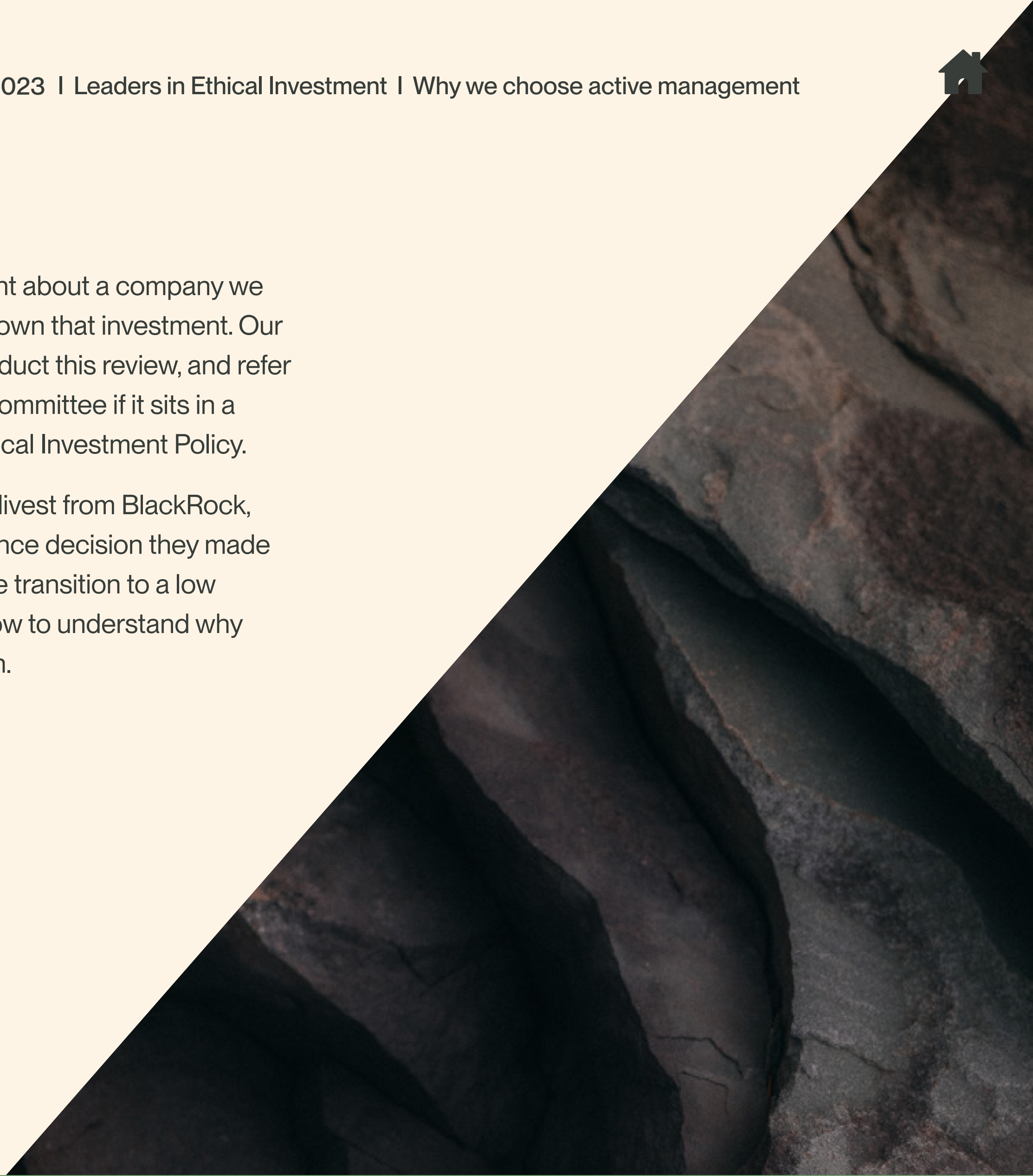
We seek to avoid:

- Fossil fuel exploration, extraction
- Sales of fossil fuels
- Usage of thermal coal
- Commercial exploitation of GMOs (genetically modified organisms)
- Production of palm oil

Divestments

If new information comes to light about a company we own, we revisit our decision to own that investment. Our investment team generally conduct this review, and refer to our Ethics and Investment Committee if it sits in a ‘grey area’ in relation to our Ethical Investment Policy.

This year, we made the call to divest from BlackRock, because we believe a governance decision they made was at odds with prioritising the transition to a low carbon world. See the box below to understand why and how we made this decision.



Divesting from BlackRock

BlackRock is the world’s largest asset manager with nearly US$9 trillion assets under management.

Recently it has worked with the New Zealand Government to develop a climate infrastructure fund to support the move to 100% renewable energy generation.

While that sounds positive, just before that announcement, BlackRock appointed Amin Nasser, CEO of the world’s largest oil producer (Saudi Aramco), to its Board. Aramco sells about 10% of the world’s daily oil. BlackRock CEO (Larry Fink), who over many years has often led the discussion about why businesses must have a social purpose, spoke about Nasser’s “leadership experience, understanding of the global energy industry and the drivers of the shift towards a low-carbon economy”. We see this appointment as out of step with our expectation for BlackRock to show industry leadership and transition its investments to a lower carbon world.

Picture: Hans Isaacson

Investing ethically returns

"We believe no one should have to choose between an ethical investment and a profitable one."

– John Berry, Pathfinder CEO.

Picture: Francesco Ungaro

Did you know almost 9% of total KiwiSaver funding is aligned with companies invested in fossil fuels, gambling, alcohol, animal cruelty and areas of digital harm?

Here at Pathfinder, we choose to do things differently. Our vision is that our investing will fund a lasting transformation to a better world. A world where people are free to make their own choices so long as they don't prevent others from doing the same. A world that values respect and equality, where there is prosperity, fair distribution of resources and the chance for all to thrive. A world free of animal cruelty. A world where the fine balance of all ecological systems is respected.

Fossil fuels, gambling, animal testing and alcohol are examples of excluded categories in our Ethical Investment Policy (see page 16 for more information on exclusions). For some exclusion we use thresholds (see Appendix D for more detail), for example in the case of alcohol we exclude companies generating more than 5% of their revenue from alcohol production or sales. And in rare instances, we can make an exception for a company that may breach our exclusions policy. This is where, after careful consideration, our Ethics and Investment Committee decide to retain an investment because of a compelling reason.

An example of this is PolyNovo, a company which develops synthetic-based scaffolding tissue for treatment of patients requiring skin grafts and reconstructive surgery. Successful product development will remove the need for animal products, although in the short term PolyNovo products require some animal testing under current law. We regard this as a short-term cost for a significant long-term gain. PolyNovo also have comprehensive policies in place to reduce and minimise harm from animal testing. In the long run, if successful, PolyNovo will be responsible for a significant reduction in animal-sourced products for skin graft surgery.

How we avoid harm in our investments

The initial step in our investing process is 'avoiding harm'. We use **three filters** to categorise what companies we choose to exclude.

"Competitors of PolyNovo have biologic products derived from animals, whereas PolyNovo is a synthetic product. This means if successful, our product will replace products made with animals and reduce animal harm." - David Williams, Managing Director at Kidder Williams Ltd (parent company of PolyNovo).

Stocktake

Our investment team have pulled together a snapshot of some of our publicly listed stocks, to showcase the kinds of companies Pathfinder invest in and their alignment with our strategic investment themes.

Picture: Martin Katler

Tesla

What does it do?

Tesla is an American multinational automotive and clean energy company which designs and manufactures electric vehicles, stationary battery energy storage devices, solar panels and solar shingles, and related products and services.

Why are we invested?

While Tesla shares have been extremely volatile in recent months, the business continues to defy critics, as it ramps vehicle production and sales to record levels. They have reached a quarterly production run-rate of nearly 500k vehicles and have installed capacity to produce over two million vehicles per year. Staying true to their early vision of building a large-scale business and accelerating the adoption of electric vehicles, Tesla has lowered the prices of its product in a meaningful way.

Over the year, the business has experienced lower input costs and realised the benefits of operating at greater scale. The market also appears excited about the introduction of Cybertruck and its larger semi-truck production and deliveries. Tesla has also been mentioned by many solar companies saying Tesla are passing on tax credits in the form of lower prices for their battery solution to encourage more buying. Currently, they are generating $1.5bn quarterly revenue from selling batteries which could grow four times, based on installed capacity alone. Tesla have also increased their charging stations by a third in a year. Recently, production has been hampered by large scale union strikes. Tesla aligns with our renewables and energy efficiency theme. The share price reflects that a lot of success is assumed in the price today. Regardless, it is an extraordinary company at the forefront of the global electric vehicle growth story and continues to surprise the market with the scale of its ambitions and ability to ultimately get there.

***Ethical investing note about Tesla and human rights. While Tesla's non-unionisation stance has helped generate competitive revenue, it is offset with some concerns around human rights. Pathfinder monitors both as part of our overall analysis.**

LAM Research

What does it do?

LAM Research Corporation is an American supplier of wafer-fabrication equipment (tech that's present in everyday items, such as smart phones, televisions, PC peripherals, copiers, and automotive parts) and related services to the semiconductor industry.

Why are we invested?

LAM Research supply critical wafer fabrication equipment to the semiconductor industry. Their customers are the largest chip vendors in the world, including Intel, TSMC, Micron and Samsung. They have carved out a few niches where they have a strong market share.

This includes offering a broad suite of products and services, such as the creation of transistors and other componentry. They are deeply embedded within their customers, and in many ways are a partner on a journey with their customers to help build ever smaller, more reliable and higher-performance components. The trend of creating smaller products and focusing on performance is driving growth for these market leaders and their partners. Also, the semiconductor industry has been increasingly encouraged to friend-shore* or re-shore some activities, particularly in the US. We see this business as having a strong alignment with partner customers, helping them create value in a highly specialised and difficult-to-replicate business.

*Friend-shore means encouraging companies to shift manufacturing to countries that are their geopolitical allies.

Infratil

What does it do?

Infratil is an infrastructure investment company that actively invests in things that societies need now and will need more of in the future. In the category of now, think things like renewable electricity, data centres and telecommunications networks. In the category of later, think things like diagnostic technology that detects illness early.

Why are we invested?

Infratil (IFT) has been a stand-out performer among the large New Zealand companies this year and is our top Trans-Tasman holding. Infratil's portfolio aligns well with our investment in datacentres and renewable energy, with wind and hydro investment across the globe and in New Zealand.

For example, Infratil has a significant stake in US based Longroad Energy. This investment is expected to benefit from the Biden administration's clean energy and climate legislation, called the Inflation Reduction Act (IRA) which encourages energy renewable developments with the US government providing tax credits to solar/wind/storage developments in the order of 30 – 50%, depending on if the projects meet certain requirements (such as being 'made in the USA' to encourage local production). This is clearly super-charging the US renewable energy market, with Infratil set to ride the growth wave.

Enphase Energy

What does it do?

Enphase Energy, Inc. is an American energy technology company that develops and manufactures solar micro-inverters, battery energy storage, and EV charging stations primarily for residential customers. Their Enphase Energy System brings solar, batteries, and software together in one complete package so individuals can make, use, save, and sell their own power—all through a smart mobile app.

Why are we invested?

Their technology is relatively unique, using an innovative approach to link solar panels using small scale components rather than a larger single unit. While the business has been steadily growing, it has been buffeted by slower growth in the US and Europe than expected. The US is expected to see a decline in home installations in 2023, while Europe is still reportedly growing. While the US Inflation Reduction Act (IRA) has been positive for many renewables companies, Enphase was unable to capture many of the benefits as their products are produced outside the USA.
This company aligns with our renewables theme and appears attractively priced for the growth expected.

Nvidia

What does it do?

Nvidia is an American multinational technology company, that invents the graphics processing unit and drives advances in AI, gaming, creative design, autonomous vehicles, and robotics.

Why are we invested?

When ChatGPT took the world by storm in late 2022, the market turned its attention to organisations developing Artificial Intelligence (AI) capabilities. This has driven Nvidia's shares to record levels. Nvidia's original focus was to excel at designing and building a type of computing processing unit superior at processing large problems quickly.

Yet increasingly, their technology has been recognised in large-scale computing worlds as the most energy-efficient, especially where mind-boggling quantities of data need to be processed and stored in easy-to-reach memory. As a result, Nvidia has carved out a market-leading position as the choice for large cloud infrastructure customers, using sophisticated hardware that makes tools, such as ChatGPT, a reality. With demand for their unique products skyrocketing, the datacentre business is expected to more than double in the 2024 financial year. Gross profit margins have also expanded into the 70+% region, generating significant free cash flow, supporting ongoing product research and development and large share buy backs.

The *financial impact* of our portfolios

The last three years has been a hugely satisfying period for financial returns for Pathfinder's KiwiSaver investors.

Late in 2022 we were recognised for the quality of our returns by Research IP and all three of our Pathfinder KiwiSaver funds have ranked in the top five for 3-year performance in Morningstar surveys for 2023.

"Investing is a tricky game to get right, which is why I'm really proud of what our teams have achieved in financial terms for 2023," says Pathfinder CIO Paul Brownsey.

How we make decisions to invest your money more ethically

Unlike traditional fund managers, our investment team have a smaller pool of investments to choose from. This is because there are many investments that sit outside of our Ethical Investment Policy.

"It's a challenge I love accepting - how can we have good returns within the constraints our ethical policies and practices set," explains Paul. "It means we have this continuous positive pressure to keep making good decisions."

Everything Pathfinder invests in, we try to do it through two lenses:

1. Financial returns – investing in companies we think will give us a high probability for good financial returns.
2. Impact - investing in companies that align with our Ethical Investment Policy.

"For Pathfinder to buy, a company has to have the right financials first," says Paul. "We will never invest in a company that has no ability to make money but creates great impact because that is not investing, that is philanthropy."

Our investment team generally invest with a much longer time horizon than other fund managers.

3-Year annualised percentile ranking under each of their respective Morningstar NZ Multisector category

	Pathfinder KiwiSaver Conservative Fund	Pathfinder KiwiSaver Balanced Fund	Pathfinder KiwiSaver Growth Fund
Sep-22	1	1	1
Dec-22	1	2	1
Mar-23	4	3	2
Jun-23	1	1	2
Sep-23	2	4	3

*Source: Morningstar KiwiSaver Quarterly Surveys from 30 September 2022 to 30 September 2023. Past performance is no guarantee of future returns. We encourage all investors to seek financial advice prior to making investment decisions. Pathfinder Asset Management Limited is the issuer of the Pathfinder KiwiSaver Plan. The PDS for the offer is available at www.pathfinder.kiwi.

Picture: Justin Kauffman

The renewables market is growing fast

We have always believed in investing in renewables. It's one of our investment themes. That's why it's come as no surprise to us that in 2023, we see demand for renewable energy growing strongly in almost every part of the world. What's exciting is the price of sustainable energy production has gone way down, while demand has accelerated. Energy from renewables is growing in many key markets around the world by 10–20% per annum. Meanwhile, fossil fuel energy production is growing much more slowly, often by less than 2% per annum.*

"Pivoting away from fossil fuels to renewable energy makes a lot of financial sense, because you can do an average job in a market growing at 15 – 20% per annum, yet you will need to do an amazing job in a market growing at 2 – 5% per annum to keep up," says Paul. "From an investment and risk perspective, it makes a lot more sense to be in a fast growing market than a slow growing market."

The benefits of combining publicly listed companies and direct investments

As leaders in ethical investing, we choose to include both publicly listed and private companies in our investment portfolios.

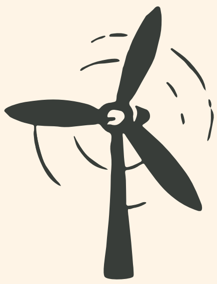
From a financial returns perspective, private companies are quite different. Unlike listed companies, they cannot be bought or sold easily. Investors therefore expect higher returns relative to the risk they are taking. "As a long-term investor with KiwiSaver money, we can accept some of the liquidity risk associated with these direct investments," says Paul.

Along with understanding these risks, we also make sure we have the right-sized investment, as private companies may not have the same reporting requirements or governance standards as publicly listed companies.

To manage the risk, Pathfinder takes a portfolio approach to direct investment. "Once we scale up, we would ultimately want to have, for example, 20 private companies in our portfolio," explains Paul. "The problem is that it's really hard to identify which will return well. But if you are prudent and conservative, you should be able to build a portfolio that is skewed to the better returning ones."

> "The reality is, if you have 20 of these companies in private equity, then a non-zero number of them will fail," says Paul. "But also a non-zero number of them could give you back many times your original investment."

Lodestone and Sharesies (see next pages) are two examples of companies which Pathfinder has invested in that have risen in value.



*See the Electricity Market Report 2023 here.

Example One

Private Investment

Picture: Sharesies

Sharesies

Sharesies is an investment platform that exists to deliver equal financial opportunity for those with a lot, or a little, to invest.

The company formed because their founders Brooke Roberts, Sonya Williams and Leighton Roberts, saw people being priced out, jargoned out and left out of the opportunity to develop their wealth. They could see the way financial inequality causes a divide within communities and set about creating a simple technology that would help as many people as possible invest and learn.

We invested in Sharesies because we believe all New Zealanders should have the opportunity for a sustainable financial future. “We want equity, wellbeing and financial health for all. That’s why we put money in when Sharesies was raising funds to grow,” says Paul. “Our investment (and others like us) has helped them reach, engage and financially empower more people in New Zealand.”

Sharesies


Picture: Lodestone

Example Two

Private Investment

Lodestone

Lodestone is on a mission to build large scale solar farms to increase solar availability throughout New Zealand. Once construction is complete and producing energy, their farms will use minimal water, create no pollution and release zero emissions.

We invested in Lodestone because their vision relates directly to our positive investment themes. Also, we like the fact they are working hard to create a complementary option that will take pressure off some of the other renewable energy sources we have in this country, such as hydro.

LODESTONE ENERGY

Lodestone recently announced publicly that it has signed a long-term agreement with The Warehouse Group, which will see more than 260 solar sites powered by electricity bought from Lodestone by 2026. Sites include The Warehouse, Warehouse Stationery, Noel Leeming, Torpedo7 and their distribution centres and store support offices. "By the end of December 2026, we anticipate, we'll have eliminated close to 100% of all our New Zealand electricity emissions. This will avoid 5,300 tonnes of CO2 emissions a year," says The Warehouse Group chief executive Nick Grayston.*

"It's great they are a pioneering solar company, proving that solar farms are a viable, renewable energy source," says Hamesh Sharma, Pathfinder's Portfolio Manager. "Long-term we think it's a good investment because it's proving that solar is a serious challenger in the energy sector in New Zealand. Because we're using renewable energy to help us meet some heavy targets by 2050, our team believes it will be in high demand and therefore, a great investment."

*https://shorturl.at/cvFH5

Why stewardship *matters*

Picture: Getty Images

Signing on to the *Aotearoa Stewardship Code*

The Aotearoa Stewardship Code was created by our investment industry to give guidelines to investors on how use their influence to direct the companies they own on critical environmental, social and corporate governance issues. It is an industry led code, developed by fund managers.

We recently joined as a signatory. We support how the code formalises, in a local context, the processes and expectations around what good stewardship looks like. Our CEO, John Berry, was included in an industry group providing feedback on the code before it was finalised.

For Pathfinder, becoming a signatory is a way to show our public commitment to the code and to acknowledge we are always looking to improve our investment and ownership decisions. As part of this we will report on our Stewardship, covering our engagement and voting, showcasing how we've applied the code in the reporting period.

"Stewardship is about creating and preserving long-term value for current and future generations."

- Stewardship Code Aotearoa New Zealand

As a responsible owner of assets, we need to do more than simply buy and hold shares in listed companies to passively benefit from share price growth and dividend payments.

Shareholders can, and should, become more active as owners. This can include shareholder voting, corporate engagement, advocating within the finance industry and reporting on these activities.

This is called "stewardship". The United Nations Principles for Responsible Investment (UNPRI) defines this as "investors using their influence over current or potential investees/issuers, policy makers, service providers and other stakeholders – often collaboratively – to maximise overall long-term value."

As a UNPRI signatory, Pathfinder has committed to investment stewardship principles for many years, as well as these principles from the Aotearoa Stewardship Code:

- Be committed
- Incorporate ESG
- Be engaged
- Vote responsibly
- Collaborate and advocate for change
- Measure and report
- Educate and improve

The following pages take a closer look at some of these principles at work.

Voting responsibly

Owning shares in a company gives us the right to vote alongside other shareholders. This can cover relatively mundane matters such as the reappointment of company auditors, but can also include voting on some key issues affecting ESG matters. Examples include reporting on climate risks and board appointments.

We try to vote at every opportunity. Due to the high volume of votes (3112 in the year to 31 March 2023), we require specialist help with the voting process and we use an out-sourced 'proxy voting' service. These providers vote on our behalf in alignment with the voting policy we have agreed which reflects our ethical investment policy. We see the key metrics as how often we vote and how often we vote against management.

See bar graph and pie graphs on the next page to show how often we voted against management this year.

Our Voting Record for 1 April 2022 to 31 March 2023

Proposal Category Type	With Management	Against Management	Take No Action	Unvoted	NA	Mixed	Total
Totals	**2843**	**232**	**16**	**17**	**4**	**0**	**3112**
Audit / Financials	322	2	2	0	0	0	**326**
Board related	1859	80	3	0	1	0	**1943**
Capital Management	109	3	3	0	0	0	**115**
Changes to Company Status	60	3	1	0	0	0	**64**
Compensation	353	63	3	0	0	0	**419**
Mergers and Acquisitions	5	0	0	0	0	0	**5**
Meeting Administration	29	0	4	0	0	0	**33**
Other	2	1	0	17	2	0	**22**
Shareholder Proposal: Compensation	12	5	0	0	0	0	**17**
Shareholder Proposal: Environment	13	8	0	0	0	0	**21**
Shareholder Proposal: Governance	28	31	0	0	1	0	**60**
Shareholder Proposal: Misc	4	4	0	0	0	0	**8**
Shareholder Proposal: Social	47	32	0	0	0	0	**79**

How often we voted against management

% of times we voted

99.8%

% of times we voted against management

7.45%

Voted against management on shareholder proposals related to environment

38.09%

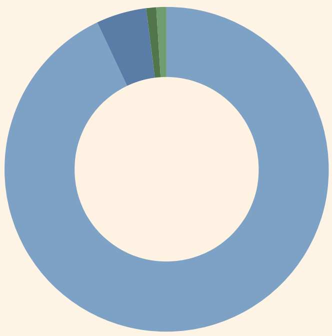
Voted against management on shareholder proposals related to governance

51.6%

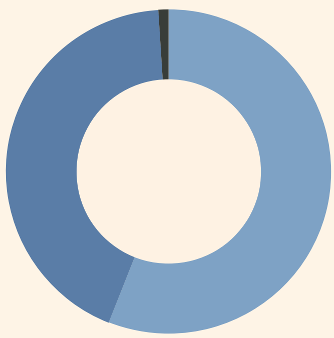
Voted against management on shareholder proposals related to social

40.5%

Management Proposals - Votes versus Management



Shareholder Proposals - Votes versus Management



Incorporating ESG

When it comes to deciding what to invest in, we consider a company's exposure to industry specific material, Environmental, Social and Governance (ESG) risks and how well a company is managing those risks. This is fully integrated into our decision making, and helps us understand any risks and opportunities, including in relation to non-financial matters.

This is done within the framework of our Ethical Investment Policy to make sure what we are investing in aligns with our mission and principles. We use insights around climate and carbon (see page 41 for more) and our investment themes (see page 14) as part of our approach. This in turn informs our framework for voting as a shareholder.

Be Engaged

Good stewardship includes engaging with companies we invest in and advocating for change within the finance industry and more widely. In the past, we have limited our direct engagement activities to New Zealand-listed companies and we have reported on this in our 2021 and 2022 Sustainability Reports.

This year we have not undertaken as much direct company engagement, and this will be a focus for improvement by us in the year ahead.

However, we have been very active with advocacy where we believe our voice van have real influence.

Examples include:

- Speaking at events on climate change and ethical investing – addressing leaders and practitioners across a wide range of industries including accounting, finance, tech, insurance, law, agribusiness, manufacturing and construction, as well as community organisations. Here we aim to provide insights and shift mindsets.
- Speaking at events on how business can be done better – this has included events run by Otago University, B Lab and Mindlab. Here we encourage business people and future leaders to think broadly about the purpose of businesses.
- Working with others in the industry to make investing in private assets widely adopted by KiwiSaver providers – this has involved discussions with the Center for Sustainable Finance, other KiwiSaver providers and the Minister of Finance.
- We are also active with helping New Zealanders understand saving, investing and outcomes from their investing choices. This has included a number of podcasts, radio interviews and media articles focused on helping educate investors.
- John Berry was also asked to assist the Retirement Commission with the investment section of its National Strategy for Financial Capability in connection with de-jargoning money – the De-jargoning Money Glossary.

What the proposed *Modern Slavery* legislation means for investing

New Zealand has proposed the introduction of modern slavery legislation. This would require organisations with $20m or more in annual revenue to report on modern slavery and worker exploitation risks in their operations and supply chains.

The organisation would be required to prepare an annual statement and a digital register would be set up so those statements could be viewed publicly.

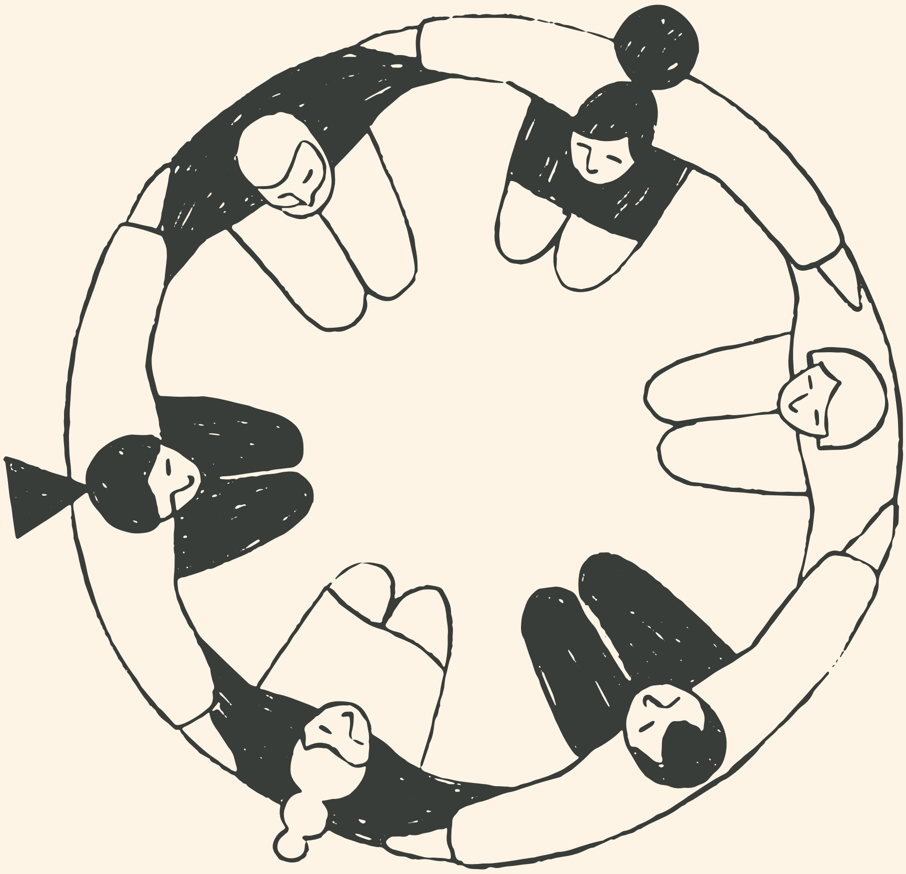
The legislation is still in draft form and we expect a Bill will soon be introduced to Parliament for debate. We support the introduction of this legislation for providing more transparency and information around supply chains to help inform our investment decisions. With the recent change in government, at the time of writing this report, we aren't sure whether this will be actioned or not.

Picture: Johannes Pokorn

Why we invest in *local companies*

We want to be providing solutions to a social or environmental challenge.

We target having 20.6% of our Pathfinder KiwiSaver Growth Fund invested in listed Australian and New Zealand shares. With an additional 8.8% in New Zealand fixed interest and a target of 5% in private assets - we'll call these private companies here, as that's easier to understand.



Private companies aren't listed on the New Zealand stock exchange and can be harder to find, require more research before investing and tend to have more restricted access to capital.

When we are selecting these investments we seek both prospects of good financial returns, as well as impactful solutions to social or environmental challenges.

Some of the local private companies we invest in have created world-leading products, such as with their biodegradable bandages made from merino wool. Or have developed new technologies that may transform sectors, such as 'urban mining' by recovering critical metals from e-waste.

We count only four other KiwiSaver providers who invest at a venture capital or private equity level in growth companies in New Zealand.

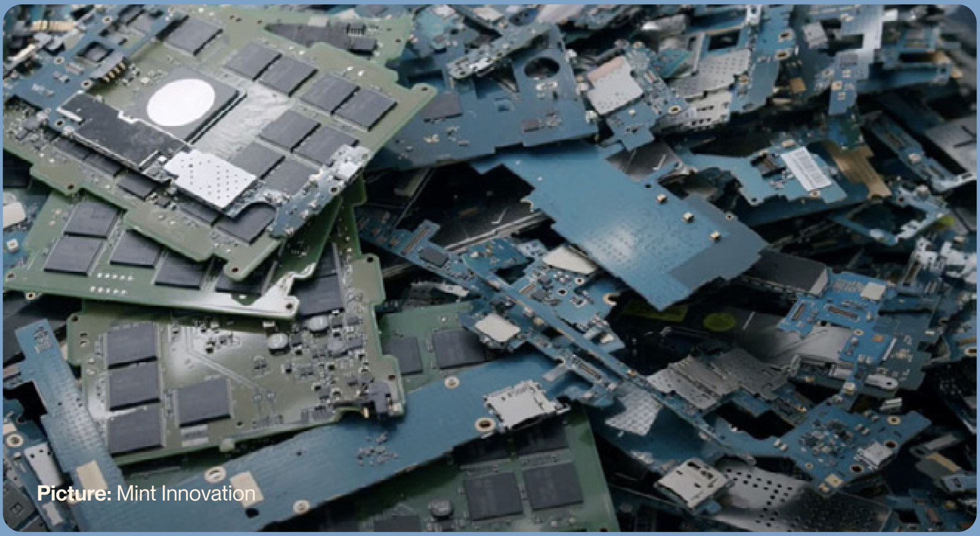
KiwiSaver providers need to be smart about their private asset allocation – asking is it 'right sized' (e.g., a relatively small allocation to private companies) and could it provide a favourable return for KiwiSaver members.

"From a financial perspective, we are typically looking for companies already at the point where their technology or product is largely proven. On top of this we want them to be providing solutions to a social or environmental challenge," says John Berry, Pathfinder's CEO.

We also invest with Community Finance (see page 57 to learn about their business), who are providing solutions to Aotearoa New Zealand's housing crisis. Through our KiwiSaver we have helped to build more community housing. And yes, the social housing transactions pay a commercial return – so from early on we saw this as a no brainer.

Example Three

Private Investment



Picture: Mint Innovation

Mint Innovation: A solution you'd never think possible.

"I love it when a company like Mint Innovation comes along and offers a solution you'd never even thought was possible," says John Berry.

Mint Innovation are an Auckland-based clean technology business who have figured out how to extract metals from e-waste. Pathfinder invested in them as an alternative to traditional mining companies and because we recognise that for our society to function, we need a reliable supply of critical metals. We want to support approaches to sourcing those metals that aren't extractive and are instead more circular and regenerative.

"It's not just that they don't dig into the earth to obtain metals," says John Berry. "Their carbon footprint is lower than conventional mining, they reduce waste going to landfill and their plants can be built closer to where the metals are needed to reduce transportation - so their solution looks really positive on a number of metrics. And financially, if you can extract these metals profitably then it makes sense to build these plants."

"However, the business is also in the right place at the right time in regards to geopolitics. From an investment perspective, this gives it a tailwind," says John Berry.

"If you think about the global economy, it's deglobalising. Countries are putting up barriers, countries are nervous about supply chains, they don't want to be dependent on some trading partners. That's why Mint Innovation, with plans to build its plants in a range of countries, offers a smart solution.

John Berry goes on to say "It makes sense financially because they can extract the metals at a reasonable price. They have launched their plant in Australia and other countries should welcome the idea as a way of efficiently dealing with mountains of e-waste."

> "The investment makes so much sense for us because it comes back to the duality of our mission – individual wealth and collective wellbeing."
>
> – John Berry, Pathfinder CEO

Example Four

Private Investment

Picture: WoolAid

WoolAid: Launching biodegradable merino wool adhesive bandages into the USA.

WoolAid started in the South Island and makes biodegradable merino wool adhesive bandages. The world-first products were created by founder Lucas Smith after his experience as a mountain guide on the Routeburn and Milford Sound tracks. He watched many customers, for whom this was a once-in-a-lifetime trip, suffer from blisters. But normal plasters just didn't hold up to the multi-day trek. Instead, Lucas would give his customers a tuft of wool and some tape to stop the abrasion. It is no accident that Lucas' solution is biodegradable as he had seen first hand how discarded plastic bandages can litter our landscape. Lucas developed prototypes and launched WoolAid in 2016.

Pathfinder's investment in WoolAid has helped them launch into the USA. John Berry says he was immediately drawn to Lucas' story and his insights around the business. "His thinking was solutions based - trying to solve a problem first and then make it profitable, rather than solely chasing money from the opportunity."

"It's safe to say that over 50,000 plastic plasters and/or bandages have been replaced with WoolAid."

– Louise Cunningham,
Chief Executive Officer of WoolAid

Backing better business

With our private asset investments we are not seeking a seat on their board, nor do we want to tell them how to run their business. While our investment team has an ongoing conversation to see how the business is tracking, we believe they are best placed to drive and direct their own business.

That's quite different to the approach of venture capital firms which often require more control, such as a seat on the board and/or a request to influence strategy. "We want to back businesses where their leaders are deeply committed and see their pathway in our complex world," says John Berry. "We see our role as providing them with capital to make it happen."

> "We want to back businesses where their leaders are deeply committed and see their pathway in our complex world."
>
> – John Berry, Pathfinder CEO.

Three features of impact-generating investments

The reason WoolAid and Mint Innovation are used as examples in this year's report is because they clearly align with principles for impact-generating investments, which are:

- Intentionality
- Additionality
- Measurability

"When it comes to something like Mint Innovation, we've invested because of their intention to generate non-extractive mineral sources with a low-carbon footprint. It's not accidental, it's intentional," says John Berry.

Investing money in a private company can help it grow and create more impact. Contrast this to an investment in a publicly listed company, such as Spark here in New Zealand. When you invest you are buying the shares from someone else, not from the company. You are not investing your money directly into that company to create impact.

"WoolAid is the perfect example of these three principles at play," says John. "When we invested we intentionally provided capital that enabled them to launch into the US. If our KiwiSaver didn't invest they wouldn't have expanded their distribution; so that's an example of 'additionality.'

"At a basic level with WoolAid, I would say every bandage they sell is a piece of plastic that doesn't end up in the ocean, in landfill or in the environment. This equates to an easy to measure impact."

And WoolAid themselves confirm this saying, "It's safe to say that over 50,000 plastic plasters and/or bandages have been replaced with WoolAid." Louise Cunningham, Chief Executive Officer of WoolAid

While these businesses offer impact and the opportunity for growth, we also need to recognise the risk of investing in these smaller companies. It is possible that, as they grow, significant supply chain challenges may arise. Or that they can't continue producing at a price that is competitive with the established manufacturers. These are risks of investing – especially in private companies – and we balance these with potential for returns and the size of our investment.

Looking into the future, Pathfinder sees the day where it will have 20 or more unlisted New Zealand private companies in its KiwiSaver portfolio. One of the future improvements we know we need for our unlisted private company investments is to create a robust and consistent approach for impact measurement. In this relatively new and fast changing impact investment space it is a case of us moving forward one step at a time.

Climate Change and *Investing in Better*

Pathfinder's climate actions

Climate change is here and we are all experiencing its devastating effects. This year, we've seen unprecedented floods, fires and extreme weather events causing massive disruption across both Aotearoa New Zealand and the rest of the globe. We think climate change is the greatest threat our communities and ecosystems currently face.

This is Pulotu Selio Soloman. One of the reasons he chose Pathfinder was because of our climate positive investing.

As investors we respond to climate change by:

Why we care so much about carbon

Carbon dioxide is a greenhouse gas (GHG) produced mostly from the burning of fossil fuels, such as oil, gas and coal. The more GHGs in the atmosphere, the more the Earth warms. Unfortunately, the industrial revolution has caused carbon dioxide to be released into the atmosphere at a rapid rate, causing a measurable change in average global temperatures.

While a little bit of carbon dioxide is essential for all life, too much upsets our planet's natural systems. Meanwhile, other GHGs, such as methane, which is a by-product of agriculture and used as an energy to power industry and homes, are extremely damaging. Methane has a warming effect approximately 25 times greater than carbon dioxide. If we can restrict new GHG emissions and remove (or 'sequester') existing GHGs from the atmosphere, we can have a planet that sustains life.

What can be monitored, can be managed

When it comes to our investment portfolio, we measure carbon emissions to understand the impact of our investments. This directs what companies we don't invest in (oil and gas) and which ones we do (renewable energy). We also have a net-zero target by 2030 for Pathfinder as a company.

There are three levels of emissions:

Scope one emissions – emissions produced from a source, that is owned or controlled by an organisation. (See page 43).

Scope two emissions – emissions indirectly produced by an organisation when they purchase energy from external providers.

Scope three emissions – Emissions generated, for example, from the supply chain. They are generated by wider activities in the business economy and cannot be controlled by the organisation monitoring them.

To support the reduction in GHGs, we track the carbon intensity of our portfolio (see the carbon intensity of our funds on page 48). To do this, we compare performance against global benchmarks to identify priority areas and track progress against global climate goals.

Check out the next page to see the targets we've set ourselves in the next five years so that Pathfinder's investments restrict new GHGs.

Picture: Owen Le Roux

Our two targets to transition to a *low-carbon world*

1. Increase the number of companies in our portfolio committed to the Science-Based Target initiatives (SBTi) by 7% per annum to reach 100% coverage by 2040.
2. Reduce the carbon intensity of our portfolio to align with net zero by 2050 and reduce our own carbon footprint (as a company) to align with net zero by 2030.

For detailed information on our SBTi initiatives, see appendix B.

"Aside from travel, KiwiSaver is the second biggest part of any individual's carbon footprint in New Zealand."

– Mindful Money

Measuring emissions

We have an investment strategy that dovetails with the goals of the Paris Agreement. The overarching goal of the Paris Agreement is to limit the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C.

That's why we are committed to:

- reducing investments in high emissions companies
- increasing investments in companies with a climate-solution focus.

The Taskforce on Climate-related Financial Disclosures (TCFD) framework establishes clear and consistent reporting criteria for climate-related risks and opportunities. Pathfinder reports annually against this framework. See appendix C for the detail of this year's TCFD reporting.

High-quality companies who champion a climate-solution focus are more likely to:

- support decarbonisation
- prioritise sustainable development
- conduct themselves with authenticity and transparency.

We measure on emissions attributed to our portfolio to identify and understand our level of alignment with the Paris Agreement. One objective is to drive the emissions (based on tonnes of carbon emitted per $ million of revenue) down.

Monitoring climate risk

One of the ways we can understand how our Paris-aligned investment strategy may contribute to decarbonisation is to use the open-source tool - the Paris Agreement Capital Transition Assessment (PACTA) - to apply various climate scenarios to understand climate transition risks. This is a measure of climate risk in the context of economic transition.

We ran our Pathfinder KiwiSaver Growth Fund holdings through the PACTA analysis (this covers listed equities and corporate bonds) and the results were:

- Based on sector exposure, 9% of the listed equity portfolio were companies exposed to heightened financial risk from climate change. These are companies in the Power and Automotive sectors.
- 2.9% of the portfolio is financially exposed to the Automotive sector, making up US$2.3m of the fund.
- 1.1% of portfolio emissions are from the Automotive sector, contributing 26T of CO_2 to the total carbon emissions of the fund.

Where we are outperforming when it comes to carbon

The tables below show exposure across our Pathfinder KiwiSaver Growth Fund to some key low carbon power and automotive technology investments at 31 March 2023 in comparison to the benchmark. We've chosen to highlight the Pathfinder KiwiSaver Growth Fund because it represents the highest proportion of equities in our KiwiSaver funds.

See appendix A for further analysis of low carbon power and automotive technology for all our funds.

Investment in low-carbon technologies

	Pathfinder KiwiSaver Growth Fund	Benchmark (iShares MSCI ACWI ETF)
Exposure to low-carbon power technologies as identified by PACTA tool	4.1% of assets are held in low-carbon power technologies	1.5% are held in low-carbon power technologies
	68.9% of power sector assets are held in low-carbon power technologies	45.6% of power sector assets are held in low-carbon power technologies
Exposure to low-carbon automotive technologies as identified by PACTA tool	1.9% of assets are held in low-carbon automotive technologies	1.7% of assets are held in low-carbon automotive technologies
	68.5% of automotive sector assets are held in low-carbon automotive technologies	70.7% of automotive sector assets are held in low-carbon automotive technologies

Climate-relevant sector exposure

9% of the portfolio has been identified as being held in climate-relevant sectors.

Climate-relevant sector	Automotive	Power
The percentage that this sector makes up of the portfolio i.e., the automotive sector makes up 2.9% of the portfolio while the power sector makes up 5.9%	2.9%	5.9%
Total value of assets held within each sector	US$2.3m	US$4.7m

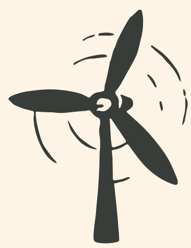
Emissions exposure (for climate-relevant sectors)

18% of the portfolio emissions identified as coming from climate-relevant sectors.

Sector	Automotive	Power
The automotive sector is responsible for 1.1% of the portfolio's emissions and the power sector is responsible for 16%	1.1%	16%
The automotive sector is responsible for 26 tonnes of the portfolio's total CO_2 emissions and the power sector is responsible for 380 tonnes.	26T CO_2	380T CO_2

The Pathfinder KiwiSaver Growth Fund portfolio was filtered through the PACTA tool and 9% is identified as being relevant for the PACTA analysis. These holdings are identified by the PACTA tool as operating in climate-relevant sectors. Of this 9% analysed, 2.9% is in the Automotive sector and 5.9% is in the Power sector, equalling 8.8%. There is also 0.022% related to Aviation. This relates to freight only, which hasn't been included as the PACTA analysis is still quite limited for this sector and the holding is very small.

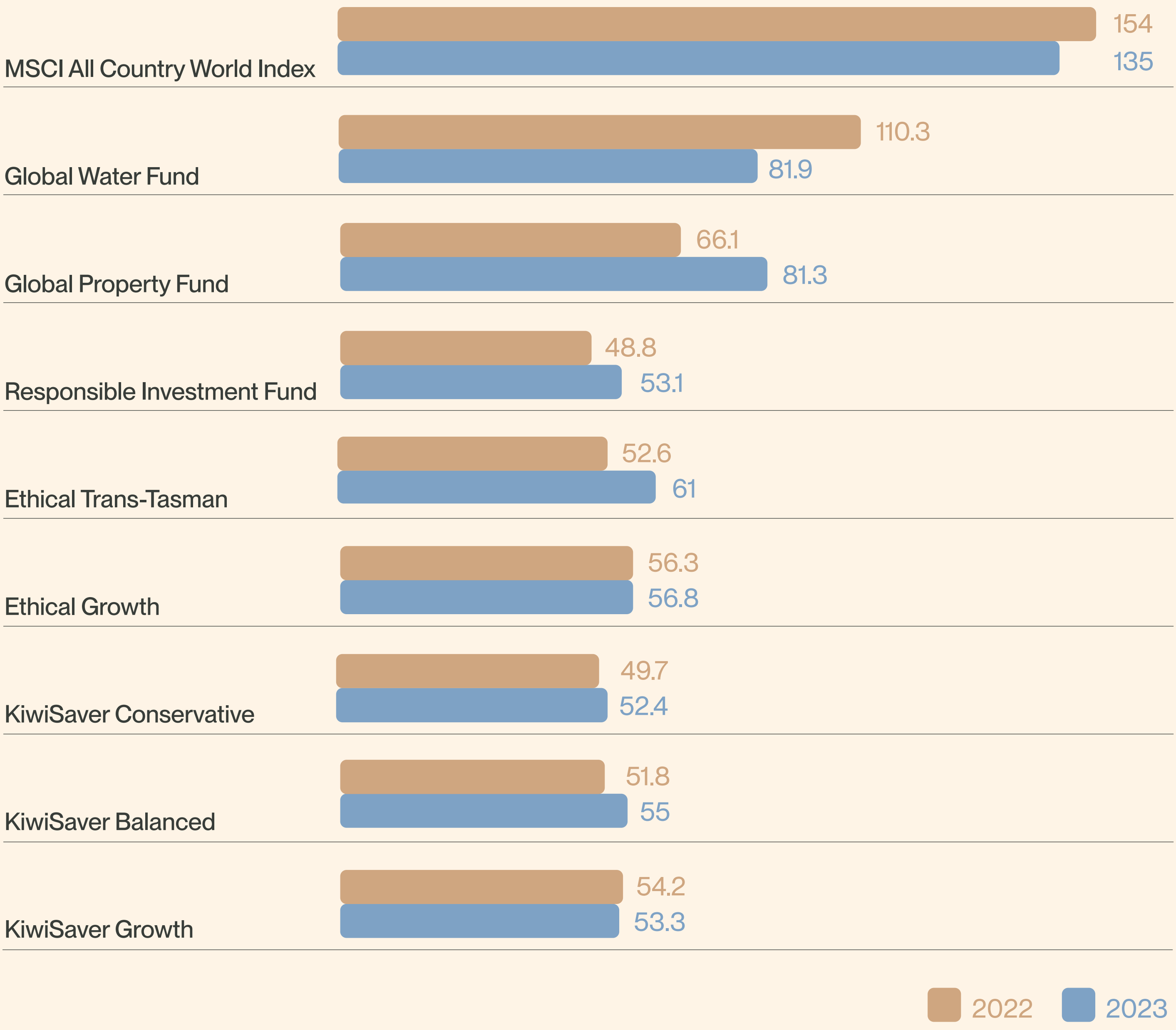
The holdings identified make up 18% of the total emissions profile of the portfolio. Of this, 1.1% is from the automotive sector while 16% is in the power sector; 26T CO_2 and 380T CO_2 respectively. A remaining 0.75%, or 18T of emissions is connected to Aviation.



Carbon profile

The tables below show the carbon intensity of 8 of our funds. We don't include the Green Bond Fund because it has no equities. This is measured for each company in the portfolio as the tons of carbon equivalent emissions emitted by each company per million dollars of revenue. This number for each company is then weighted based on the size of the fund's holding in that company. Portfolio carbon intensity is then calculated as a weighted average, where the weights are the percentage holding in our fund. Over time, the carbon intensity tells us if the companies in our portfolios are becoming more efficient with their business operations in relation to emissions.

Check out the bar graph to understand how the weighted carbon intensity compares as at 31 March 2023 from 31 March 2022.

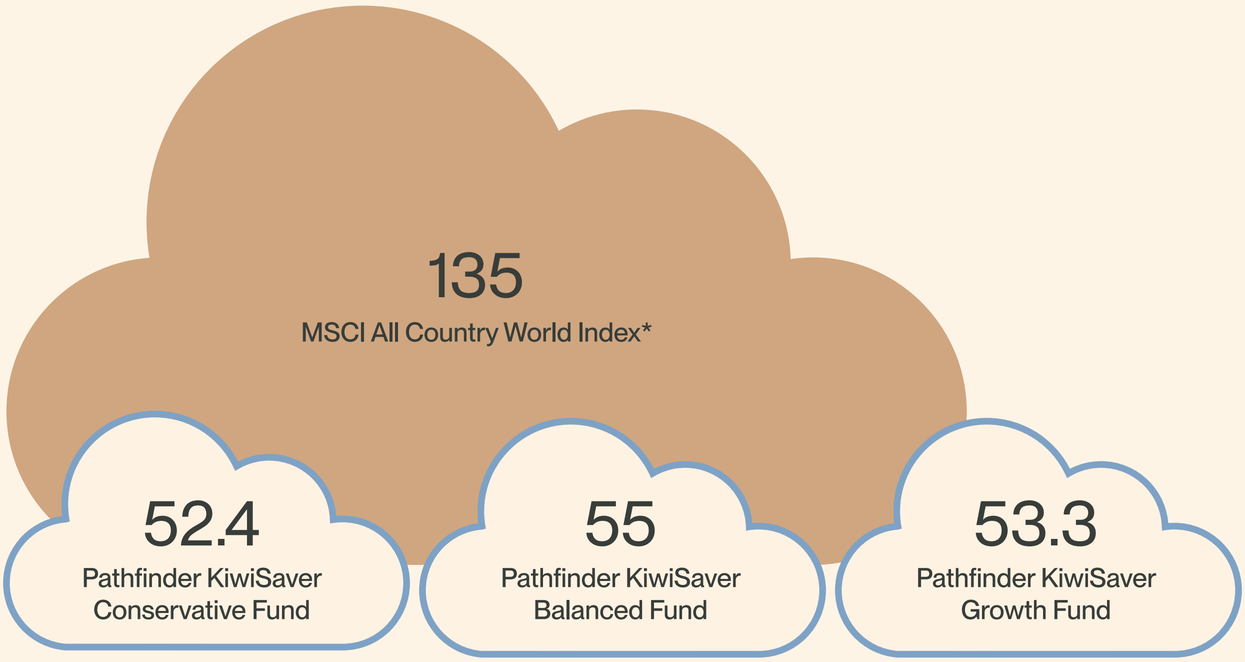


Our climate strategy is long-term. There will often be volatility year on year but ultimately, our aim is for Pathfinder's carbon intensity, relative to the benchmark, to trend downwards over time. It's interesting to see how we're doing year on year within our own funds, but the real value is in how we compare to the industry generally.

Carbon reduction and offsetting

We have reduced the carbon intensity of our international equity portfolio to about two thirds lower than a relevant market index level. This is a significant achievement by our investment team, and we will work to continue reducing the carbon intensity into the future. Previously we had purchased and cancelled carbon credits for several of our funds, however we decided not to continue to do this given our focus on reducing and reporting the carbon intensity.

Our carbon footprint compared



*Based on data from the MSCI All Country World Index

Green Bond Fund launched

In January 2023, we launched the Pathfinder Green Bond Fund, which provides investment in bonds that fund climate and environmental solutions. These include clean transportation, clean water access and increasing resiliency to extreme weather events.

The swift rise of green bonds

Although green bonds were introduced over a decade ago and have since raised US$2.0 trillion to support climate and environmental projects, until recently they were considered niche.

However, over the last 24 months, we have watched this market evolve and grow. And we wanted to give investors an opportunity to participate in these deep green investments so we launched the Green Bond Fund.

To make this green bond strategy a reality, we are thankful for our partnership with entrepreneur and philanthropist Anna Stuck, who seeded the new fund with a substantial investment. Anna also founded female-focused venture capital firm Even Capital in 2021 and the philanthropic Clare Foundation in 2020.

"The fact that has surprised me the most is how a deep global market for green bonds developed so quickly in recent years," says John Berry, Pathfinder CEO. "Even the New Zealand Government has set up a green bond programme."

The make up of our Green Bond Fund

To deliver this fund, we have partnered with London-based sustainable bond specialist Affirmative Investment Management as investment manager of the Green Bond Fund.

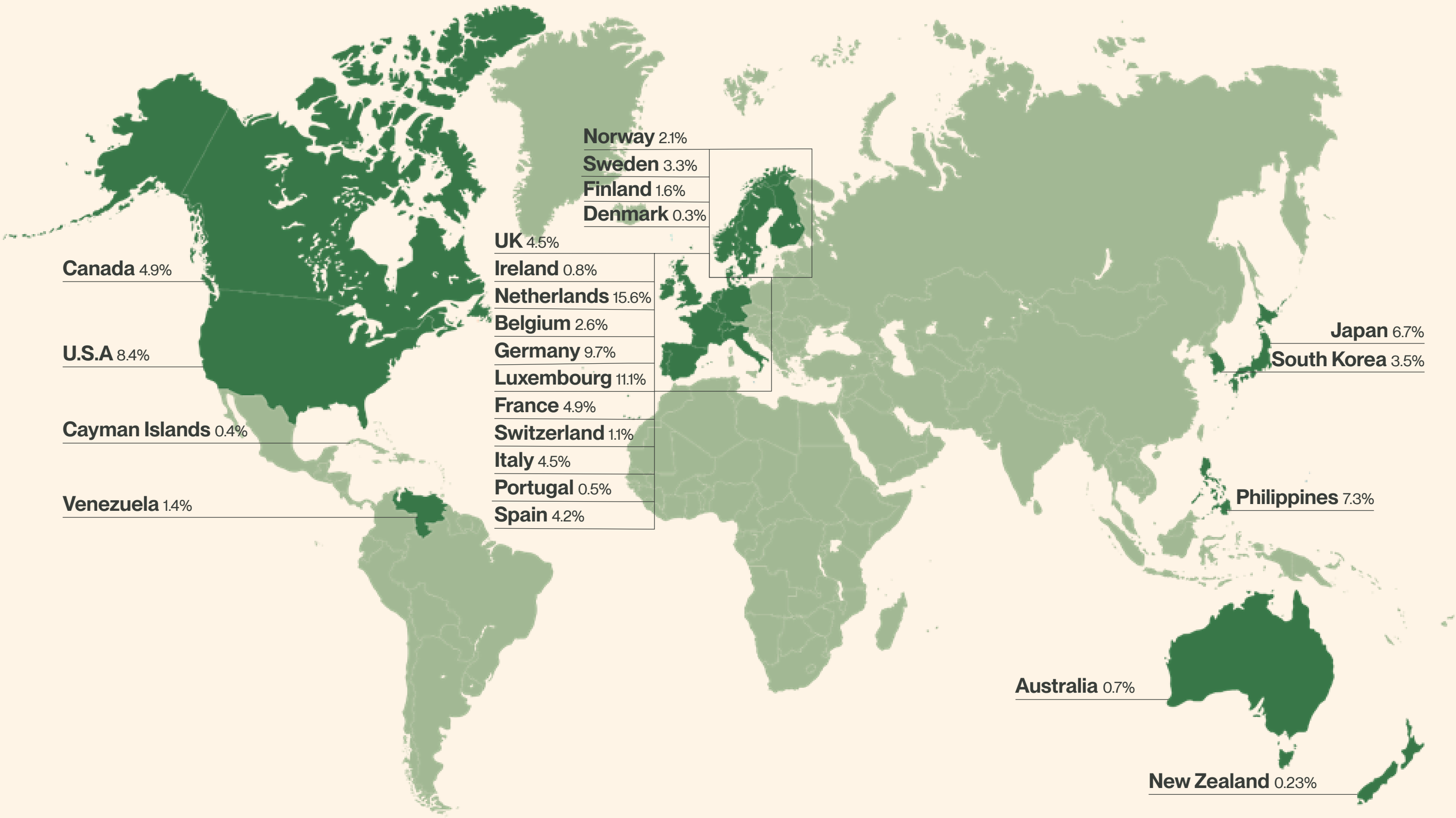
Some examples of green bond projects that Affirmative have supported in the past include the Mumbai Metro rail system in India, a project providing green building space in Milan, Italy, and an environmentally friendly bus fleet in France.

Is the Pathfinder Green Bond Fund right for you?

Investing in the Pathfinder Green Bond Fund aligns with people who are deeply concerned about climate change and want to have a 3 year minimum investment.

Picture: Shaun Dakin

The location of our green bonds as at 31 October 2023



Gender and investing: Introducing *Orange Bonds*


Picture: Shrimathi Jayaprakash

Orange bonds are a relatively new investment approach that help support women in business, often in developing markets. Named after the colour of SDG Goal 5: Gender Equality, they are an emerging funding tool that aims to empower 100 million women, girls and gender minorities by unlocking US$10 billion in capital by 2030.

First released in October 2022, the Orange Bond Principles are designed to help us as investors, as well as issuers, arrangers and certifiers by establishing the Orange Bond financing criteria. This sees Orange Bond capital go to projects and enterprises that substantially benefit women and gender minorities. They are designed to support the development of a gender equitable workforce and / or inclusive value chains and are a great way not only to support women, but are one of the best investments to fight climate change.

Research shows that when women run and grow sustainable businesses, especially in climate-smart agriculture, they can inspire community action to build climate resilience; innovate to adopt green technologies; and lead on local and global policy that changes the status quo. This results in increased prosperity, reduced carbon emissions, and improved adaptation and resilience to the effects of climate change, which are already being felt, especially in the world's most marginalized communities.[1]

By unlocking the potential of women and gender minorities, some projections show this could add US$28 trillion to the global economy by 2025.

[1] https://shorturl.at/cjnS5

The Women's Livelihood Bond

Picture: Women's Livelihood Bond

Pathfinder supports the evolution of Orange Bonds by investing in multiple bonds, including the Women's Livelihood Bond (WLB5). It invests in a portfolio of high impact enterprises across Asia and Africa to enable more than 300,000 women and girls to build economic resilience and advance climate action. In essence, this is a combination of both Green and Orange Bonds.

"The reason I like this bond so much is because if you can help secure stable income for the wāhine in the family then the children can go to school. You support not only the women and the children, but also their future generations. You are essentially driving inter-generational impact," says John Berry. "This is done by funding a business venture that then gets paid back with interest."

The proceeds from the WLB5 are used to make loans to high-impact enterprises run by women and gender minorities in Cambodia, India, Indonesia, Kenya and the Philippines. These loans fund six sectors: microfinance, small and medium enterprise lending, clean energy, sustainable agriculture, water and sanitation and affordable housing.

Pathfinder and investing in women:

This table shows how women are represented in the companies Pathfinder invests in compared to the benchmark.

			Difference
	All Pathfinder Funds	**Benchmark***	**All Pathfinder Funds vs Benchmark**
Women on the board[1]	32.6%	32.3%	0.3%
Women executives[2]	22.7%	21.4%	1.2%
Women employees[3]	33.3%	38.2%	-4.9%
Women managers[4]	40.1%	33.4%	6.7%
Companies that report gender pay gap data[5]	31.1%	11.2%	19.9%

*MSCI All Country World Index

Background on women on boards:

There is a sharp distinction between emerging market and developed market companies, with the former having far fewer women in board positions. Many companies in developed markets are subject to mandatory gender quotas. Greater social change is required to achieve balanced leadership, but quotas can be used to jump start immediate action and force at least some change in the short term.

While the majority of male leaders attribute the gender imbalance in leadership to a 'lack of available female talent', research from countries that have enacted quotas for female representation on boards suggests that quotas have been successful in activating previously untapped networks of women with business degrees and MBAs.[6]

Pathfinder has communicated a quota requirement of at least 1 woman on the board for NZ listed companies.

[1]Studies have identified 30% women representation on the board as the tipping point at which the impact of diversity can begin to be seen.

[2]High-level positions responsible for day-to-day operational management i.e c-suite (CIO, CEO etc)

[3]Women are considered equally represented in the workforce when their numbers exceed 40%

[4]This includes all levels of management, from junior, middle, senior, to top-level

[5]For this data point, we've used the percentage of companies that report on their gender pay gap, rather than the reported pay gap itself. This is because the small proportion of companies in the benchmark that report skews the data. The proportion of companies that Pathfinder owns that report this information is much higher than the benchmark and is broadly in line with the proportion of New Zealand companies that report on the gender pay gap, which is 34%

[6]Do Quotas for Corporate Boards Help Women Advance? | Chicago Booth Review

[7]When Women Lead, Firms Win

Background on pay gap reporting:

S&P Global Research in 2019 found that companies with women Chief Financial Officers were more profitable and produced superior performance compared to the market average.

Similarly, this research showed that companies with high gender diversity on their board of directors have been more profitable than those with less.[7]

Gender diversity continues to play an increasingly important role in corporate strategy and performance. Companies that perform well on gender diversity metrics often perform better financially than those that do not, and companies that neglect gender diversity and inclusivity may be left behind and exposed to greater investment risk.

The first step to improve progress on gender diversity is to measure the data, but most companies in the world do not disclose any information. According to Equileap research[1] just 22% of companies globally publish any information on differences between the salaries of men and women employees. This is up from 17% in 2022 and 15% in 2021, so we hope this indicates a change in trend.

The highest performing countries have legislation mandating gender pay gap reporting from medium to large-size companies– Spain, the UK, Italy, and Norway.

In Spain, 98% of companies publish gender pay gap information.

Generally, companies with less than a few hundred employees are not subject to mandatory reporting. In the UK, companies with over 250 employees must report gender pay gap information to a government database which is made publicly available.

In New Zealand, 34% of listed companies publish information on their gender pay gap. Here's how that compares to other OECD countries.

UK: 82%

Italy: 77%

Norway: 68%

Australia: 27%

USA: 12%

New Zealand still has no gender pay gap reporting requirements, although pay equity claims can be made under the amended Equal Pay Bill.

In August 2023, the Labour government announced plans to legislate mandatory pay gap reporting for organisations with over 250 employees, in line with the progress the UK has made. This would cover around 900 New Zealand companies, however with the change in government it is unclear whether this legislation will be enacted.

ESG metrics include a review of a company's gender diversity policy. Companies are beginning to understand the financial risk that poor performance on gender diversity poses to their business, and are increasingly making this information available. However, legislative roll backs can negatively influence the market. At Pathfinder, we prioritise high performing ESG companies, as they're likely to outperform lower ESG scoring alternatives in the long run.

[1]Equileap_Global_Report_2023.pdf

[2]Survey results of political party policies on gender equity and women's issues released - National Council of Women of New Zealand (ncwnz.org.nz)

[3]5. Equal pay in collective bargaining | Pay Transparency Tools to Close the Gender Wage Gap | OECD iLibrary (oecd-ilibrary.org)

The *impact* of our ethical investments

The decision to choose which companies to invest in is a complex one – involving many considerations from financial to risk to ethics to opportunity. However, these four investments give a snapshot of how our money can be invested positively, both locally and internationally.

Picture: Toa Heftiba

Example One

Investing In Better

Community Finance

Solving: Social and community housing supply in New Zealand

Community Finance know that access to warm, safe and dry housing is a human right, and that this requires more social and community housing to be built quickly. However, getting funding for these projects remains a barrier to getting new homes constructed. That's why this organisation exists – to bridge that gap.

Pathfinder has helped fund projects arranged by Community Finance (an unlisted private company) because it aligns with our community housing investment theme. We want to be part of the solution for ensuring all people in New Zealand, including our most vulnerable, have a warm, dry place to call home.

We encouraged Community Finance to create a lending programme that looked like any conventional corporate bond or note. "Community Finance is a fascinating example of innovation through finance to solve a significant social challenge," says John Berry, Pathfinder CEO. "Before they had a settled product, their team had totally new ideas and insights to bring a solution to the market. Paul and I spent quite a bit of time with them before launch, supporting their product development so that not only Pathfinder, but other fund managers could invest and support their work in social housing."

We are now working on our fourth social housing project with Community Finance. In addition, Pathfinder's parent company, Alvarium, has taken a 15% ownership stake in Positive Property (the parent company of Community Finance) to enable and support more projects.

This year, the initiative delivered a three-storey walk up apartment complex in Auckland with shared communal spaces and a community garden, turning one vacant lot into a modern living space for the people who needed it most.

As of 30 June 2023, there were 24,717 people on the emergency housing register. That, says John, shows the scope and scale of the problem and why we need broad support from fund managers, KiwiSaver providers and others in financial services to help turn this around.

"The problem is too big for any one charity, company or government to solve," he says. "Solutions from investors, KiwiSaver and business are absolutely essential."

Example Two

Investing In Better

Vestas

Solving: Development of sustainable energy solutions

For 40 years, Vestas has refined designing, manufacturing, installing, developing and servicing wind energy and hybrid projects all over the world. Founded in Denmark, they have installed more than 169 gigawatts of wind turbines in 88 countries. Their sustainable energy solutions have already prevented 1.9 billion cubic tonnes of CO_2 from being released into the atmosphere.

Additional to these achievements, Vestas is committed to being carbon neutral by 2030 (without using carbon offsets) and producing zero waste turbines by 2040.

Pathfinder invests in Vestas, a listed company, because we like their innovation towards more sustainable solutions for wind turbines. For example, they have had a recent breakthrough in recycling wind turbine blades at the end of their life. The novel chemical process they have designed can be applied to their epoxy-based turbine blades while they are in operation. This will eliminate the need for landfill disposal of epoxy-based blades when they are decommissioned.

Example Three

Investing In Better

Organo

Solving: Access to clean water

Listed on the Japanese stock exchange, Organo engineers water treatment infrastructure that purifies drinking water and provides industry specific equipment for a range of sectors, including energy, electronics and cosmetics. Their water treatment equipment is designed to conserve water through technologies involved in separation, purification, analysis and engineering. The combination of these technologies provides systems and services that benefit access to clean water for modern society.

Pathfinder invested in Organo because it aligns with our positive investment theme of water, and because of the strong ESG framework they are using to contribute to a more sustainable society. We see them as a leader in developing water technology that conserves this precious, life-sustaining resource while aiding developments in new infrastructure to support a more sustainable world.

Example Four

Investing In Better

First Solar

Solving: Availability and efficiency of renewable energy

First Solar is an American manufacturer of solar panels and large-scale solar power. Not only does the organisation develop and manufacture solar panels, but they also build solar power plants. They focus on sustainable innovations, such as their new Series 7 module, which includes as much as 16% recycled content in its design.

In addition, their new eco-efficient product features a carbon and water footprint one quarter lower than conventional crystalline silicone modules manufactured in China.

Pathfinder invested in First Solar because it aligns with our positive investment theme of renewable energy and energy efficiency – and delivers innovative research and development to advance the future of solar energy. The solar technology they create also takes the lifecycle of the solar product into account.

The other drawcards for investing include the way First Solar takes care of employees, manages their environmental impact and operates their business. The solar industry has had intense scrutiny in recent years because of the crystalline silicon supply chain's exposure to forced labour in Xinjiang. First Solar have a zero tolerance policy to forced labour in their supply chain at their manufacturing plants in the United States, Malaysia and Vietnam.

Section Four

Pathfinder, People and *Purpose*

1. Why Pathfinder investors invest
2. Charity donations
3. Meet our team
4. Awards – take a bow
5. What's in store for the future?

Picture: Tim Mossholder

Why Pathfinder investors invest

Pulotu Selio Soloman

Invested in: Pathfinder KiwiSaver Plan

When Pulotu Selio Soloman retires in 14 years, he plans to split his time between Samoa and New Zealand. Born in New Zealand, of Samoan and Fijian descent, he knew he wanted his money invested in companies that were doing their bit for climate change – as way of taking care of his Pacific home.

“Now I'm at level five in my life, I'm more concerned about what my retirement looks like. I hope to go home to Samoa at some stage and I want to make sure home is still there when I get there,” says Pulotu.

It's why four years ago, he decided to become a Pathfinder investor. For Pulotu the fact that his investments are supporting a transition to a more equitable and sustainable world is crucial.

“Cyclones are becoming more frequent and my neighbours in the Pacific are disappearing. But through our investments, we can make a small difference that is significant for other people's lives.”

Education worker Pulotu first discovered Pathfinder when he was the chair of the Men's Health Trust. John Berry, Pathfinder's CEO, is on the board of the not-for-profit organisation.

“I felt very privileged to sit around that governance table and improve my financial literacy because Māori and Pasifika people often don't get the opportunity to talk finance in that context,” says Pulotu. “Financial literacy is really important to me and I wanted to know how to improve it.”

After joining Pathfinder, he has been happy with the growth of his KiwiSaver investment. Pulotu also enjoys receiving monthly updates and says the transparency that Pathfinder operates with gives him huge confidence.

“You can trust your money and trust where Pathfinder are investing it. Being part of their KiwiSaver is helping an ordinary guy like me, do extraordinary things.”

Tara Satyanand

Invested in: Pathfinder Managed Funds

When Tara Satyanand's company agreed to relocate her home to New Zealand in 2010, with a new baby, she realised that she didn't want her investments to contribute to the problems she'd seen in the world. That's when she started her hunt to gather more information about ethical investing.

"I like to say I got into ethical investing before it was cool," smiles Tara. "I believe that every time you buy something at the supermarket or to wear, you are voting for the world you want to see with every dollar you spend."

It's this mentality that helped her find her way to investing in Pathfinder's Managed Funds. Since 2020, she has split her investment with Pathfinder three ways across the Global Water Fund, the Global Responsibility Fund and the Trans-Tasman Ethical Fund.

"When it comes to saving for your retirement, the decision about where you put your money can create a big impact because it happens over a long period of time. I want my money doing good things for people and for the planet," she says.

With a career in scientific and medical research, including with organisations that fund research, Tara has had experience in trying to assess which research projects are most likely to generate important results or breakthroughs. She sees investing in businesses as a similar process.

"I know that you can't expect certainty with investments, but, like research, you have to be prepared to be patient," explains Tara.

"Ethical businesses which are focused on more than short-term profits, try to balance their vision with sustainability, equitable access, fair trade, human rights, and other best-practice processes. I think that approach inspires the right people to join and stay with organisations, and can both reduce risk and stimulate innovation... all of which improves the chances of being successful in the long run, without sacrificing people or the planet."

She says she signed up to Pathfinder partly because of their transparency. They make it easy for her to understand where her money is going and what it is supporting.

"I don't want to be making stuff worse and I get a little warm glow from knowing I am contributing to something good, as well as making sure I have dignity and choices when I'm older."

Charity donations

Picture: Garden to Table

"Giving a percentage of profits or (even better) a percentage of revenue to support charities and causes is awesome, but at Pathfinder, we take it one step further by embedding the goal of "doing good" into our company's DNA."

John Berry, Pathfinder CEO

Our aim is to generate a sustainable, *long term income stream* for each of our charity partners.

Business is part of the solution

Since the inception of our KiwiSaver in July 2019, Pathfinder have donated 20% of our KiwiSaver management fees (out of our own pocket) to charity. The thinking behind this is the adoption of 'social enterprise' principles and a 'built to give' business model to support local charities.

Giving to charity isn't a new idea in business – philanthropy is essentially the act of those with more giving to those with less. But we need to encourage more businesses and entrepreneurs to embrace a generative, long term, sustainable process for supporting charities. This can be through giving linked to the success of the business, so charities can secure long-term reliable income streams.

This year we conducted a thorough review of our charity partnership and are aiming to launch a revitalised version in early 2024. Watch this space!

Our Aim

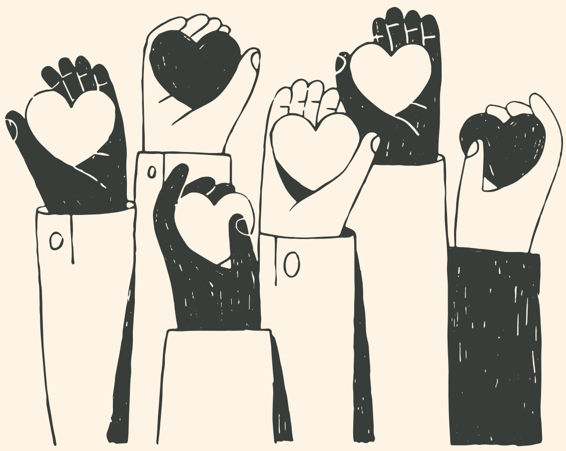
To generate a sustainable, long term income stream for each of our charity partners.

For our charity partner choices to reflect our mission and vision as a company, so we're able to deepen our impact.

For our support to be broad (rather than narrow), in terms of working with charities across the three areas our investing is arranged around: people, planet and animals. But we also want to balance this with recognition that our charity family needs to be restricted in size so those we partner with receive a contribution that is meaningful to them.

Our Impact

In the 2022/23 financial year, we were proud to give away $459,383.09 to our charity partners in New Zealand. You won't see a break down in this document of where that money was actually spent by each charity, because our donations are 'untagged'. This is intentional by us. It is because we don't tell our charities how to allocate funding within their organisation, instead we believe they're best placed to make that decision.



We are extremely proud of the fact that since launching our KiwiSaver in 2019 we have paid or accrued over $1.2 million in donations to support the mahi of our charity family.

Here's the breakdown of how much each of our partner charities received in 2023.

*Drug Foundation are no longer a charity partner of ours.

Meet our team

Our Ethics and Investment Committee

Our Ethics and Investment Committee ensures our ethical approach authentically underpins our investments. They meet regularly to make rulings on thorny issues, review the inherent grey area of ethical investing and help steer the overarching strategy of Pathfinder.

Current committee members are:

Anya Satyanand

Chair of the Ethics and Investment Committee

Anya Satyanand has a background in education and has worked for positive change at local, regional, national, and international scales. Anya brings a broad set of governance experiences, from international, not for profit, and public sector governance bodies. She is committed to reshaping ethical investment practices for a more just and hopeful future.

Mei Fong

Director, Chair of the Compliance Committee

Mei has extensive experience in banking, finance, tax and compliance and has worked in law firms in Hong Kong, London and Wellington. Mei has a Bachelor of Law and Bachelor of Commerce in accounting and finance from Victoria University.

Malcolm McKinnon

Chief Executive Officer of Alvarium

Malcolm's experience ranges across private and public companies, spanning a range of sectors including finance, energy, aviation, and space travel. He brings experience from multiple sectors and geographies.

Our Pathfinder team

John Berry

CEO, Co-founder of Pathfinder

John is committed to making ethical investment accessible to all New Zealand investors. He works tirelessly to spread his belief that no one should have to choose between a good investment and an ethical one. He has become an industry leader and advocate for responsible and ethical investing.

"I love how powerful positive investing can be. As investors, we get to decide how and where to invest our money, and consider the kind of world we want to fund," says John. "Collectively as investors, we can have incredible influence."

Paul Brownsey

CIO, Co-founder of Pathfinder

Co-Founder of Pathfinder and CIO of both Pathfinder and Alvarium (Pathfinder's parent company), Paul has over 30 years' experience in finance.

"I wear two hats – with one hat I need to make as much money as I possibly can for our investors," explains Paul. "And let's face it, I am also an investor, I care about making a return on the money we have. I want to show people we can make them a good return.The other hat I wear is making sure we are investing in a way that is not imposing costs on society or the environment to ensure people can invest or retire with a good conscience."

Hamesh Sharma

Portfolio Manager

Over 10 years' experience in financial markets. Formerly worked at major New Zealand financial institutions, including Goldman Sachs and JB Were.

"We invest to the highest ethical standards in the market, not only excluding unethical companies, but investing in ESG themes, such as water and renewable energy," says Hamesh. "We have been able to generate solid medium-term return and risk characteristics through active management of our portfolios, all while investing through a highly ethical lens."

Michael Kenealy

Portfolio Manager

Over 10 years' investment and portfolio management experience, including three years for a philanthropic fund in Peru.

"We invest looking through an opportunity lens focused on core themes followed by detailed stock by stock analysis," says Michael. "Our goal is to find great investments to improve our client's retirement."

Our Pathfinder team

Kate Brownsey

ESG Analyst

Post grad qualified in Environmental Science, with 6 years' experience at Pathfinder.

"Working at Pathfinder is a great combination of policy and implementation," says Kate. "Pathfinder is viewed as a thought leader and early adopter – it is interesting to be at the heart of that process."

Shyam Prasad-Jones

Investment Analyst

Shyam has 3 years experience in the finance industry.

"I have thoroughly enjoyed attending meetings for companies we are invested in, such as Mint Innovation," says Shyam. "We get to hear and see first-hand the progress they are making."

Simon Leach

Senior Relationships Manager

Simon has over 5 years' experience in the financial services industry and works with external advisers, helping ensure Pathfinder's ethical funds are available for advisers to include in portfolios for their clients.

"I think the unique piece about working for Pathfinder is that I'm surrounded with colleagues who believe in the work we're doing to transform investing into something that cares about more than just money."

Jeanette Kassa

Financial Adviser

Jeanette has 6+ years of experience in financial services in both Auckland and Australia. She's our in- house expert when it comes to providing specific Pathfinder financial advice.

"Pathfinder's reshaping the old-fashioned, male-dominated financial sector, encouraging a culture where questioning 'the way we've always done things' is the norm. Here, I am assisting clients to achieve their financial ambitions without compromising on return or detriment to people, animals, or the planet. ."

Bryony Greenhalgh

Relationships Manager

Bryony is a values-driven relationships enthusiast, with 10 years' experience in law and philanthropy. If you're interested in bringing Pathfinder into your business, she's our preferred provider expert.

"I became a Pathfinder KiwiSaver member long before I worked here, so I already knew our values aligned," says Bryony. "I believe ethical investing is a small individual action that can have huge impact."

Awards - take a bow

We do ethical investing because we are on a mission to create individual wealth and collective well-being. *But sometimes, it's nice to be recognised for our dedication to the work we do.*

Picture: Pathfinder team at the Sustainable Business Network Awards 2023

In November, Pathfinder won three accolades at the 21st Sustainable Business Network Awards. This included the supreme Transforming Aotearoa New Zealand Award and was the first time a company or person has pulled off a triple win. Other awards included the Sustainability Superstar Award, awarded to CEO, John Berry and the Communicating for Impact Award.

Pathfinder was also named 22nd in Deloitte Fast 50 Index - highlighting that you can grow purpose and profit.

Pathfinder was designated as a Responsible Investment Leader by the Responsible Investment Association of Australasia (RIAA). Responsible Investment Leaders are placed in the top 20% of responsible investors, assessed by RIAA.

“There is justification for public concern over greenwashing and exaggerated claims around ethical investment – the winners showed what it looks like when investment providers walk the talk.”

Barry Coates, Mindful Money CEO

Picture: Pathfinder team at the Mindful Money Awards 2023

We were recognised for:

1. Demonstrating leading practice in our commitment to responsible investing
2. Our explicit consideration of environmental, social and governance factors in investment decision making
3. Our strong and collaborative stewardship
4. Our transparency in reporting activity, including the societal and environmental outcomes being achieved.

This year, we were also named as the Best Ethical KiwiSaver Provider for the third year in a row at the Mindful Money Ethical and Impact Investment Awards 2023.

At the same awards, we also picked up the award for Best New Ethical Fund for our Green Bond Fund (see page 49) and highly commended in the Best Retail Ethical Investment Provider category. Our CEO John Berry was also recognised at these awards – winning the Best Media Reporting award for his opinion editorial series that was a collaboration with Stuff.

What's in store for the future?


Picture: Dario Mueller

Where to from here – 2024 and beyond

We want to be leaders (in fact pathfinders!) in the ethical investing space. That means continually thinking about and, where we can, improving our product offering and the way we do business generally. We see ethical investment, good investment returns and our social enterprise support for New Zealand charities as core to Pathfinder's DNA.

Our approach to ethical investing is constantly being adjusted and challenged – like virtually everything in our world. Our approach changes as we think about the companies we invest in and, as we learn new frameworks for approaching everything from investing, risk management and climate change to new technologies, impact and social change.

What this means in the year ahead is more refinement of our ethical investing approach and also more work on our stewardship. Stewardship is our actions as a responsible asset owner, which includes everything from advocacy for change to helping improve consumer understanding.

For our stewardship, we already vote extensively with the companies we invest in (see page 31), and we put a lot of energy into advocating for change in our industry. We'd like to be engaging more with the local listed companies we invest in – this work is resource intensive but also important work to shift the direction of companies and business generally.

In short, we see a busy – and positive – year ahead for our team in 2024 and beyond.

Appendix A: Key low carbon power and automotive technology investments analysis

Below is a summary of the exposure to low carbon technologies in the power and automotive sectors across all Pathfinder funds as at 31 March 2023.

	Sector	Percentage of assets held in low carbon technology	Percentage of sector held in low carbon technology
Pathfinder	**Power**	3.38%	69.70%
	Automotive	1.38%	92.07%
iShares MSCI World ETF	**Power**	1.60%	46.09%
	Automotive	1.25%	66.07%

Appendices

Summarised here is the comparison to a benchmark (iShares MSCI World ETF – not the ACWI ETF as used before (the result is similar but the ACWI includes emerging markets while the World ETF only includes developed markets, so this is a more appropriate benchmark to use for Pathfinder)

	Ratio	Percentage difference
Proportion of assets held in low carbon power technology	2.11	111% higher
Proportion of assets held in low carbon automotive technology	1.11	11% higher
Proportion of assets held in low carbon technology	1.51	51% higher
Proportion of assets held in low carbon automotive technology	1.39	39% higher

Notes on how we gathered this data:

1. Asset Classes

The above analysis is focused on the asset classes with the most direct and traceable impact on the real economy and for which public data is available. This includes direct investment in economic activities by investments through listed equity and corporate bonds.

The table below summarizes which financial instruments are included in the analysis.

Asset Classes (direct investment)	Portfolio value invested (M USD)	Portfolio value invested (%)	Included in the analysis	Value breakout per means of investment (M USD)
Corporate Bonds	5.10	2%	Yes	5.10
Listed Equity	166.20	58%	Yes	166.20
Other Asset Classes	26.03	9%	No	26.03
Unclassified	89.78	31%	No	89.78
Total	287.11	100%		287.11

2. Sector Coverage

The above analysis is applied to listed equity and corporate bonds in identified climate-relevant sectors. Climate-relevant sectors included in this analysis fulfil three criteria:

- The sectors are relevant from a climate perspective and contribute significantly to the global greenhouse gas (GHG) emissions
- There are scenario benchmarks available for each sector
- There is sufficient data and business intelligence available.

Many more sectors are climate relevant however there is a lack of asset and/or scenario level data.

Listed Equity: Financial exposure to climate relevant sectors

- Automotive 1.7%
- Power 5.4%
- Steel 0.65%

7.7% of the Equity portfolio covered by PACTA

Corporate Bonds: Financial exposure to climate relevant sectors

- Power 42%

42% of the Bond portfolio covered by PACTA

3. CO2 Emissions

Estimating current CO_2 emissions associated with a portfolio can be useful to inform the relevance of each sector in decarbonising the portfolio. The climate relevant sectors are responsible for the following share of the portfolio's estimated CO_2 emissions.

Listed Equity: Emissions exposure from climate relevant sectors

- Automotive 0.38%
- Power 12%
- Steel 2.0%

14% of the Equity portfolio covered by PACTA

Corporate Bonds: Emissions exposure from climate relevant sectors

- Power 77%

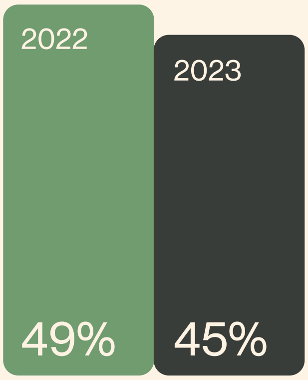
77% of the Bond portfolio covered by PACTA

Appendix B: SBTi Initiatives

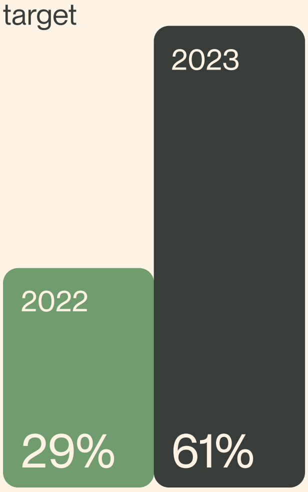
Science-based Targets Initiatives (SBTi) are a partnership between the Carbon Disclosure Project (CDP), World Resources Institute (WRI), and the World Wide Fund for Nature (WWF). Their purpose is to define and promote best practice in emissions reductions and net-zero targets, in line with climate science. If a company commits to the SBTi then it must, within 24 months, develop and submit clearly defined organisational pathways or targets for reducing emissions. Examples of New Zealand listed companies that have committed to the SBTi are Fisher & Paykel Healthcare, Fonterra, Genesis, Air New Zealand and Auckland Airport.

The SBTi is an important list that provides us with a validation point, but is not a comprehensive list because, for example, some companies may have set their own non-verified targets that are still scientifically valid. The tables below summarise our investments in companies that have committed to the SBTi.

Proportion of our companies committed to SBTi (we expanded our monitoring to include all companies in our funds in 2023.)



Proportion of our companies committed to SBTi who have a commitment to a below 2 degrees Celsius target



Appendix B *continued*

	Number of companies	Proportion of our portfolio
2°C target	3	5.6%
1.5°C target	44	1.9%
Target well-below 2°C	9	27.5%
Committed without a target	25	15.6%
No commitment	79	49.4%
Total committed	81	50.6%
Number of companies we own	160	-

2022

	Number of companies	Proportion of our portfolio
2°C target	3	1%
1.5°C target	79	27%
Target well-below 2°C	14	5%
Committed without a target	35	12%
No commitment	163	55%
Total committed	131	45%
Number of companies we own	294	-

2023

Appendix C: TCFD Reporting

Governance

a. Board's oversight of climate-related risks and opportunities:

The board is responsible for oversight of climate-related risks as a subset of all business-wide risks. The Ethics and Investment Committee reports to the Board and is responsible for providing overall oversight of Pathfinder's sustainability strategy, including climate-related issues. Progress on targets, including climate-related goals, will be reported annually by the CEO to this Committee.

The Compliance Assurance Committee reports to the Board and is responsible for identifying, assessing and evaluating risks, and overseeing implementation.

b. Management's role regarding climate-related risks and opportunities:

Pathfinder's CEO and CIO regularly report to the Ethics and Investment Committee. Responsibility for updating the committee lies with the CEO.

The CEO, CIO, and investment team together work to identify climate risks and opportunities and embed climate considerations into decision-making processes and business strategy.

This work relies on TCFD-aligned analysis, SBTi processes, and our own risk assessment. The CEO and CIO are responsible for ensuring appropriate climate expertise is in place to enable the understanding of potential climate change impacts on portfolios.

Strategy

Climate-related risks and opportunities identified over the short, medium and long term

Climate change risk can be segmented into two broad categories: transition risk and physical risk.

Transition risk encompasses risks related to the global transition to a low-carbon economy and the associated policy, legal, technology, and market shifts.

Physical risks are both acute (event-driven) and chronic (long-term shifts in climate patterns). This could include weather related damages to assets or disruption to supply chains.

The investment team integrates climate-related risks (categorised as transition risks or physical risks) into investment decision making and analysis. This is a top-down approach incorporating scenario analysis for modelling climate-related risks in line with TCFD recommendations. These scenarios include a business-as-usual scenario, below 1.5°C and 2°C. This analysis focuses on our listed public equity and fixed income holdings.

Climate change is both a risk and opportunity for all asset classes and strategies, but the degree of materiality will vary. This is dependent on multiple factors, including the nature of the business, real assets, and key asset locations. Potential regulatory costs and compliance with developing carbon budget requirements are also considered. This analysis helps inform the pricing of securities in the selection process and improves the construction of resilient portfolios that protect long term value, even in the face of climate change impacts.

b. Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Sustainability plays a key role in Pathfinder's business strategy and is viewed as an important driver of financial performance. Our investment strategy is geared towards minimising carbon emissions and expanding low-carbon technologies and infrastructure, enabling the reduction of our own carbon footprint and that of our clients by providing low-carbon investment funds.

c. Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Climate-related risks are a priority focus for Pathfinder and our management approach is formed by three key elements:

Awareness

Portfolio managers and analysts are aware of relevant climate-related risks and contributors

Integration

Climate-related risk and opportunity considerations are integrated with other risk and value considerations

Engagement

Pathfinder acts as responsible and active stewards of capital on behalf of our clients by engaging with companies and advocating for best practices.

Risk Management

Describe the organisation's processes for identifying and assessing climate-related risks

Climate-related risks and opportunities are primarily identified, assessed, and managed by the investment team. These processes are supplemented with input from the Ethics and Investment Committee

Describe the organisation's processes for managing climate-related risks

Key risks identified are entered into the Risk Register, and materiality of the risk is then determined by a formal assessment process.

Processes for identifying, assessing, and managing climate-related risks and integrating them into overall risk management

Significant climate-related risks are brought to the attention of the Ethics and Investment Committee as part of the reporting process, and where appropriate are escalated to the board.

Metrics & Targets

a. Metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process. This table relates to our KiwiSaver Growth Fund only.

Weighted average carbon intensity compared to the benchmark	-59.8%
Science-Based Targets initiative commitments	44.9% of portfolio companies committed
Sustainable Development Goal alignment	81% of portfolio companies reporting SDG contributions
Low-carbon technology exposure as a proportion of sector	Automotive: 68.5% Power: 68.9%

b. Reporting greenhouse gas emissions

Scope 3 GHG emissions associated with investments are calculated in line with the GHG protocol and disclosed annually.

c. Targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

Increase proportion of companies in material sectors that have set approved science-based targets in line with the SBTi Financial Sector guidance by minimum 7% per annum to achieve 100% coverage by 2040.

Reduce the carbon emissions of our portfolio in line with achieving absolute reductions of 22-32% by 2025 and 49-65% by 2030.

Appendix D: Thresholds

We seek to avoid investments that disrespect people, our planet and animals.

We do this by creating a list of exclusions; things we won't invest in.

One of the ways we check if a company breaches our exclusions is if their source of revenue is heavily relying on any of our excluded areas (like tobacco or alcohol). To do this, we subscribe to data from specialist providers who report on where companies generate revenue from. Accessing this information can be extremely complicated with large international companies often having multiple revenue sources they don't fully disclose.

Due to this, we may permit a company to earn a low % threshold (for example, 5% to 10%) of revenue from an excluded area because we recognise we can't get 100% accurate data on all companies, at all times. We see this level as a threshold with integrity.

Here are the specific thresholds we use for certain excluded investments:

Fossil Fuel - We permit investments in companies that do not derive more than 5% of identifiable revenue from the exploration, extractive, conversion (with respect to thermal coal) or distribution (except by rail) of fossil fuels.

Alcohol - We allow investments in companies that do not derive more than 5% of identifiable revenue from alcohol beverage production, processing, manufacture, or sales.

Palm Oil & GMO - We permit investments in companies that derive no more than 5% of identifiable revenue from the commercialised production and sale of GMOs, or no more than 5% of revenue from the sale of palm oil and palm oil products.

Weapons - We permit investment in companies that derive no more than 5% of identifiable income from the production and distribution of conventional weapons and their components. We allow investments in companies that earn no more than 50% of identifiable income from non-weapons related services or products to the military.

Adult entertainment - We permit investments in companies that derive no more than 5% of identifiable revenue from the production or distribution of adult entertainment material.

Tobacco - We allow investments in companies that do not derive more than 10% of identifiable revenue from the sale of tobacco related products and services.

Gambling - We will allow investments in companies that derive no more than 5% of identifiable revenue from owning or operating gambling establishments.

Animal Testing - Animal testing is a complex area for investing. See our Ethical Investment Policy for details of our approach. We can (and do) in exceptional circumstances permit investment in a company connected with animal testing - such exceptions are approved on a case-by-case basis by the Ethics and Investment Committee.

For further information on any of these exclusions, please read our **Ethical Investment Policy** and/or contact us at info@pathfinder.kiwi

Emily O'Hara
Pathfinder KiwiSaver member

Investing our way to a brighter now & *a better future*

Pathfinder™

pathfinder.kiwi