

## Fidelity KiwiSaver Scheme – Ethical Kiwi Fund

<b>THE FUND</b>	
<i>What is an ethical fund?</i>	A type of fund that excludes, or favours, certain types of investments on environmental, social or governance ("ESG") grounds. Most exclude aspects of alcohol, tobacco, gambling and armaments – the so-called 'sin stocks'. Also known as SRI (socially-responsible investing).
<i>Type of fund</i>	Unlike many ethical funds which usually invest only in one part of the investment spectrum, the Ethical Kiwi Fund is a diversified (balanced) fund investing in a mix of NZ cash, fixed interest, domestic and global shares. Over time a diversified approach should minimise volatility (ups and downs).
<i>Where invested?</i>	The benchmark allocation is: cash 5%, fixed interest 35%, NZ/Australian shares 20%, international shares 40%. The actual mix will range around these values.
<i>Investment management</i>	<p>The Ethical Kiwi Fund invests in the Tyndall Wholesale SRI Balanced Fund, a fund managed by Tyndall Investment Management (NZ) Ltd (Tyndall). Tyndall has been managing a trans-tasman ethical equity fund for six years, the first ethical fund in New Zealand. The Ethical Kiwi Fund is leveraging off this accumulated knowledge and expertise.</p> <p>In terms of the various asset classes:</p> <ul style="list-style-type: none"> <li>• Tyndall manages NZ &amp; Australian assets.</li> <li>• Global equities are managed by Foreign &amp; Colonial Investment (F&amp;C). Founded over 140 years ago, F&amp;C manages over \$270 billion of assets (as at 31/12/08) and is one of the oldest investment houses in the world. Its 17-strong SRI team is the largest in Europe, and manages about NZ\$7 billion in SRI investments.</li> </ul>
<i>Objective</i>	To provide investors with a performance return of 1.5% more than 10-year government bonds over a rolling 5-year period.
<i>How are investments chosen?</i>	FIRST they must pass a conventional evaluation on purely investment grounds. THEN Tyndall and F&C apply an 'ethical overlay' screen to those investments.
<b>Step 1: CONVENTIONAL EVALUATION</b>	
<i>Process</i>	<ol style="list-style-type: none"> <li>1. Identify the relevant index to out-perform, looking at weightings, themes etc.</li> <li>2. Undertake quantitative modelling to rank and rate investments</li> <li>3. Undertake in-depth analytical research of the better-ranked investments</li> </ol>
<i>Criteria</i>	<ul style="list-style-type: none"> <li>• Cash and fixed interest: chosen as per existing guidelines</li> <li>• NZ/Australian shares: This is based on Tyndall's existing "core" strategy, which uses the NZX50 as a benchmark, and is broadly representative of the NZ market. Stock weights can vary up to 5% either way from the index. Tyndall uses a 4 stage process: Index – quant – research – position. Aim: to outperform NZX by 3% pa.</li> <li>• The Australian exposure can be up to 20%.</li> <li>• Global shares (F&amp;C): benchmark against the unscreened MSCI World Index. Seek stocks believed to have both valuation support and attractive upside potential. can be growth and value stocks.</li> </ul>
<b>Step 2: ETHICAL GUIDELINES</b>	
<i>Types of screens</i>	<p>Negative screens avoid certain investments (eg gambling), while positive screens favour certain investments (eg fair trade, renewable energy). The Ethical Kiwi Fund uses both types:</p> <ul style="list-style-type: none"> <li>• The Tyndall-managed assets apply negative screens only.</li> <li>• F&amp;C has a mix of positive and negative screens</li> </ul>
<b>(a) Negative screens</b>	
<i>Negative screens - absolute vs relative exclusion</i>	<ul style="list-style-type: none"> <li>• Some activities are automatic exclusions, generally the <b>production</b> of certain goods (absolute exclusion). Companies with any of these are excluded no matter how small their share of sales.</li> <li>• Other activities may be subject to a relative exclusion test, ie permitted up to a certain percentage of a company's revenues.</li> </ul>

<p><i>Absolute exclusions (Production)</i></p>	<p>Overall, the Fund will exclude companies involved in any way in:</p> <ul style="list-style-type: none"> <li>• alcohol <b>production</b></li> <li>• tobacco <b>production</b></li> <li>• gambling</li> <li>• armament <b>production</b></li> </ul> <p><b>There is no minimum threshold.</b></p>
<p><i>Relative exclusions</i></p>	<p><b>NZ/Australian investments</b> passing the 'absolute exclusion' test are subject to a second screen by Tyndall, excluding firms/investments deriving revenues from <b>sale</b> of alcohol, tobacco, gambling and armaments where:</p> <ul style="list-style-type: none"> <li>• it is the firm's principal business, AND</li> <li>• the firm earns more than 20% of its revenues from those activities</li> </ul> <p>(There are some companies (eg supermarkets) which sell alcohol and tobacco products, and it is possible the revenues from these activities may exceed 20%, but such sales are clearly not a supermarket's principal business.)</p> <p><b>Global investments</b> (via F&amp;C):</p> <ul style="list-style-type: none"> <li>• also avoid firms involved in pornography, exploitation of animals, nuclear power generation, poor environmental practices, human rights abuses and poor stakeholder relations.</li> <li>• are subject to a stricter 10% hurdle</li> </ul> <p>(The more stringent 10% level reflects the fact that there are more conglomerates overseas, whereas most businesses in NZ are "single-line" businesses which are easier to monitor.)</p>
<p><b>(b) Positive screens</b></p>	
<p><i>Independent review</i></p>	<p><i>Applies to global equities via F&amp;C:</i></p> <ul style="list-style-type: none"> <li>• Providing the basic necessities of life eg healthy food, housing, clothing, water, energy, communication, healthcare, public transport, safety, personal finance, education</li> <li>• Offering customers ethical product choices eg. fair trade, organic</li> <li>• Improving quality of life through the responsible use of new technologies eg internet access, energy efficiency</li> <li>• Meeting sustainable development challenges eg clean energy, low carbon technologies</li> <li>• Good environmental management</li> <li>• Actively addressing climate change e.g. renewable energy, energy efficiency</li> <li>• Promotion and protection of human rights</li> <li>• Good employment practices</li> <li>• Positive impact on local communities</li> <li>• Good relations with customers and suppliers</li> <li>• Effective anti-corruption controls</li> <li>• Transparent communication.</li> </ul>
<p><i>Independent review</i></p>	<p>F&amp;C has a 3-person independent committee of reference which evaluates companies meet the screening criteria. They rate stocks as Acceptable or Unacceptable.</p>
<p><b>MONITORING/REVIEW</b></p>	
	<p>Investments are regularly monitored to ensure they meet both the financial and ethical guidelines.</p>