

New Zealand Equity Monthly July 2023

Cyclone aftermath and industry efforts both underscore key role of ESG

By Mei Zi Ho, Research Analyst
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Communities and businesses still counting costs of February cyclone

The devastation from the tropical cyclone and flooding that struck New Zealand's North Island in February 2023 was a reminder of the increasing need to mitigate extreme weather events and to take stock after they strike. As asset managers, we also have a responsibility to assess the impact of such events when communicating with affected businesses. As an example, we recently visited the Hawke's Bay area of the North Island to talk to horticultural operators about the cultivation of apples and pears, which are important products for the area. As would be expected, the cyclone dominated many of our discussions. Our conversations covered the disaster's effects on communities and businesses as well as the devastation it has wrought on current and future crops. The trip also included a visit to Napier Port, a major shipping gateway in Hawke's Bay, where we heard how the cyclone had depressed export volumes of logs and horticultural produce.

First New Zealand climate-related disclosures due in 2024

One of the ways in which governments and businesses are working to counter extreme weather events such as the recent cyclone is through climate-related disclosures. The first annual reporting periods for New Zealand's climate-related disclosures regime began in January 2023, and covered entities will publish their first reports under the framework (known as "climate statements") from April 2024. Under this mandatory framework, organisations will disclose the impact the climate may have on their business as well as how their operations affect the climate. The requirement applies to large publicly listed companies, insurers, banks, non-bank deposit takers and investment managers. Approximately 200 entities are covered. We will be required to publish our own report related to governance, climate approaches and portfolio management. It will include details of portfolio metrics and targets, such as carbon scores. The report will also cover our approach to transition risk (the risk associated with shifting towards a net-zero economy) and physical risk (the risk associated with the physical effects of climate change).

Demonstrating our commitment to the Stewardship Code as signatory

In another significant ESG-related development for us, we became a signatory to New Zealand's Stewardship Code in February 2023. Released in its inaugural form in September 2022, the voluntary code sets out the following nine principles for effective investment stewardship: be committed, establish and maintain policies, incorporate material ESG matters, be engaged, vote responsibly, manage conflicts of interest, collaborate and advocate for change, measure and report, and educate and improve. As a signatory to the code, we participate in a round table of industry peers that meets every month to discuss how the principles should be put into practice and the enhancements required to do so.

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