BNZ KiwiSaver Scheme Climate-related disclosures

BNZ Investment Services Limited

Contents

Introduction

About this report

This report is the second climate-related disclosure (CRD) document for the BNZ KiwiSaver Scheme (the 'Scheme'). BNZ Investments Services Limited (BNZISL), a wholly owned subsidiary of Harbour Asset Management Limited (Harbour), is the issuer and manager of the BNZ KiwiSaver Scheme. A product disclosure statement is available at bnz.co.nz. BNZISL and Harbour are part of a group of investment and advisory businesses ultimately owned by FirstCape Group Limited (FirstCape). FirstCape is jointly owned by National Australia Bank Limited (NAB), Jarden Wealth and Asset Management Holdings Limited, and funds managed by Pacific Equity Partners.

Investments in the BNZ KiwiSaver Scheme are not bank deposits or other liabilities of Bank of New Zealand (BNZ) or any other member of the NAB Group of companies (NAB Group). They are subject to investment risk, including possible delays in repayment. You could get back less than the total contributed. No person (including the New Zealand Government) guarantees (either fully or in part) the performance or returns of the BNZ KiwiSaver Scheme or the repayment of amounts contributed. National Australia Bank Limited, the ultimate owner of BNZ, is not a registered bank in New Zealand but a licensed bank in Australia and is not authorised to offer the products and services mentioned in this report to customers in New Zealand.

BNZ Investment Services Limited uses the BNZ brand under licence from Bank of New Zealand, whose ultimate parent company is National Australia Bank Limited. No member of the FirstCape group (including BNZ Investment Services Limited) is a member of the NAB group of companies. No member of the NAB Group (including Bank of New Zealand) guarantees, or supports, the performance of any member of FirstCape group's obligations to any party.

In this document, 'we', 'us', or 'our' means BNZISL.

Scope of this report

This report has been prepared by BNZISL, the issuer and manager of the Scheme, and covers each of the funds within the Scheme.

The BNZ KiwiSaver Scheme is comprised of the following funds (collectively the 'Funds'):

- High Growth Fund
- Growth Fund
- Balanced Fund
- Default Fund
- Moderate Fund
- Conservative Fund
- First Home Buyer Fund
- Cash Fund

This report contains our current assessment of the future climate-related risks and opportunities in relation to the Scheme, for the year ended 31 March 2025. We've focused on baselining our climate risk exposure and progressing a solution to enable the capture of climate data for investments held by the Funds in the Scheme.

Operational greenhouse gas (GHG) emissions arising from BNZISL as an operating entity are not included within this report. BNZISL's operational GHG emissions for the year ending 31 March 2025 are measured as part of FirstCape's emission inventory and are considered immaterial in relation to the emissions within our investment portfolios. This report or Climate-related disclosure (CRD) comprises a set of individual climate statements for each Fund and contains BNZISL's disclosure of material information for BNZISL's 'primary users', particularly current and future investors. This report will be publicly lodged for the reporting period ended 31 March 2025 no later than 31 July 2025.

For investors, this CRD will result in more transparency around the targeted reductions in the GHG emissions of the Scheme and highlight the climate-related physical and transition risks and opportunities. Customers and investors will also have access to a broad range of climate metrics and disclosures, together with information on how we are tracking to our targets over time.

BNZISL expressly disclaims all liability for any loss (direct, indirect, consequential, or otherwise) or damage arising from the use of this CRD. As noted above, this CRD contains BNZISL's current assessment of the future climate-related risks and opportunities, which could affect its business, investments, and customers, as well as its current planning to address these risks.

This process necessarily involves estimates, projections, and assumptions about the future, which are inherently uncertain and are not forecasts or statements about the future performance of BNZISL. BNZISL has set out the basis and limitations of its analysis in this CRD and reserves the right to revisit its assumptions and assessments as it develops its understanding of both climate-related risks and opportunities, and its response to climate change.

This section should be read together with the limitations identified elsewhere in this CRD. Whether or not BNZISL meets targets or commitments contained in this CRD is subject to known and unknown risks and uncertainties and will depend on a number of factors outside of its control, including, but not limited to, governmental policy, regulatory and economic factors, and the actions of its investee companies and customers.

Cautionary note regarding forward-looking statements

This CRD contains statements that are, or may be deemed to be, forward-looking statements, including climate-related goals, targets, pathways, ambitions, related risks, and opportunities, as well as BNZISL's current planning to address related risks. By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, many of which are beyond our control and give rise to the possibility that our predictions, forecasts, projections, expectations, or conclusions will not prove to be accurate, that our assumptions may not be correct, and that our objectives, vision, commitments, goals, targets, and strategies to mitigate and adapt to climate-related

risks and opportunities will not be achieved. Many of the assumptions, standards, metrics, and measurements used in preparing this CRD continue to evolve and are based on assumptions believed to be reasonable at the time of preparation, but should not be considered guarantees. As a result, the assumptions and judgements underlying climate-related metrics are uncertain and limit the extent to which climate-related metrics are useful for decision-making. The measures and forward-looking statements in this CRD reflect BNZISL's best estimates, assumptions, and judgements (including in relation to investee companies, customer, and other third-party data over which BNZISL has no control) as at the date of the CRD, however, the uncertainty in climate-related metrics, methodologies, and modelling may lead to BNZISL changing its views in the future. Certain statements made in this CRD including in relation to climate-related scenario analysis and risk assessment use a greater number and level of assumptions and estimates and are over longer time frames than many other disclosures. These assumptions and estimates are highly likely to change over time. Certain statements in this CRD are based on hypothetical or severely adverse scenarios and assumptions, and these statements should not necessarily be viewed as being representative of current or actual risks or forecasts of expected risks. In addition, the data underlying our climate analysis and strategy is often incomplete and remains subject to change over time. As a result, we expect that certain disclosures made in this CRD are likely to be amended, updated, or restated in the future as the quality and completeness of our data and methodologies continue to improve. Forward-looking statements may also be made – verbally and in writing – by BNZISL's directors or management in connection with this CRD. Such statements are subject to the same limitations, qualifications, and assumptions set out in this CRD. BNZISL does not undertake to update any forward-looking statement, whether written or oral, that may be made, from time to time, by BNZISL or on its behalf, aside from its requirements to publish annual climate statements under the Financial Markets Conduct Act 2013.

Important information

The CRD is provided to inform readers but does not take into account any circumstances of the reader, nor should it be regarded as financial advice or earnings guidance, nor is it audited. Therefore, readers should make their own assessments and not place undue reliance on this CRD. This CRD is intended to provide information from a different perspective and in more detail than is required to be included in disclosure statements, offer documents, other securities offering materials, or regulatory reports and documents. While certain matters discussed in this CRD may be of interest and importance to our customers and other stakeholders, the use of the terms 'material', 'significant', 'important', or similar words or phrases should not be read as being equivalent to the level of materiality used for the purposes of offering securities under other laws and regulations. 'Materiality' in the context of this report refers to the definition of that term in the External Reporting Board (XRB)'s Climate Standards, which is specific to the climate-related disclosure regime.

Nothing in this CRD shall constitute, or form part of, an offer to sell or a solicitation of an offer to buy or subscribe for any security or other instrument of BNZISL, FirstCape, Harbour or BNZ or any of their affiliates or be considered an invitation, recommendation or inducement to enter into any investment activity. Furthermore, no part of this CRD shall form the basis of, or be relied upon in connection with, any contract, commitment, or investment decision. Offers to sell, sales, solicitations of offers to buy, or purchases of securities issued by BNZISL or any of its affiliates may only be made or entered into pursuant to the appropriate offering materials prepared and distributed in accordance with the laws, regulations, rules, and market practices of the jurisdictions in which such offers, solicitations, or sales may be made. Professional advice should be sought prior to making any investment decisions.

Third-party references and website references and/or links throughout this CRD are provided for convenience only, and the content on the referenced websites is not incorporated by reference into this document. Such third-party references and website references and/or links do not imply an affiliation, sponsorship, or endorsement of any party.

See the important information contained in the Appendices to this CRD, including the Glossary in Appendix 4 for a list of defined terms used in this document.

Adoption of Aotearoa New Zealand Climate Standards

The Scheme's CRD contained in this document comply with Aotearoa New Zealand Climate Standards issued by the XRB. This document includes all material disclosures in relation to the Funds. In preparing its CRDs for all Funds within the Scheme, we have elected to use Adoption provision 2, 6, 7, and 8 in Aotearoa New Zealand Climate Standard 2: Adoption of Aotearoa New Zealand Climate Standards (NZ CS 2):

- Adoption provision 2: Anticipated financial impacts NZ CS 1
- Adoption provision 6: Comparatives for metrics
- Adoption provision 7: Analysis of trends
- Adoption provision 8: Scope 3 GHG emissions assurance.

Andrew Bascand – Director  Date: 24 July 2025

Graham Ansell – Director  Date: 24 July 2025

Executive Summary

Executive Summary

BNZISL is the provider of investment products for BNZ and its customers. BNZISL investment products (referred to throughout this document collectively as our 'investment portfolio') includes the following three Managed Investment Schemes:

- BNZ KiwiSaver Scheme
- YouWealth
- Private Wealth Series.

The information in these climate statements has been presented in a structure aligned with the NZ Climate Standards that is based on four key pillars: governance, strategy, risk management, and metrics and targets. A short summary of the key disclosures under each of these pillars is provided below.

Governance

BNZISL is a wholly owned subsidiary of Harbour and part of FirstCape Group Limited, which formed on 1 May 2024. As a new evolving advice and asset management business, FirstCape has established its own governance and risk frameworks relating to climate risk reporting. Due to the changes in ownership during the reporting period, we have made amendments to the governance structure and processes to reflect the new business under FirstCape.

FirstCape organisational structure as at 31 March 2025[1]

We've continued to evolve the capability and frameworks required to produce ongoing climate-related disclosure reporting across our investment portfolio, including the Scheme. This includes the overall approach to climate-risk governance within FirstCape's asset management businesses (Harbour and BNZISL), the formation of a Responsible Investment team, changes to BNZISL Board membership, broadening the Investment Committee mandate, and changing climate third party data provider to MSCI (previously Bloomberg).

[1] Following the 31 March 2025 balance date, FirstCape has acquired all shares in Consilium NZ.

These changes have impacted the frequency of some reporting to the BNZISL Board, outlined in the previous BNZISL KiwiSaver Scheme 2024 climate statement. Updated details of reporting timing are described in the Governance section.

Strategy

Climate change is one of the most significant and pressing issues of our time, with the potential to disrupt the domestic and global economy. We're committed to understanding and reducing the risk that climate change poses to our customers and communities.

We have considered how climate change has impacted the Scheme's investments during the 2025 financial year (FY25). Using climate scenarios, we've also assessed the resilience of the Scheme's investments under different climate futures and timeframes. Climate-related risks and opportunities are considered through the drivers of both physical and transition risks and consider how the Scheme is exposed to these risks. We also consider the opportunities that are developing, both globally and domestically, through the transition to a low emission, climate-resilient future.

We have updated the approach used to assess exposure to these physical and transition risks within the Scheme and Funds using MSCI's Climate Value at Risk (CVaR) model. The changes in value are used to assess a relative higher or lower risk within three ratings (high, medium, and low). The "Orderly" and "Hothouse" scenarios were selected to show the extent of outcomes possible from this model.

Our risk assessment identified that the Fund with the highest potential change in value is the High Growth Fund with a potential 10.20% reduction in value of the Fund due to exposure to transition risk in a 1.5°C scenario. This is driven by a larger weighting toward companies in higher emitting sectors (materials, utilities, and transportation). The top three contributing companies are in the materials and utilities sectors and all three companies have net zero targets.

Risk management

Climate-related risks are considered alongside market, asset allocation, liquidity, and manager risks throughout our investment process. For our risk assessments and reporting we define climate-related risks as the potential risks that arise from the current and anticipated impacts of climate change, including GHG emissions reduction efforts by investee companies.

BNZISL applies both a top-down and bottom-up approach to oversight, identification, and assessment of climate-related risks for each Fund within the Scheme. The key aspects of this approach are as follows:

1. Oversight including risk appetite, integration of climate risks, and external manager selection.
2. Identification which includes physical and transition risk assessments, climate scenarios, sector exclusions, and external manager approach to integrating climate into investment decisions.
3. Assessment including ongoing review and reporting.

Key metrics

BNZ KiwiSaver Scheme	Funds Under Management NZD mn	Total carbon emissions tCO_2e (scope 1 and 2 emissions)
As at 31 March 2025		
High Growth Fund	252.0	4,401.13
Growth Fund	1,896.7	60,322.95
Balanced Fund	915.4	39,170.95
Default Fund	755.0	32,099.50
Moderate Fund	817.8	40,842.41
Conservative Fund	899.1	52,954.37
First Home Buyer Fund	370.4	14,281.77
Cash Fund	348.0	331.18
Total	6,254.4	244,404.26

Targets – BNZ KiwiSaver Scheme – Progress against targets

2030 target	Progress as at 31 March 2025	Tracking
Net zero alignment – absolute target At least 70% of our financed emissions in material sectors* are either assessed as 'net zero aligned' or 'aligning with a net zero pathway'.	44.3%	On track
Stewardship – absolute target At least 60% of our financed emissions in material sectors are: a) the subject of stewardship actions b) invested with external investment managers that have credible net zero plans for their portfolios.	a) 30.2% b) 72.3%	On track
Climate solutions – absolute target Identify and allocate capital to climate solutions, targeting 10% of our actively managed FUM	3.8%	More to do
Emissions reduction – intensity target Meet or exceed a 50% reduction in our WACI of financed emissions across our entire portfolio from our 2019 baseline.	54.7%	Exceeding

* Material sectors are energy, materials, utilities, and transport. See Targets section for more information.

Governance

Governance

As noted in the 2024 Climate Disclosure statements, BNZISL ceased to be owned by BNZ from 1 May 2024.

Following the change in ownership, we have made amendments to the governance structure, risk management and data processes to reflect the new business under FirstCape and the overall approach to climate-risk governance within FirstCape's asset management business (Harbour and BNZISL). These changes include:

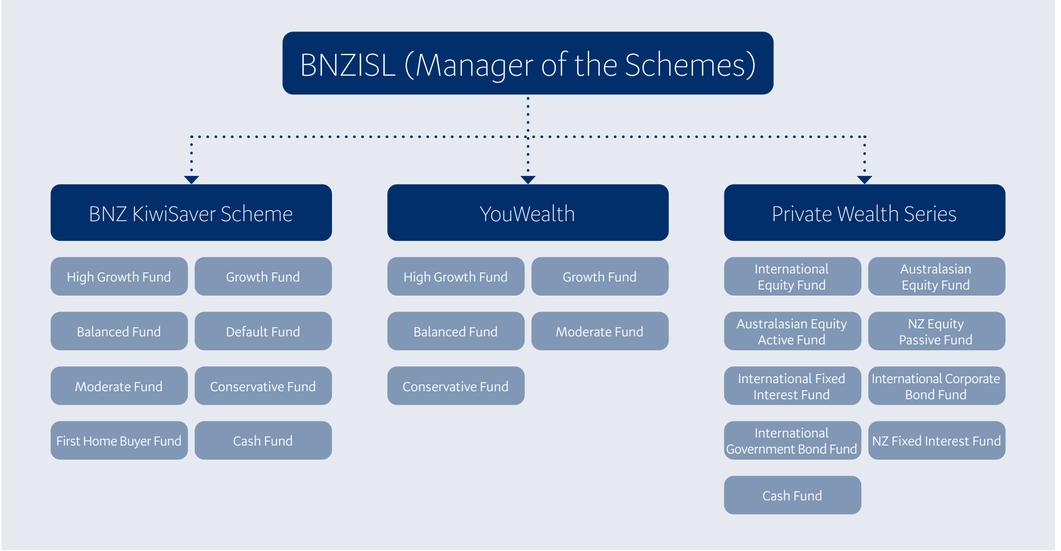
- Formation of a responsible investment team accountable for implementing responsible investment strategy (including our approach to managing climate impacts) across the Harbour and BNZISL asset management business which includes the BNZISL schemes
- Changes to BNZISL Board membership – replaced one independent Director. Broadened the Investment Committee mandate to include Harbour and BNZISL (previously BNZISL only)
- We replaced our external asset consultant with the Harbour Global and Multi Asset Investments team with oversight and approval provided by the Investment Committee
- Changed our climate third party data provider to MSCI[2].

These changes have impacted frequency of some reporting to the BNZISL Board outlined in the BNZ KiwiSaver Scheme 2024 climate statement. Updated details of reporting timing are described in this section and Metrics and Targets sections.

Governing body

BNZISL is the manager of the BNZ KiwiSaver Scheme. The BNZISL Board is the governing body with ultimate responsibility for oversight of climate-related risks and opportunities for the Scheme. The Funds within each of the schemes managed by BNZISL are illustrated in Figure G.1 below:

Figure G.1 – Managed Investment Schemes and Funds managed by BNZISL



BNZISL is reliant on its parent company (Harbour) to resource (including employees) BNZISL for the day-to-day management of the Scheme. This includes overseeing the implementation of climate strategy for the Scheme (see the Management responsibilities section on page 11 for more information). The BNZISL Board oversees and evaluates BNZISL's business strategy, policies, and business performance and has overall accountability for ensuring risk and opportunities in relation to climate are identified, managed, and disclosed in relation to each of the registered Managed Investment Schemes that BNZISL manages.

[2] Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates ("MSCI"), or information providers (together the "MSCI Parties") and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential, or any other damages (including lost profits) even if notified of the possibility of such damages.

The BNZISL Board is accountable for approving the climate-related disclosures of the Scheme. There are currently no key performance indicators included in the performance measurement of the non-executive BNZISL Board members.

The BNZISL Board meets at least six times annually and receives a quarterly responsible investment update which includes climate-related topics as relevant.

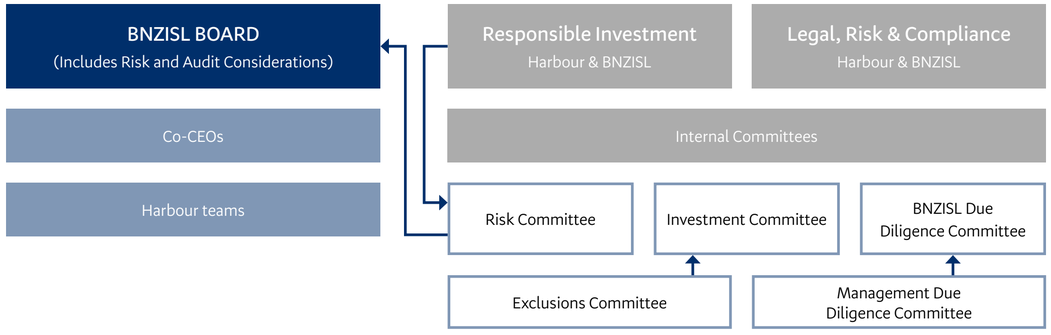
Information related to the BNZISL investment portfolio is provided to the BNZISL Board by the Investment Committee, through a summary covering meeting minutes and escalation of matters at least quarterly, and as needed. The Investment Committee meets at least once a quarter (the role of the Investment Committee is explained in the box below). The Investment Committee agenda is developed by Harbour Management and includes regular climate reporting updates.

Reporting on progress toward our interim targets was provided to the Board in July 2024. Post this date we changed climate data providers, and we will provide a further update in July 2025. From May 2025 we will report on BNZISL emissions to the Investment Committee on a quarterly basis. The BNZISL Board receives an annual update on our progress toward our interim targets, and we will increase this to semi-annual in 2025. The BNZISL Board ensures climate risks and opportunities are integrated into the investment strategy of the Scheme through the Statement of Investment Policy and Objectives (SIPO), which refers to the BNZISL Responsible Investment Policy (RI Policy).

The climate risk assessment framework (discussed in more detail in the Risk Management section below) has been updated to reflect a change in our third-party climate data provider post the change in ownership. This will provide ongoing support in monitoring climate-related risks. Once the climate risks are identified and assessed, the Investment Committee will decide upon an appropriate risk response.

The Governance oversight and flow of information related to climate-related risks and opportunities to the BNZISL Board is illustrated in Figure G.2.

Figure G.2 – Governance oversight



Skills and expertise

The BNZISL Board endeavours to ensure that there is an appropriate balance of relevant expertise, shareholder representation, experience, diversity, and independence to promote the sound governance of BNZISL. BNZISL has an individual skills assessment which includes an assessment of governance skills in relation to climate. This assessment is completed annually as part of an overall Review and Evaluation programme. The Board has the ability to seek external advice where appropriate, including matters pertaining to environmental issues.

In 2025, there was one Director education session which included climate-related topics, and one Board induction session for new Board members which included an overview of our approach to climate. There are two climate-related sessions included in the Board work programmes. FY26 climate-related topics will cover current trends and director obligations and will be delivered by internal and external subject matter experts.

The RI Policy is referred to in the SIPO and is reviewed at least annually. It is subject to a due diligence process involving Harbour Management. The RI Policy highlights key themes (such as approach to active ownership), it contains exclusions in relation to certain sectors, and highlights the intent to have both active stewardship and engagement across the industry. The RI Policy and any updates to it are approved by the BNZISL Board.

The BNZISL Board approved a Climate Action Plan that outlines our climate targets and actions and is included in the RI Policy. The Climate Action Plan outlines four targets (net zero alignment, stewardship, climate solutions, and emissions reduction). Further details of the Climate Action Plan commitments can be found in the Strategy section of this Report.

Investment Committee: The purpose of the Investment Committee is to assist the Boards of both Harbour and BNZISL in discharging their respective responsibilities relating to managed investment schemes managed by Harbour or BNZISL. This includes the review of investments, oversight of investment risk, and maintenance of adequate and effective procedures to monitor scheme assets to ensure the limits and asset allocations are adhered to at all times. It also includes consideration and oversight of responsible investment.

Management Due Diligence Committee (MDDC): Responsible for reviewing and approving the SIPO and Scheme's risk appetite, but not the CRD. The MDDC convenes meetings monthly (the frequency can be amended, as needed, by the Chair).

Management responsibilities

Climate change initiatives relating to our investments are the responsibility of our Responsible Investment (RI) team who work closely with Harbour's internal teams and the external managers. As noted above, BNZISL relies on Harbour for day-to-day resourcing. The RI team consists of the Senior Manager, Responsible Investment, and the Manager of Environmental, Social, and Governance (ESG) Research.

The Harbour Responsible Investment team is responsible for the development of responsible investment commitments and obligations and support for business growth through new ESG-based products and opportunities. In relation to climate this includes:

- Delivery of the BNZISL and Harbour internal review of engagement and policy advocacy, including fund manager assessment, engagement, and stewardship.
- Management and monitoring of climate related risks and opportunities including delivery of climate related disclosures.
- Updates and recommendations to the Investment Committee about climate-related risks and opportunities, managing the risk framework, and signal monitoring (pertaining to climate-related risks and opportunities).
- Quarterly updates to Board relating to climate initiatives, climate education sessions as well as ad hoc updates at scheduled Board meetings as needed. The RI team also manages the Exclusions Committee meetings. The Exclusions Committee reviews and approves sector and security exclusions for the Scheme. All decisions are reported to the Investment Committee.

External parties

Relevant external parties involved in developing and implementing of BNZISL's climate strategy with respect to the Scheme are as follows.

External investment managers

BNZISL has delegated certain investment functions in respect of the Scheme to various external investment managers. The appointment of external managers is approved by the Investment Committee, based on recommendations from the Global and Multi Asset Investments team. ESG considerations, including climate, are a key part of the external manager assessment process. Each external investment manager is appointed under an Investment Management Agreement (IMA) and is authorised to invest the assets of the Scheme only in accordance with the terms of the IMA (which is set by BNZISL). Each manager's performance is tracked against a specified benchmark (which will be specific to each IMA).

The external managers are responsible for integrating climate considerations into the funds they manage according to the respective investment guidelines and ESG policy. The investment mandate within each IMA also requires the external investment manager to implement the specific exclusions identified in the RI Policy.

Each IMA in respect of an active external investment manager specifies that ESG factors must be considered when making investment decisions. As part of the implementation of our net zero targets, all of our external manager mandates have been updated to include BNZISL's ambition for its investment portfolio to be net zero by 2050 and the support required from each manager.

Supervisor

In relation to climate risk management, the Scheme's Supervisor (The New Zealand Guardian Trust Company Limited) monitors BNZISL's compliance with its RI Policy, which contains sector exclusions. The Supervisor of the Scheme is kept informed when an external investment manager changes.

Custodian

The Scheme's custodian (BNP Paribas) performs end-of-day sector exclusion compliance checks which include a number of fossil fuel exclusions.

Strategy

Strategy

Our investment strategy and approach

BNZISL decides how to invest the assets of the investment products made available through BNZ. It does this by appointing underlying investment managers that select the investments for each asset class with regular monitoring of performance (see our Governance and Risk Management sections for more information) by Harbour Management and the Investment Committee. In addition to our external investment managers, our key partners include BNZ, our Supervisor, Custodian, Fund Administrator, and Registry Provider.

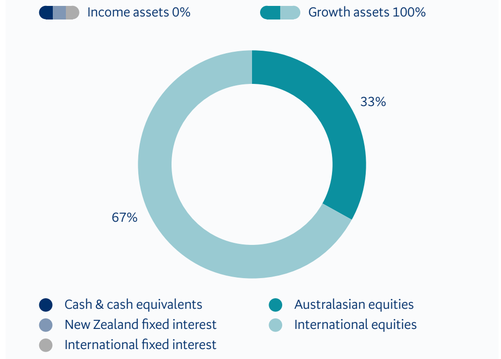
Our vision is to deliver high quality, value-for-money wealth products for BNZ customers. We want to help customers grow their investments for retirement or to buy their first home, while managing all risks and opportunities within the portfolio including those that impact on the environment and our communities. We're committed to investing responsibly, recognising that this is in the best long-term interests of BNZ customers.

The Scheme's investment approach is illustrated in Figure S.1 below and shows the asset classes we invest in and the mix of investments for each Fund that we consider appropriately reflects its risk profile. Each of the Funds in the Scheme, except the Cash Fund and the High Growth Fund, is invested in a mix of equity, fixed interest, and cash assets. The Cash Fund is 100% invested in cash and cash equivalents. The High Growth Fund is invested in a mix of Australasian and International equities. Depending on the asset class, we use a blend of passive and actively managed strategies. This allows us to provide a range of cost-effective fund options that give access to investments that are diversified across a range of industry sectors and regions.

Figure S.1 – Investment approach

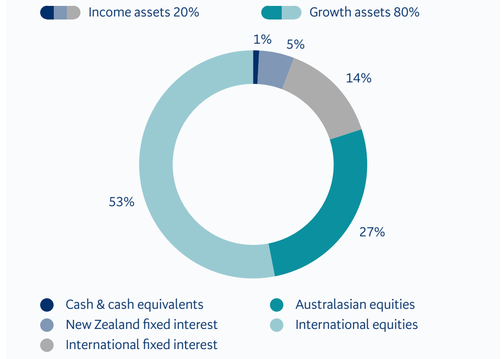
BNZISL revenue comes from the annual fee relevant to the respective Fund shown below. Costs to KiwiSaver members include the annual fee and any relevant buy/sell spreads.**

High Growth Fund



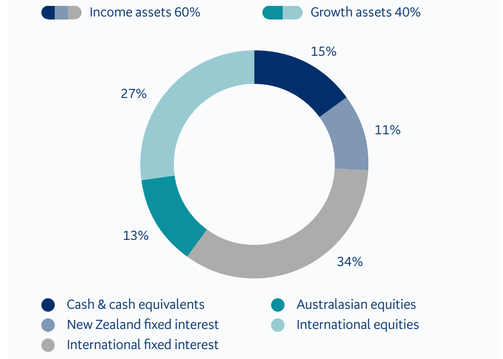
Annual fee: 0.45%

Growth Fund



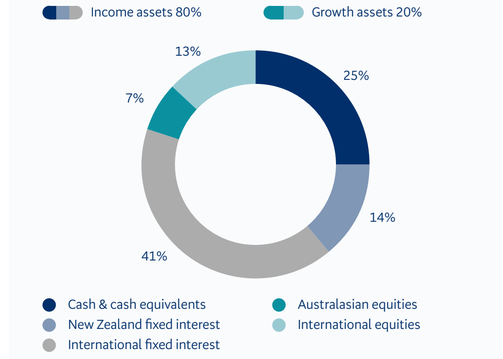
Annual fee: 0.45%

Moderate Fund



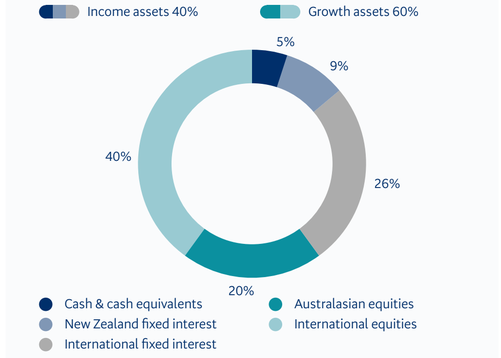
Annual fee: 0.45%

Conservative Fund



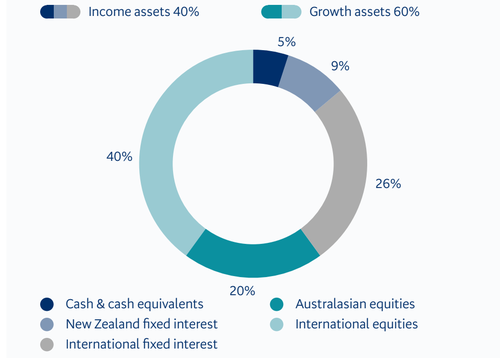
Annual fee: 0.45%

Balanced Fund



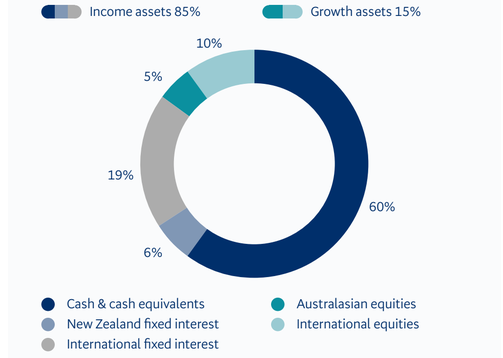
Annual fee: 0.45%

Default Fund



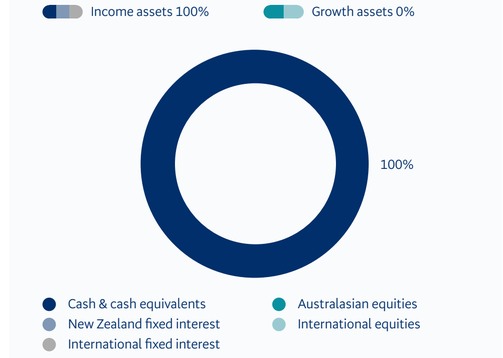
Annual fee: 0.35%

First Home Buyer Fund



Annual fee: 0.45%

Cash Fund



Annual fee: 0.30%

* Target investment mixes are shown above with allowable investment ranges disclosed in the SIPO.
**Buy and sell spreads are an adjustment to the unit price of a Fund, which reflects our estimate of the costs that a Fund incurs when it buys and sells assets. Buy and sell spreads are applied whenever you make a change which requires you to buy or sell units in our Funds, such as making contributions, switching between Funds, making a withdrawal, or closing your account.

BNZ KiwiSaver Scheme investment managers	
Asset class	Investment manager
Cash and cash equivalents	Harbour Asset Management Limited
New Zealand fixed interest	Harbour Asset Management Limited
International fixed interest	Threadneedle Asset Management Limited
	State Street Global Advisors, Australia, Limited
Australasian equities	Harbour Asset Management Limited
International equities	State Street Global Advisors, Australia, Limited

Our business model and investment approach allow us to manage climate risk and opportunities across our entire investment portfolio, including the Scheme, and is strongly linked to our vision to deliver sustainable long-term returns for our customers.

Climate change presents challenges through risks that may impact the value of the investments in the Scheme and also presents opportunities to invest in sectors or investee companies that are allocating capital to either new technology or infrastructure that generates growth through new revenue streams.

Climate-related risks

Understanding the extent of climate-related risk is a complex challenge, especially for investors who are often exposed to the entire economy through investments across multiple sectors and geographies. This section describes our current assessment of how climate change has impacted the Scheme's investments during the 2025 financial year (FY25). Using climate scenarios, we've also assessed the resilience of the Scheme's investments under different climate futures and timeframes. Climate-related risks and opportunities are considered through the drivers of both physical and transition risks and consider how the Scheme is exposed to these risks. We also consider the opportunities that are developing, both globally and domestically, through the transition to a low emission, climate-resilient future.

Climate risk consists of two key elements:

1. Physical risk

Economic activities are impacted by the physical aspects of climate change due to their significant dependence on the natural environment. This type of risk manifests through either an acute event (such as flooding or wildfires) and chronic risk or longer-term shifts in climate (such as an increase in temperature). Chronic risks arise from incremental changes and usually take longer to materialise, with impacts likely to be much more pervasive.

2. Transition risk

Transition risk materialises through a company's and/or country's readiness to transition to a low-carbon economy. These include policy, legal, technological, and market changes in response to mitigating and adapting to climate change. Carbon-intensive companies are more likely to be impacted by the transition to a low-carbon economy, however, the demand for raw materials and new climate regulations will mean almost every sector and geography will be impacted.

Investee companies' preparation for both physical and transition risks will be influenced in part by the physical location of their assets, together with the transition policies impacting their sector. Sectors with higher levels of GHG emissions, such as energy, are at high risk of suffering climate-related losses, as policies aimed at curbing emissions and facilitating the transition to a low-carbon economy create more significant risks to such carbon-intensive industries.

We have updated the approach used to assess exposure to these physical and transition risks within the Scheme and Funds using MSCI's Climate Value at Risk (CVaR) model. This metric calculates the present value of each investee company's future costs (and profits) due to physical hazards and transition risks and opportunities under different global warming scenarios and is reflected as a potential impact to the value of the Scheme or Fund. The percentage changes are used to assess a relative higher or lower risk within each of the three ratings (see Risk Management section for more details). The "Orderly" and "Hothouse" scenarios were selected to show the extent of outcomes possible from this model.

Network for Greening the Financial System (NGFS) latest version (NGFS Phase 5) has been updated with a new damage function (see glossary for description) and has noted "the expected economic impact of unabated climate change has significantly increased"[3]. Implementation of the new damage function within NGFS models has seen the projected physical risk impact quadruple by 2050 in some scenarios. They also noted "in all scenarios, the impact of physical risk rapidly outweighs the impact of transition efforts". The update to NGFS phase 5 is a positive step, however, some scientists suggest that it may understate the impacts of global warming especially in a 3°C scenario – the models do not include tipping points which could see significant impacts and could be triggered at much lower levels of warming. MSCI climate scenario models currently align with NGFS Phase 4 scenarios. Table S.3 below also uses NGFS Phase 4 related data. It is expected that these will be updated to the NGFS Phase 5 in the near future.

Based on recent scientific commentary, we assumed the physical risks may have been understated when we were considering our scenarios and have implemented a number of signals (as noted below in the Scenario section) to monitor physical climate impacts. We have also included a risk status in our key climate risks table below reflecting our view that climate related physical risks are increasing. Please see Appendix 1 for more details on the CVaR methodology used for this assessment.

Our risk assessment identified that the Fund with the highest potential change in value is the High Growth Fund with a potential 10.20% reduction in value of the Fund due to exposure to transition risk in a 1.5°C scenario. This is driven by a larger weighting toward companies in higher emitting sectors (materials, utilities, and transportation). The top three contributing companies are in the materials and utilities sectors and all three companies have net zero targets. We will continue to engage with these companies regarding their progress and any challenges in meeting their targets. Progress toward reducing emissions will reduce transition impacts and we expect to see the exposure reduce as progress is made.

Table S.1 – Climate Value at Risk for the Scheme and Funds

Fund	Transition 1.5° Policy	Transition 1.5° Technology	Transition 3° Policy	Transition 3° Technology	Physical 1.5°	Physical 3°
BNZ KiwiSaver High Growth Fund	-10.20%	3.40%	-2.10%	0.30%	-2.70%	-5.60%
BNZ KiwiSaver Growth Fund	-9.80%	3.10%	-1.90%	0.30%	-2.50%	-5.20%
BNZ KiwiSaver Balanced Fund	-9.20%	2.10%	-1.80%	0.30%	-2.30%	-4.80%
BNZ KiwiSaver Default Fund	-9.20%	3.00%	-1.80%	0.30%	-2.20%	-4.80%
BNZ KiwiSaver Moderate Fund	-8.50%	2.50%	-1.60%	0.20%	-2.00%	-4.20%
BNZ KiwiSaver Conservative Fund	7.10%	1.90%	-1.20%	0.20%	-1.60%	-3.30%
BNZ KiwiSaver First Home Buyer Fund	-7.80%	2.30%	-1.40%	0.20%	-1.90%	-3.90%
BNZ KiwiSaver Cash Fund	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

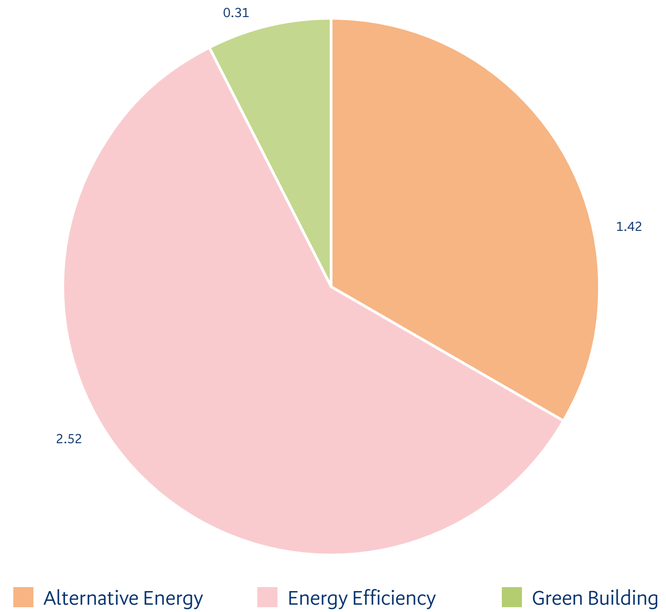
[3] NGFS Climate Scenarios for central banks and supervisors_Phase V_7_pdf (1).pdf

Climate-related opportunities

Organisations that provide goods and services that enable or accelerate the climate transition (e.g. electric battery components) or companies that are well placed to navigate the complexities of transitioning away from fossil fuel reliance (e.g. electricity providers investing in renewable energy) may provide investment opportunities. Assessing these opportunities within the Scheme is done at an investee company level and aggregated at the Scheme level.

Climate opportunities – This metric captures the proportion of the Scheme that is exposed to companies that have revenue aligned to the following three climate themes: alternative energy, energy efficiency, and green buildings. Figure S.2 shows that the Scheme has just over 4% of its Funds Under Management (FUM) invested in the three climate themes. Further information on the methodology of this metric is provided in Appendix 2.

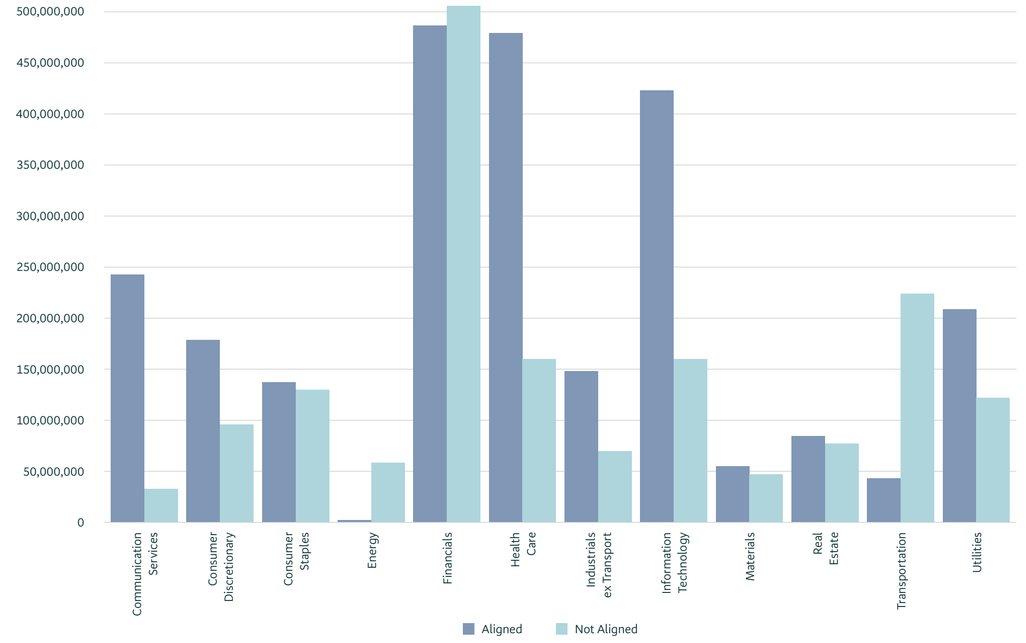
Figure S.2 – Scheme Green revenue exposure



Transition – carbon emissions reduction target. This metric captures companies that have claimed science-based GHG emissions targets that align with the goals of the Paris Agreement to limit warming to well below 2°C above pre-industrial levels, or, has a committed or validated SBTi net zero status. This measure is also used to measure our net zero alignment metric in our climate action plan (for material sectors only).

Investment in companies that are aligned or aligning to net zero pathways (shown as 'Aligned' in Figure S.3 below) was NZD 2.5 bn, which is 43% of the total amount that has been invested in the scheme (excluding derivatives and cash).

Figure S.3 – Net zero alignment



The net zero alignment interim targets expressed in our Climate Action Plan are focused on investing in opportunities as described above for the material sectors only. See the Transition plan aspects of BNZISL's strategy section below and the Metrics and Targets section for more details on our Climate Action Plan.

Current impacts

We have considered how climate-related events have impacted on our investment portfolio (including the Scheme) over the last 12 months. These impacts remain largely unchanged from 2024; in 2025 we have included the ESG backlash and the impact of the US tariff policies on investment and how that is impacting supply chains relating to investment in the energy transition.

Quantifying financial impacts of climate related events throughout 2024 is challenging. This is largely due to the lack of specific climate related financial data or the ability to isolate climate impacts on a company share price or asset values. We have quantified the impacts to the Scheme where data is available. To quantify the financial impacts, we have considered our fossil fuel exclusions and significant holdings in companies exposed to the impacts in Table S.2 below.

Table S.2 – Current physical and transition impacts identified for the Scheme

Event	Event type	Geography	Financial impact[4]	Impact description
ESG Backlash	Transition – policy	Global	0.11%	In 2024 we saw a growing ESG backlash, predominantly driven by developments in some US states. While a number of policies were not enacted until after the 31 March 2025 Scheme balance date, the ESG backlash was evident after the 2024 US election result. We saw a number of banks and investment managers withdrawing from net zero alliances and some corporates walking back near term or net zero targets. Expectations that the Trump administration would remove a number if not all of the Inflation Reduction Act tax credits (and the subsequent changes made in May 2025) saw a reduction in share prices for companies associated with the energy transition. We assessed the overall (i.e. not specific to climate impacts) performance of companies who withdrew from net zero commitments or were highly exposed to the energy transition where we had greater than NZD 1 million invested. No companies in this group had a negative performance over the prior 12 months and the overall impact was a small positive increase in performance.
			0.09%	We also assessed the impact of our fossil fuel exclusions as the backlash has seen support in some countries to expand extraction and production of oil and gas in the US and other jurisdictions continue to bring new fields online. The impact of these exclusions on the performance of the Scheme was a small positive increase in performance.
Advancements in technology supporting renewable energy and electrification	Transition – technology and policy	China	0.06%	During 2024 there has been significant investment in new technologies that support the energy transition, largely led by China. Costs to develop solar farms have become more competitive compared with wind farms and fossil fuels, and battery technology has improved. There is an expectation that battery storage costs will become affordable over the next two years (albeit there are differences between countries), paving the way for renewable energy to be a reliable energy source. Battery technology has also improved for the heavy transport sector and a recent announcement by Contemporary Amperex Technology Limited (CATL) noted that EVs will outsell combustion heavy-duty trucks in China by 2028 (note that the Scheme had less than 1 million invested in CATL). Investment in low carbon alternatives and carbon capture and storage technology in the steel and aluminium industry continued in 2024, while not yet commercial, high emitting companies in the portfolio are investing alongside governments into promising solutions. We assessed the performance of companies with holdings in the scheme greater than 1 million investing in these technologies. No companies in this group had a negative performance over the prior 12 months and there was a small positive increase in overall performance.

Continued...

[4] Note the change in performance may not be directly attributed to climate. These figures are estimates based on internal analysis using available data.

Table S.2 – Current physical and transition impacts identified for the Scheme (Continued)

Event	Event type	Geography	Financial impact[4]	Impact description
Climate regulation and reporting	Transition – policy	EU, Australia	N/A	In 2024 we saw the introduction of mandatory climate reporting for the European Union and Turkey and for certain companies in Switzerland. Mandatory climate reporting for Australia started on 1 January 2025 for some entities and is being rolled out over the next two years. Certain Chinese companies are also expected to report in 2026. The only estimation of compliance costs is from New Zealand NZX listed companies which was between NZD 250,000 to 300,000. As more countries implement mandatory climate reporting, we expect better emissions data and a focus from investment managers on companies' transition plans.
Insurance impacts	Physical – acute	Global	0.22%	Global Insurers paid out between USD 135 – 154 billion in 2024 depending on re-insurer source of estimates[5][6]. Earth Org estimated that there were USD 402 billion in weather and climate related losses with only USD 151 billion covered by insurance. A greater proportion of losses are covered by government sponsored insurance entities. Risk based insurance policy pricing and government sponsored insurance entities are offsetting impacts from either insurance withdrawal or a reduction in insurance availability. This means we are not yet seeing impacts in the broader economy or impacts on the insurance companies we are invested in. We assessed insurance companies in the Scheme exposed to this risk (general insurers and reinsurance companies). No companies in this group had a negative performance over the 12 months and there was a small positive impact to the Scheme's performance.
Global supply chain pressure	Transition – policy	Global	0%	The tariffs proposed by the Trump administration started to impact share markets before the announcement on 2 April 2025. A significant portion of the rare earths, inputs to solar panels, batteries, wind turbines, and electric vehicles are from China which was expected to and subsequently did receive much higher tariffs than other countries. This appears to have led to stockpiling, resulting in little change in shipping revenues or a reduction in trade. What was evident was a pause in capital investment in large projects due to the uncertainty. We assessed a number of companies in the renewable energy and mining sectors, and four of the companies assessed had an overall negative performance over the 12 months (less than 0.05%). The net impact to the Scheme across all the companies we assessed was close to zero. The companies assessed under the ESG backlash impact were also assessed under global supply chain pressures.

[5] Natural Catastrophe and Climate Report: 2024
[6] Insured Losses From Natural Disasters Hit $140B as Climate Change 'Shows Its Claws'

Scenario development overview

We use climate-related scenario analysis to assist in the identification of risks and opportunities impacting our investee companies and to test the resilience and agility of our strategy. Scenario analysis involves the preparation of multiple plausible and challenging future scenarios including potential future physical, regulatory, and market developments. BNZISL has used three climate-related scenarios to understand how climate change may affect its investment portfolio (including the Scheme and the Funds) and overarching business model. These scenarios remain consistent with the investment services sector level work led by the New Zealand Financial Services Council, and we have adopted its output as a base.

While this process is a standalone qualitative approach, the approach and chosen scenarios have been reviewed in 2025 by Harbour's Leadership team and an update provided to BNZISL's Board to ensure awareness of climate impacts to our investment strategy.

As part of the review by Harbour management, there were some minor changes to the drivers within each of the scenarios and the signals used to monitor the scenarios have been updated with market-based signals including monitoring of green and fossil fuel indices. The additional signals will be included in the monitoring in 2025.

We have not explicitly considered carbon sequestration from afforestation and nature-based solutions, or other carbon negative technologies in our scenario development and analysis.

The three scenarios

The three scenarios we analysed are summarised below:

Net zero by 2050

- An emissions reduction pathway is established to limit warming to no more than 1.5°C.
- Transition to a low-emissions economy is rapid.

Under this scenario, the world is working through a period of rapid transformation into a low-emissions economy limiting the global temperature increase to 1.5°C. This is overshadowed by transition risks, causing uncertainty over financial outcomes at both a sector and individual company level. In 2030, climate disclosures were mandatory in 100 countries and government policy globally was focused on incentivising technology advancements that support climate solutions, removing the remaining subsidies for fossil fuels and putting trade mechanisms in place to encourage GHG emissions reductions globally.

The world is in an era of revolutionary change across industries and geopolitical landscapes. Action toward reducing emissions is prioritised over offsets. Demand for lithium and other rare earth minerals is increasing quickly, driving pivots in wealth and power across economies. Innovation and change are prevalent across industries, and consumer demand is driving capital to industries focused on environmental and social outcomes. The opportunities to invest in technology supporting the energy transition such as Battery Energy Storage System (BESS) and carbon capture are extensive.

Despite this change, every 0.1°C increase in warming results in a new level of physical impacts. Water security, rising sea levels, and access to finance and insurance for these impacted areas has become a challenge. Progressive cities have invested in adaptation to meet these challenges, while others are facing severe fiscal pressure and increased borrowing to meet the cost of large infrastructure repair.

Unprecedented damage from weather events has driven consumers to demand immediate change from governments, as well as an expectation from financial institutions to direct capital primarily to businesses focused on delivering environmental and social outcomes, alongside financial returns.

Too little too late

- Global temperature increase is anticipated to reach 2°C by 2100.
- Climate transition and physical risks are high.

Under this scenario, a 2°C temperature increase is looming. Ecological and social tipping points have brought abrupt climate shifts that drive tighter global policies, requiring financial professionals to react and adapt to increasingly complex challenges. Some developed nations are early adopters and have strong trade mechanisms in place to incentivise GHG emission reductions, others are slow to implement the policy needed to respond to climate change, and technology innovation is closely guarded.

Global GHG emissions begin a discernible downward trajectory; however, the global carbon reduction was not sufficient to meet net zero ambitions and the 1.5°C budget was exceeded in 2035. The visible impacts from extreme weather events prompted political shifts globally to contain warming to an adaptable level. Worsening air quality and disease have put pressure on the healthcare sector. Climate extremes have increased food insecurity and extreme weather events are causing supply chain disruptions.

In the 2030s, Europe introduced carbon pricing for most of its imports. Demand for a climate-skilled workforce is also high. In the 2040s technology reshaped transport infrastructure, reopening transport routes, and energy efficient cooling demand soared to combat the extreme heat. In the agricultural sector, as vital food crops vanish, New Zealand emerges as a centre of agricultural innovation and will pioneer the development of heat-resistant crops designed to weather the storm of a changing climate.

Societal pressure to combat climate change has intensified greenwashing activity, with many organisations exploiting societies' demand for climate solutions. However, organisations with a genuine commitment to sustainability have focused on substantive change and compliance. Throughout the 2030s and 2040s the financial system is impacted by the weight of unaffordable insurance premiums.

Hothouse world

- Global temperature has increased by 3°C by 2050.
- Climate transition has failed and physical risks are high.

Under this scenario, the planet is in the grip of a climate crisis. A 3°C temperature increase by 2050 has magnified physical risks and is impacting ecosystems that underpin the economy. Developed nations are abandoning climate policies driven by rising inflation and geopolitical turmoil.

The early 2030s brings a total collapse of low-lying coral reefs and dependent fisheries, traditional crop areas are collapsing, and livestock is struggling. The early 2040s saw the emergence of tipping points, evidence of the collapse of the Atlantic Meridional Overturning Circulation (AMOC) is materialising, meaning abrupt temperature shifts are evident. Sudden cooling grips the UK and Europe. Both regions are also suffering from long periods of drought with agriculture productivity plummeting. Storm activity intensifies across North America with mega-cyclones now a common occurrence. Countries are turning inward to protect diminishing resources from climate refugees.

The escalating demand for cooling solutions leads to an unprecedented shift toward energy requirements for cooling systems to provide habitable living areas, resulting in soaring energy prices. The need for adaptation brings innovative solutions for drinking water and inner-city farms with desalination technology filling the gap left by drought-ridden rivers and lakes. In the 2040s, increased physical risks and ongoing extreme events saw the withdrawal of the insurance markets from climate-driven events. Global trade and financial markets struggle, impacting investment incomes, and many households are being pushed into poverty. Governments attempting to intervene through monetary policy are having little impact. This results in equity markets plummeting and credit spreads widening to levels significantly higher than the global financial crisis. Currency market moves are extreme.

Table S.3 – Characteristics of scenarios considered for the Scheme

	Net zero by 2050	Too little too late	Hothouse world
Global climate and socio-economic pathways	Intergovernmental Panel on Climate Change (IPCC)[7] SSP1-1.9	IPCC SSP2-4.5	IPCC SSP5-8.5
Global energy and emission pathway parameters	NGFS Net zero 2050 International Energy Agency (IEA) Net zero emissions by 2050	NGFS National Determined Contributions (NDCs) IEA Announced Pledge Scenario (APS)	NGFS Current Policies IEA Stated Policies Scenario (STEPS)
Emissions pathways	Net emissions: • Domestic: 47 $MtCO_2e$[8] by 2030, 3.8 $MtCO_2e$ by 2050 Climate Change Commission (CCC) • Global: NGFS Net Zero by 2050 25.9 $BtCO_2e$ by 2030, -294.82 $MtCO_2e$ by 2050 using Global Change Analysis Model GCAM5.3+ (NGFS)	Net emissions: • Domestic: 57 $MtCO_2e$ by 2030, 22 $MtCO_2e$ by 2050 (CCC) • Global: NGFS National Determined Contributions (NDCs) 35.1 $BtCO_2e$ by 2030, 26.7 $BtCO_2e$ by 2050 using GCAM5.3+ (NGFS)	Net emissions: • Domestic: 62 $MtCO_2e$ by 2030, 35 $MtCO_2e$ by 2050 (CCC) • Global: NGFS current policies (Hothouse) 38.6 $BtCO_2e$ by 2030, 34.3 $BtCO_2e$ by 2050 using GCAM5.3+ (NGFS)
Renewable energy pathways	Percent of renewable electricity of total electricity produced: • Domestic: 94% by 2030, 100% by 2050 (CCC) • Global: 61% by 2030, 88% by 2050 (IEA) Percent of renewable energy of total energy produced: • Domestic: 55% by 2030, 90% by 2050 (CCC) • Global: 30% by 2030, 67% by 2050 (IEA)	Percent of renewable electricity of total electricity produced: • Domestic: 94% by 2030, 98% by 2050 (CCC) • Global: 46% by 2030, 71% by 2050 (IEA) Percent of renewable energy of total energy produced: • Domestic: 50% by 2030, 80% by 2050 (CCC) • Global: 19% by 2030, 37% by 2050 (IEA)	Percent of renewable electricity of total electricity produced: • Domestic: 93% by 2030, 94% by 2050 (CCC) • Global: 42% by 2030, 60% by 2050 (IEA) Percent of renewable energy of total energy produced: • Domestic: 48% by 2030, 61% by 2050 (CCC) • Global: 16% by 2030, 26% by 2050 (IEA)
Economic impacts[9]	Gross Domestic Product (GDP) (GDP % change due to chronic physical risk, acute impacts are excluded from this figure and would further negatively impact GDP). • Global: USD 176 tn (-1.2%) in 2030, USD 289 tn (2.0%) in 2050 (NGFS) • NZ: NZD 330 bn (-0.5%) in 2030, NZD 485 bn (-0.7%) in 2050 (NGFS)	GDP (GDP % change due to chronic physical risk, acute impacts are excluded from this figure and would further negatively impact GDP): • Global: USD 175 tn (-1.6%) in 2030, USD 274 tn (-5.1%) in 2050 (NGFS) • NZ: NZD 329 bn (-0.7%) in 2030, NZD 477 bn (-2.3%) in 2050 (NGFS)	GDP (GDP % change due to chronic physical risk, acute impacts are excluded from this figure and would further negatively impact GDP): • Global: USD 175 tn (-1.6%) in 2030, USD 273 tn (-5.7%) in 2050 (NGFS) • NZ: NZD 329 bn (-0.7%) in 2030, NZD 475 bn (-2.6%) in 2050 (NGFS)
Reason for selection	Aligns with BNZISL Net zero climate ambition. Meets XRB's requirement for a 1.5°C aligned scenario. Aligns with scenarios selected by FSC and used by fund managers globally.	Aligns with FSC scenario selection and broader financial sector scenarios. Medium levels of physical and transition risks are plausible and consistent with a disruptive and disorderly scenario.	Aligns with scenarios selected by FSC and used by fund managers globally. Meets XRB's requirement for a 3°C or greater scenario. Extreme scenario used to challenge or stress test strategies.

[7] The Intergovernmental Panel on Climate Change (IPCC) is the United Nations (UN) body for assessing the science related to climate change.
[8] $MtCO_2e$ is millions of metric tonnes of CO_2 equivalent – i.e. converting the emissions of GHG other than CO_2 as CO_2 using conversion rate (called Global Warming Potential (GWP)) defined by the IPCC.
[9] NGFS GDP implications were considered as the NGFS models are well recognised globally, however, there are several acute physical impacts that are excluded from NGFS modelling which could further negatively impact GDP. We assumed these numbers had been understated when we were considering our scenarios.

Scenario characteristics

The scenario narratives defined during our scenario development and analysis process conducted for the FY24 CRD is still relevant and used the FSC[10] scenario characteristics as a base. This is presented in Table S.3 above.

The risks described below apply to most Funds in the Scheme, except the Cash Fund, which has cash as its main investment. Both the short-term nature of assets within this Fund and minimal exposure to our high-risk sectors means there is low exposure to climate risks.

When assessing climate risks in our investment portfolio, we considered the sectors and regions where we are exposed to high physical and transition risks and the drivers identified in developing our scenarios.

While describing risks and opportunities in the tables S.5 and S.6 below, the 'short term', 'medium term', and 'long term' timeframes are defined as follows:

Table S.4 – Time horizons adopted for scenarios and climate risks and opportunities

Timeframe	Time horizon	Year relative to 2025	Investment process alignment
Short term	1 to 5 years	2025	The time horizon corresponds to current risks and opportunities which are actively analysed by BNZISL and aligns to our business financial planning and strategy review process.
Medium term	6 to 20 years	2030	The time horizon is aligned with BNZISL's 2030 interim targets (as defined in the Transition plan aspects of BNZISL's strategy section below) and could correspond to a medium-term investment horizon (such as investing with the intention of making a first home purchase and associated withdrawal from the Scheme).
Long term	Over 20 years	2050	The time horizon is aligned to the long-term target of net zero commitments in society and could correspond to a KiwiSaver retirement investment goal.

These definitions are aligned with the Managed Investment Scheme managers industry definitions (published by FSC), and with the time horizons defined in the Scenario Analysis Workshop.

[10] Climate scenario narratives for the financial services sector (fsc.org.nz)

Internal capital deployment

The Key climate risks, Climate-related opportunities, and Anticipated impacts of climate-related risks and opportunities (Tables 5, 6, and 7) each describe how resources are allocated to managing and responding to these risks and opportunities. This allocation of resources within the Harbour team also includes new initiatives which will support continued improvement in our approach to managing climate-related risks and opportunities.

Table S.5 below displays the climate risks identified, along with the expected time horizon where the risks are relevant, how the risks are expected to impact on the Scheme's investments, and the envisaged risk response. We have included a status column indicating our view of whether the risk is increasing or decreasing. The risk management process is described in more detail in the Risk Management section below.

Table S.5 – Key climate risks

Drivers	Risk	Risk status[11]	Time horizon	Investment impact	Risk management and strategy response[12]
Increased demand for energy because of temperature increases, increasing the probability of transmission failure due to overloading.	Physical risk – chronic	Increasing	Long	**Entity level (existing and potential investees) risk for utilities sector** Potential decreases in returns on impacted securities result from additional operational expenses (e.g. new energy generation facilities) and reputational impacts (such as power outages).	Incorporation of ESG into investment decisions. Engagement with investee companies to understand resilience and adaptation measures. Divestment (if risk is deemed to be unacceptable or not managed by the investee company).
Droughts occur more frequently causing water stress, reducing crops, and impacting hydro energy supply.	Physical risk – acute	Increasing	Long	**Market risk** Increases in costs of raw materials. Adaptation costs increase through new water infrastructure (e.g. desalination plants), new innovative agricultural practices (vertical farming), and higher cost of energy, all of which impact profitability.	Incorporation of ESG into investment decisions. Engagement with investee companies to understand resilience and adaptation measures. Divestment (if risk is deemed to be unacceptable or not managed by the investee company).
Sea level rise driven by thermal expansion and the melting of ice sheets which result in inundation of low-lying lands.	Physical risk – chronic	Increasing	Long	**Market risk** This could impact on coastal-based infrastructure, forcing retreat, interrupting business operations, and increasing costs in addition to impacting access to insurance.	Incorporation of ESG into investment decisions. Engagement with investee companies to understand resilience and adaptation measures. Divestment (if risk is deemed to be unacceptable or not managed by the investee company).
Wildfires, heatwaves, and flood events become more common, with a greater intensity, potentially leading to health issues and infrastructure degradation.	Physical risk – acute and chronic	Increasing	Medium to long	**Market risk** This could lead to multiple disruptions to business operations, including energy and telecommunication failures. Resulting in increasing costs due to infrastructure maintenance and insurance premiums with the potential for insurance to be withdrawn.	Incorporation of ESG into investment decisions. Engagement with investee companies to understand resilience and adaptation measures. Divestment (if risk is deemed to be unacceptable or not managed by the investee company).

Continued...

[11] Risk status is conducted internally by the Responsible Investment team.
[12] BNZISL responses to the key climate risks in this table are intended to illustrate the action BNZISL has taken or will take to manage and mitigate these risks; however, there is no guarantee that the responses are or would be sufficient to prevent significant losses.

Table S.5 – Key climate risks (Continued)

Drivers	Risk	Risk status[11]	Time horizon	Investment impact	Risk management and strategy response[12]
Extreme weather and chronic climate change will impact shipping, road, and air transport supply chains.	Physical risk – acute and chronic	Stable	Short, medium, and long	**Market risk** Returns could potentially decrease for impacted securities (e.g. equities and corporate bonds), due to delays or collapse of supply chains. There is potential for increased inflation due to the impact on freight pricing.	Incorporation of ESG into investment decisions. Engagement with investee companies to understand resilience and adaptation measures. Divestment (if risk is deemed to be unacceptable or not managed by the investee company).
Reducing consumer demand for emission intensive products and services.	Transition risk – market	Stable	Short, medium, and long	**Portfolio diversity and correlation risk** Potential decrease in returns for impacted securities, due to revenue loss (e.g. through changing to a renewable energy provider) and cost increase if the companies do not react in a timely manner to market sentiment.	Incorporation of ESG into investment decisions. Engagement with investee companies to ensure that they are responding to market moves and have credible transition plans. Divestment (if risk is deemed to be unacceptable or not managed by the investee company). Climate targets focused on companies with net zero transition plans and climate solutions (see Transition plan aspects of BNZISL's strategy below).
International markets shifting away from GHG emissions intensive products – while transitioning to a net zero economy, companies which rely on GHG emissions intensive products sold internationally could be adversely impacted. This could be driven through consumer demand or through increasing carbon prices and carbon price border adjustment mechanisms for impacted sectors (e.g. agriculture, materials, energy, and transport).	Transition risk – market	Stable	Medium to long	**Portfolio diversity and correlation risk** This could impact revenue for investee companies in high emission sectors through decreasing sales, increasing costs, and impacts to reputation.	Incorporation of ESG into investment decisions. Engagement with investee companies to understand how they are reducing emissions and managing associated carbon tax or carbon credit costs. Divestment (if risk is deemed to be unacceptable or not managed by the investee company). RI Policy exclusions.

Continued...

Table S.5 – Key climate risks (Continued)

Drivers	Risk	Risk status[11]	Time horizon	Investment impact	Risk management and strategy response[12]
Increasingly stringent climate change regulations mean that reductions in fossil fuel usage is rapid and mandatory, impacting business models globally. In particular, coal, oil, and gas-related assets will face increasing compliance costs.	Transition risk – policy and legal	Stable	Short to medium	**Portfolio diversity and correlation risk** Potential business failure or decrease in returns for impacted securities, due to assets being retired before their end of life or additional investment and operational costs to address regulatory requirements and increased regulation.	Incorporation of ESG into investment decisions. Engagement with investee companies to ensure they are aware of and responding to regulatory requirements. RI Policy exclusions. Divestment (if risk is deemed to be unacceptable or not managed by the investee company). Climate targets focused on companies with net zero transition plans (see Transition plan aspects of BNZISL's strategy below).
Increasing carbon prices and carbon price border adjustment mechanisms increase costs for impacted sectors (e.g. agriculture, materials, energy, and transport).	Transition risk – policy and legal	Stable	Medium to long	**Market risk** Will result in a potential decrease in returns for impacted securities, due to additional operational costs either through reducing GHG emissions or buying carbon offsets.	Incorporation of ESG into investment decisions. Engagement with investee companies to understand how they are reducing GHG emissions and managing associated carbon tax or carbon credit costs. Divestment (if risk is deemed to be unacceptable or not managed by the investee company). RI Policy exclusions.

Our climate scenario analysis uncovered a number of common themes, representing potential actions and opportunities that may support our business resilience and ability to adapt to uncertain futures. Table S.6 below outlines these themes, our progress, and our next steps.

Table S.6 – Climate-related opportunities

Opportunity	Opportunity characteristic	Time horizon	Our progress	Our next steps
Transition – Active versus passive fund management allocation	Ability to pivot investment composition to respond to climate-related opportunities, acknowledging active management may have a greater role to play in managing climate impacts.	Short to medium	Not started (with the change in ownership this work has not yet started but remains a key opportunity).	Explore active and passive management allocation in investment offering, including consideration of impacts on investment outcomes. Within passive investments, investigate the use of either climate aware or Paris Agreement aligned benchmarks.
Transition – Further development of climate-related risk management capability	Continued development of climate-related systems and processes, including hiring of specialised staff and development of in-house analytical models.	Short to medium	Change in data providers enabled access to MSCI CvaR modelling. Combined Harbour and BNZISL Responsible Investment teams.	Develop operational processes to enable more frequent analysis of risk.
Physical and transition – Climate-related criteria in investment composition	Incorporation of geographical and sector considerations which could result in positive screenings and climate solution-based investment.	Short to medium	Updated data sources to include more granular physical and transition risk information at a company level.	Work with MSCI to continue to enhance physical and transition risk approaches and data sources.
Physical and transition – Protection and preservation of capital and income	Consider strategies that invest in physical assets including adaptation strategies, closed end funds and exit strategies for high-risk sectors.	Medium to long	A wholesale private equity fund has been launched which includes a Climate specific allocation.	Work continues on allocation within specific funds within the Scheme.
Transition – Advocacy and communication	Engage with government and regulators to ensure the appropriate mechanisms are put in place for capital to flow to climate solutions (e.g. infrastructure, emerging technology, and private assets). Continued and transparent communication with customers to support a strong understanding of climate-related risks and opportunities in their investments.	Short, medium and long	Worked with government and Centre for Sustainable Finance (industry body) on access to private assets for KiwiSaver and Managed Investment Schemes in New Zealand. Responsible investment topics (e.g. climate reporting) included in quarterly investment updates to customers.	Continue to identify advocacy opportunities in New Zealand that promote climate-related risk management and investment opportunities. Provide regular updates to customers on climate-related risks, opportunities, and updates on our progress toward targets.

Approach to anticipated impacts

Our analysis of external events, risk assessment of companies' vulnerability to climate risk, and exploring how future physical and transition risks will impact our portfolio continues to inform our approach to identifying our anticipated impacts of climate-related risks and opportunities.

The anticipated impacts on the Scheme's investment from 2024 remain relevant in 2025. Our Climate Action Plan, which forms part of our RI Policy, has been developed with reasonably anticipated future impacts in mind. The 'Transition' plan aspects of BNZISL's strategy below provides more detail on this strategy and Table S.7 below shows an overview of how we are responding to anticipated future climate impacts that the Scheme is facing.

Table S.7 – Anticipated impacts of climate-related risks and opportunities for the Scheme

Anticipated future impact on Scheme investments	Time horizon	Risk event	Our response to mitigate exposure[13]
Reduced profitability of companies with increasing acute climate-related events such as wildfires	Medium to long	Physical risk	Monitoring exposure to companies that are vulnerable to physical climate-related risks. Increased engagement with external investment managers through quarterly meetings and reviews specific to responsible investment with a focus on climate-related physical risks and opportunities.
Increased economic impacts – inflation is far higher and GDP much lower than anticipated impacting investment returns	Short to medium	Physical and transition risks	Signal monitoring (monitoring specialist research and media for early signs of a specific scenario developing). Increased engagement with external investment managers through regular meetings covering economic updates, emerging themes, and reviews specific to responsible investment with a focus on climate-related transition risks and opportunities.
Significant loss in financial markets and investments from extreme physical climate events	Long	Physical and transition risks	Monitoring of physical and transition risk exposures through our risk assessment model and actions taken to reduce the exposures through divestment if required. Signal monitoring.
Reduced profitability of companies exposed to transition risk	Short to medium	Transition risk	Target in place to align investee companies within our material sectors in the Scheme to a 1.5°C pathway, and, therefore, help to ensure that they are better placed to manage transition risks. Thresholds and monitoring are in place for the High and Medium ratings in our risk assessment model. Increased engagement with external investment managers through quarterly meetings and reviews specific to responsible investment with a focus on climate-related transition risks and opportunities.
Geopolitical tension as well as political shocks delay, reverse or accelerate climate policy action and disrupt supply chains	Short to long	Transition risk	Thresholds and monitoring in place for the High and Medium ratings in our risk assessment model. Signal monitoring includes geopolitical events that may impact progress toward a low emissions economy. Increased engagement with external investment managers through regular meetings and reviews specific to responsible investment with a focus on climate-related transition risks and opportunities.

Continued...

[13] BNZISL responses to the anticipated impacts are intended to illustrate the BNZISL actions taken to manage and mitigate those impacts; however, there is no guarantee that the responses are or would be sufficient to prevent significant losses.

Table S.7 – Anticipated impacts of climate-related risks and opportunities for the Scheme (Continued)

Anticipated future impact on Scheme investments	Time horizon	Risk event	Our response to mitigate exposure[13]
Decreased company profitability due to increased litigation and reputation	Long	Transition risk	Monitoring and identifying investee companies that are exposed to negative media, litigation, and regulatory fines (i.e. controversy monitoring) in relation to climate issues through our external investment managers. Analysis and assessment of the risk will be completed. Actions may include engaging with the company and requesting action, or if no action is taken, then divestment. Established targets to focus engagement activity on our 'material sectors', which are likely to have a higher risk of climate litigation action in the future. Ongoing engagement with our external managers to monitor escalating risk of litigation for US companies.
Increased performance of companies supporting climate solutions	Short to medium	Opportunity	Established targets to allocate capital to companies or projects that support climate risk mitigation and the energy transition (e.g. solar, wind, electrification of transport).
Carbon pricing systems are extended across the globe incentivising investment in climate solutions and infrastructure	Medium	Opportunity	Established targets to allocate capital to companies or projects that support climate risk mitigation and the energy transition (e.g. solar, wind, electrification of transport). Research and review alternative asset class opportunities.

While there have been initial considerations about the impact on the Scheme assets from the risks above in the context of the scenarios detailed earlier in this CRD those views are continuing to be developed internally. We are using the exemption available under NZ CS 2 to release us from disclosing anticipated financial impacts on the Scheme for FY25.

Transition plan aspects of BNZISL's strategy

Our Climate Action Plan and interim targets are a roadmap of how we aim to achieve our net zero ambition. The changing nature of policy, pace and scale of regulation, disclosure requirements, and level of investee company actions are outside of our control. This means that our plan and targets may change over time. The extent to which we can meet our targets also depends on how quickly the global economy transitions towards net zero.

Our ambition is to achieve net zero financed emissions by 2050 across all the schemes that we manage (our 'net zero ambition'). The targets are based on the Institutional Investors Group on Climate Change (IIGCC) Net Zero Investment Framework (NZIF)[14] Implementation Guide, which has produced a global framework for the investment industry and has recommended targets set at an asset class level, noting the NZIF target recommendations for equity and fixed income asset classes are aligned.

We have set both our net zero ambition and our four interim targets at a BNZISL investment portfolio level. We will report our progress versus interim targets at both an overall BNZISL level and a Scheme level. However, it should be noted that success will be measured at a BNZISL level taking our entire investment portfolio into account (for the in-scope asset classes). This may mean that individual Funds do not meet either the interim targets or our net zero ambition for that particular Fund. We will review our targets and the level at which they are set as part of our ongoing Climate Action Plan review.

Our interim targets are designed to support a 50% reduction (from our 30 September 2019 baseline) in BNZISL's Weight Average Carbon Intensity (WACI) of financed emissions (scope 1 and 2) at an investment portfolio level by 2030. Our overall net zero ambition is supported by key investment beliefs, namely:

1. "We believe net zero action is in the best financial interests of our customers."

We have considered the physical impacts and economic costs of climate change, the evolving global regulatory landscape and changing consumer demand in the rationale for our climate ambition and interim targets.

2. "We believe in a longer term and systems level view on how to achieve future carbon emissions reductions."

The main questions to address are whether we should either avoid and divest from carbon-intensive investments or should we engage actively on the challenges? We believe that taking an active stance, through stewardship (and being a founding signatory to the Stewardship Code Aotearoa New Zealand) is more aligned with our long-term values.

Our targets are based on the IIGCC NZIF Implementation Guide with two variances:

1. Our interim 2030 emissions reduction target (to meet or exceed a 50% reduction in our WACI collectively across our portfolios from our 2019 baseline) does not include specific sector pathways but instead focused on our identified material sectors. Our emissions reduction target reflects BNZISL's ambition to achieve net zero financed emissions by 2050, and our portfolio alignment and stewardship targets are focused on our material sectors. This means that we will engage with the sectors (or investee companies) that we have identified as the most material to achieving our emissions interim target. We expect to integrate sectoral specific emissions pathways over time as interim targets are reviewed, and data and disclosure improves.
2. Our interim 2030 stewardship target is currently set at requiring at least 60% of our financed emissions in material sectors to be the subject of stewardship actions and invested with external investment managers that have credible net zero plans, as opposed to requiring at least 70% as recommended in the IIGCC NZIF Implementation Guide. This reflects the recent introduction of our stewardship framework and our currently low baseline positions whereby 34% of our financed GHG emissions in material sectors are the subject of stewardship actions and 31% of our external investment managers have credible net zero plans. These targets will be included in the review process for the RI Policy, mentioned in the Purpose and Scope sections of that document and updated as required.

[14] IIGCC Net Zero Investment Framework

Climate Action Plan

Long term ambition: Align our investment portfolio~ to net zero GHG emissions by 2050 at the latest

Interim targets we aim to achieve by 2030

1. Net zero alignment

At least 70% of our financed emissions in material sectors* are either assessed as net zero aligned or aligning with a net zero pathway^.

(Absolute Target)

This target supports our ambition to decarbonise our portfolios and ensure progress in the global economy by focusing on investment in companies in our material sectors who are transitioning to a low emissions economy.

This will be a key part of our engagement strategy and require the Responsible Investment team to work with all of our external investment managers to work with companies to make commitments and set targets.

2. Stewardship

At least 60% of our financed emissions in material sectors* are the subject of stewardship actions and are invested with external investment managers that have credible net zero plans.

(Absolute Target)

Engagement is potentially the most important tool asset owners have in order to manage the transition to net zero within their portfolios.

As signatories to the Aotearoa New Zealand Stewardship Code and the PRI we're committed to stewardship and strengthening our engagement with our investee companies.

A key objective of the Responsible Investment team is to work with external managers to ensure our engagement program aligns with our key objectives.

Stewardship actions refer to direct or collective actions including meetings, letters, individual and collective dialogue, media and communications, responding to consultations, as well as ensuring trade association advocacy is consistent with net zero goals.

3. Climate solutions

Identify and allocate capital to climate solutions, targeting 10% of our actively managed funds under management.

(Absolute Target)

This target supports the significant gap in investment needed globally for climate solutions. This includes companies or projects that support climate change mitigation and the energy transition (e.g., solar, wind, electrification of transport).

Decarbonisation of our portfolios will be supported by increasing allocations to climate solution investments which may include:

- Explicit climate solutions allocation within portfolios.
- Climate solution fund or project.
- Green bonds (net proceeds of the fixed income instrument will be applied toward green projects or activities that promote climate change mitigation or adaptation, or other environmental sustainability purposes).

4. Emissions reduction

Meet or exceed a 50% reduction in our Weighted Average Carbon Intensity of financed emissions collectively across our portfolios from our 2019 baseline.

(Intensity Target)

This target has been set so that we play our part in helping to limit global temperature rise to 1.5°C.

This target measures the success and effectiveness of Targets 1-3.

Three out of our four interim targets (net zero alignment, stewardship and emissions reduction) apply to both our active and passively managed investments, while the fourth (climate solutions) applies only to our actively managed investments.

Our interim targets apply to all of our listed equities and corporate bonds (which represented 66% of our FUM at the time targets were set), but do not apply to government bonds and cash, reflecting data availability, applicability, and concentration of GHG emissions in the listed equities asset class. Our interim emissions reduction target covers Scope 1 and Scope 2 GHG emissions of our investee companies. Our targets do not include the use of offsets or carbon credits to achieve emissions reduction, but offsets could be used by our investee companies (we do not currently collect that level of information).

Materiality of impact in relation to climate risk is identified by considering the factors that are expected to have the most significant impact on the long-term value of an entity, the environment, or society. Our material sectors are energy, materials, utilities, and transport. These represented over 75% of BNZISL's investment portfolio's GHG emissions when selected based on the WACI, while also considering FUM, and GHG emissions for each sector. This also aligns with the IIGCC Paris Aligned Investment Initiative (PAII) assessment+ of the sectors that contribute the most to the world's GHG emissions.

~ Interim targets only apply to listed equity and bonds – see below for more information.
* Material sectors are energy, materials, utilities, and transport.
^ Net zero alignment is measured using MSCI and is defined as an investee company that:
  - Has a committed or validated SBTi net zero status – this specifies the status of the investee company's commitment to setting and achieving science-based net zero GHG emissions reduction targets. Net zero GHG targets are targets consistent with global temperature rising to no more than 1.5°C.
  - Assessed by MSCI as Committed, Aligning or Aligned to PAII Net Zero Investment Framework.
+ The PAII outlines its assessment of material sectors in its Net Zero Investment Framework – Appendix B: High Impact Sectors.

Risk Management

Risk Management

As noted in the Governance section, above, with the change in ownership some elements of the risk management processes have changed – these updates are provided within this section.

Overview

The BNZISL Board sets the overall risk appetite for investment risk, including climate risk, in BNZISL's investment portfolio and this is set out in the SIPO, which includes the Strategic Asset Allocation (SAA) and references the RI Policy. The Investment Committee is responsible for reviewing and approving recommendations made by the Harbour management teams, in line with the overall risk appetite set by the BNZISL Board, ensuring alignment with the RI Policy and the SAA. Decisions made by the Investment Committee are reported to the BNZISL Board via noting papers.

We manage investment risk such as market risk, asset allocation risk, liquidity risk, and manager risk through applying the following principles outlined below in Figure R.1.

Figure R.1 – Investment risk management

Invest in quality assets

Focus on Funds' liquidity capabilities

Regular monitoring to identify risks early

Diversification through holding multiple securities across sectors, countries, and asset classes

Climate-related risks are considered alongside market, asset allocation, liquidity, and manager risks throughout our investment process. Leveraging our principles for managing investment risk, we incorporate climate risks through our risk appetite settings, the incorporation of risk into investment decisions made by our active managers, manager selection, and ongoing monitoring. The mix of investments that a fund holds, known also as the SAA, has the largest influence on the level of risk and potential return. The SAA is determined through Capital Market Assumptions (CMAs) which are the expected returns, standard deviations, and correlation estimates that represent the long-term risk return forecasts for the various asset classes.

Please note that in 2024 the functions previously managed by our external asset consultant were transferred to the Harbour Global and Multi Asset Investments team. Climate impacts are currently incorporated in the Scheme as the SAA remains unchanged, however, climate scenario impacts will not be incorporated in the CMAs in the future. Climate signals are monitored by the Responsible Investment team on a regular basis and these signals have been updated to incorporate market related signals such as fossil fuel and renewable energy indices (please see the Strategy section for further information).

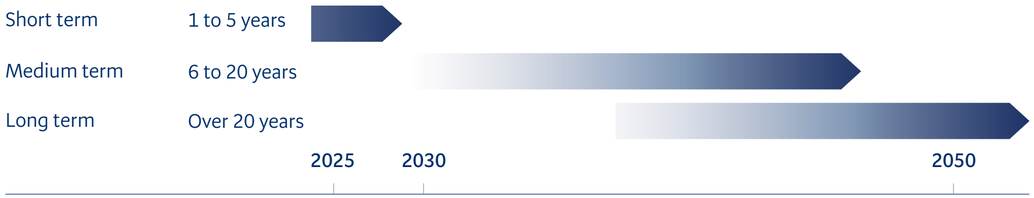
For our risk assessments and reporting we define climate-related risks as the potential risks that arise from the current and anticipated impacts of climate change, including GHG emissions reduction efforts by investee companies. We also include our ability to adapt to climate change impacts within the Scheme, and the resulting financial consequences for the risk and return profile of the Scheme and its underlying Funds, and therefore, Scheme members.

BNZISL applies both a top-down and bottom-up approach to oversight, identification, and assessment of climate-related risks for each Fund within the Scheme. The key aspects of this approach are as follows:

1. Oversight
    a. recognition of climate-related risk in our risk appetite (see below for more information)
    b. integration of climate-related risk into our Enterprise Risk Management Framework (see Enterprise Risk Management Framework section below for more information)
    c. external investment manager selection
2. Identification
    a. physical and transition risk assessment of investee companies within each Fund
    b. climate scenarios
    c. exclusions as stated in our RI Policy
    d. external investment manager approach
3. Assessment
    a. ongoing review
    b. reporting

BNZISL considers climate-related risks over the following time horizons (with years relative to 2025).

Figure R.2 – Time horizons



When considering the identification and assessment of climate-related risks and opportunities within the Scheme, we look at all aspects of BNZISL's value chain (e.g. BNZISL's suppliers), recognising that the vast majority of climate-related impacts on the Scheme are from the impacts associated with investee companies. GHG emissions associated with our investee companies are generally limited to scope 1 and 2. More detail on the identification and assessment process can be found under the Identification section below.

While this CRD covers the material risks for the Funds and the Scheme, BNZISL's operational emissions (scope 1 and 2) are considered immaterial and not included in this report. BNZISL operational emissions are calculated as part of FirstCape's operational emissions process.

1 Oversight

a) Risk appetite setting

Our overall risk appetite for climate risk in our investment portfolios is set by the BNZISL Board. Our risk appetite includes the aim to reduce our Funds' GHG emissions, and the carbon footprint of businesses we either support or invest in.

BNZISL's responsible investment risk appetite settings (including climate risk) are reflected in our RI Policy. Our RI Policy forms the guiding principles to BNZISL's approach to responsible investing.

Accountability for setting risk appetite, identifying, assessing, and managing the ongoing risks (including climate risks) for the Scheme is summarised in Figure R.3.

Figure R.3 – Climate risk roles and responsibilities

Roles	Responsibilities
Risk appetite	BNZISL Board
Risk identification and assessment	Investment Committee Legal, Risk and Compliance Responsible Investment team
Risk management and reporting	BNZISL Board Responsible Investment team Legal, Risk and Compliance
Risk metrics, tools and data	Investment Operations
Risk inventory	Legal, Risk and Compliance
Monitoring market and legislative development	Responsible Investment team BNZISL Board Legal, Risk and Compliance

b) Enterprise Risk Management Framework

BNZISL, as a wholly owned subsidiary of Harbour and part of FirstCape Group follows the FirstCape Enterprise Risk Management Framework. FirstCape operates a "three lines of risk" accountability model for risk management, including climate risk, which is described below.

First line – includes the business operations and the front-line staff directly responsible for ensuring day-to-day activities align with the regulatory requirements.

Second line – consists of the Legal, Risk and Compliance team that provide oversight, develop frameworks, and monitor the first line's activities. They operate independently from operational management to ensure objectivity.

Third line – FirstCape does not have an internal audit team but through Harbour engages a top-tier external audit firm to conduct the ISAE NZ 3402/GS007 audit of operational controls on an annual basis. This provides a test of the existing controls and processes in place to ensure operational risks are minimised.

c) External investment manager selection

We outsource the management of our investments to experienced external investment managers. Our due diligence process ensures that the active managers we appoint incorporate ESG considerations into their investment process, and this is specifically required under each IMA. Appointing external investment managers who have a robust approach of incorporating ESG factors (including climate risks and opportunities) into investment decisions is a key part of the identification element of climate risks, which is outlined in the Identification section below.

2 Identification

a) Physical and transition risk assessment framework

As noted above, we changed our carbon emissions data provider to MSCI during the year ending 31 March 2025. This meant that we were only able to run the physical and transition risk assessment once in the 2025 FY.

We have now updated the physical and transition risk framework to incorporate MSCI assessment of these risks within their CvaR model. MSCI CVaR is composed of policy risk, technology opportunities and physical risk, and opportunities pillars. Each of these pillars is further broken down into physical and transition risk and opportunity categories (please see Appendix 1 for details).

Transition climate VaR (a component of CVaR) quantifies the direct and indirect costs of climate regulations such as the cost for a company to reduce emissions or ongoing demand for a company's products. Transition Climate VaR includes an opportunities component which incorporates the potential for additional revenues through the development of new technologies associated with the transition to a low emissions economy.

Physical climate VaR (a component of CVaR) calculates the present value of each investee company's future costs (and profits) due to physical hazards under different global warming scenarios. Further details of this methodology can be found in Appendix 1.

We have updated our threshold monitoring approach and now use CVaR, being the potential percentage change in each Fund's value due to physical and transition climate risks. We have set thresholds based on our internal view of the potential value at risk for each Fund. These risk levels are assessed internally as follows:

1. High – greater than 20%
2. Medium – between 10% and 20%
3. Low – less than 10%

We consider the potential percentage change in value for both transition or physical risks under two scenarios and compare these to the risk levels. Focusing on exposure to the high and medium risk levels enables management to prioritise investee companies that may be exposed to more significant climate risk.

The climate risk tolerance settings do not apply to the Cash Fund as the securities held in this Fund are predominantly short-term in nature and, as such, are not expected to lose value due to adverse climate scenarios.

These tolerances will be reviewed by the Responsible Investment team on a semi-annual basis and where tolerances have been exceeded, we undertake the following:

- Analyse underlying cause or drivers of tolerance excess
- Engage with external investment managers to understand what drivers, market considerations and specific entity transition and/or adaptation strategies are in place that may mitigate the identified risks, if required
- Report the results semi-annually to the Investment Committee with recommendations for action, if required.

Please see the Strategy section for details of this assessment undertaken for FY 31 March 2025.

b) Scenarios

We use scenario analysis to test the resilience of both the Scheme's strategy and investments to climate-related risks. These scenarios, which are outlined in our Strategy section above, will be reviewed annually, and the implications and outcomes of this process will be included as an input to our investment strategy. This annual review will ensure we continue to develop our approach to climate scenario analysis as the data and modelling improves and evolves.

c) Exclusions

BNZISL's RI Policy specifies which sectors are excluded from the investment opportunity set within BNZISL's mandates. The RI Policy and these exclusions apply to BNZISL's decision-making in respect of the assets of each Fund within the Scheme.

In determining which sectors are excluded, consideration is given to factors including the expected risk and return, materiality of the risks, the regulatory environment, and alignment with BNZISL's values. The BNZ KiwiSaver Scheme has excluded securities in the oil, gas, and coal sectors due to the expected impact on the risk and return of those securities due to changes associated with the transition to a low-emissions economy (see our RI Policy for details). The Funds' exposure to these sectors could alter as changes are approved in respect of the RI Policy.

The Harbour Exclusions Committee is responsible for assessing and approving changes to exclusions across all the schemes that BNZISL manages. Assessments include both sectors and individual investee companies, and all decisions regarding the BNZ KiwiSaver Scheme are discussed with BNZ to ensure ongoing alignment with their Sustainability strategy. All decisions are reported to the Investment Committee.

d) External investment manager approach

The Scheme has both active and passively managed strategies. Our active external investment managers integrate ESG considerations including climate risk identification into their investment decision and engagement process. Our passive external investment managers incorporate climate risks into their engagement process, with climate risk a key consideration when prioritising company engagement for our active and passive external investment managers. Climate risks identified by our active external investment managers as part of their research process are considered alongside other risks such as credit, liquidity and market risks when making investment decisions.

When integrating the identification and assessment of climate risks into investment decisions our active external investment managers use third-party scores from ESG data providers as an input to their research process. These scores measure a company's exposure to and management of material ESG issues including climate risks. Some of the active external investment managers also use their own internal scoring of each company, which includes qualitative research and relative assessment (i.e. how they are performing compared to peer companies). These assessments also incorporate controversy scanning by third party ESG data providers or the external investment managers (or both), to flag any potential breaches by the investee company of legal, regulatory or consumer expectations.

We expect all our external investment managers to use stewardship as a key tool in their underlying approach to identifying risks and opportunities. We are a founding signatory to the Stewardship Code Aotearoa New Zealand, and we believe stewardship will play a key role in moving towards our net zero ambition. The focus of stewardship (which is also called active ownership) is to create and preserve long-term value for our investors, and the stewardship concept incorporates company engagement, voting (for equity holdings), collaboration with other investment managers or investors to advocate for change, as well as the ongoing monitoring of action and outcomes resulting from the stewardship process.

3 Risk assessment

a) Ongoing review

We meet with each of our external investment managers regularly to review actions taken in relation to climate risks and opportunities. An important aspect of these reviews is to understand the approach that our external investment managers have taken in identifying, managing, and incorporating climate risks and opportunities into their engagement process, investment decisions, and portfolio risk management.

b) Reporting

We receive quarterly reporting on stewardship and voting activities undertaken from all our external investment managers which describe the type of engagements, number of engagements, voting decisions and case studies or examples of these activities within the portfolio. These reports are used by the Responsible Investment team to ensure our external investment managers are performing stewardship activities that support the management of risk, opportunity, and progress toward our net zero ambition (see the Strategy section above for more details).

A six-monthly engagement report is provided to the IC, which covers the effectiveness of the external investment managers' engagement approach, any changes to policies, resourcing or processes, material changes to the climate risks in the portfolio, and ongoing monitoring of active engagements including escalations.

Metrics

Metrics

With the change of ownership, BNZISL conducted a review of its third-party data provider for climate metrics. A decision was made to change to MSCI. There have been changes in overall emissions for the 2024 FY which are reflected in the metrics tables below, which are sourced from MSCI unless otherwise noted. We have also restated the metrics relating to our emissions target as per our restatement policy: base year and comparative metrics may be restated when such recalculation is considered to be significant and material.

The RI Policy outlines our ambition to align our investment portfolio with net zero GHG emissions by 2050 at the latest. Our interim 2030 emissions reduction target is to meet or exceed a 50% reduction in our total WACI of the scope 1 and 2 emissions across our investment portfolio from our baseline by 2030. The WACI target measures the effectiveness and success of our full set of interim 2030 targets in our Climate Action Plan. See the Targets section below for further information.

WACI is commonly used by the investment industry as a metric to analyse portfolio exposure to carbon intensive companies and is expressed as tonnes of carbon dioxide equivalents (tCO_2e)/NZD mn of company revenue. We have chosen this as our principal metric for measuring our investment portfolio's financed GHG emissions and monitoring progress towards our targets.

Companies with higher levels of carbon intensity can be at risk of suffering climate-related impacts. Policies aimed at curbing GHG emissions create more significant risks to carbon-intensive industries. We have used WACI as a key input to determine our most material sectors and as an indicator of transition risk.

Climate-related metrics

Table M.1 below sets out the different metrics that the Scheme uses to measure and manage its climate-related risks and opportunities. Further details of financed emissions methodology can be found in Appendix 3. The climate-related metrics are important to show how 'vulnerable' BNZISL considers each Fund's investments are to potential physical and transition risks. Vulnerability encompasses a variety of concepts and elements, including sensitivity or susceptibility to harm and lack of capacity to cope or adapt. The metrics will support BNZISL's Board and management to direct investments more effectively by being able to measure and describe the impacts of climate-related risks and opportunities. Metrics are also important for identifying, assessing, and managing climate-related risks and how these are incorporated into BNZISL's overall risk management processes.

BNZISL does not currently use internal emissions prices in its decision-making process. Specific industry-based metrics are yet to emerge but are likely to include the metrics outlined in table M.1 on the next page.

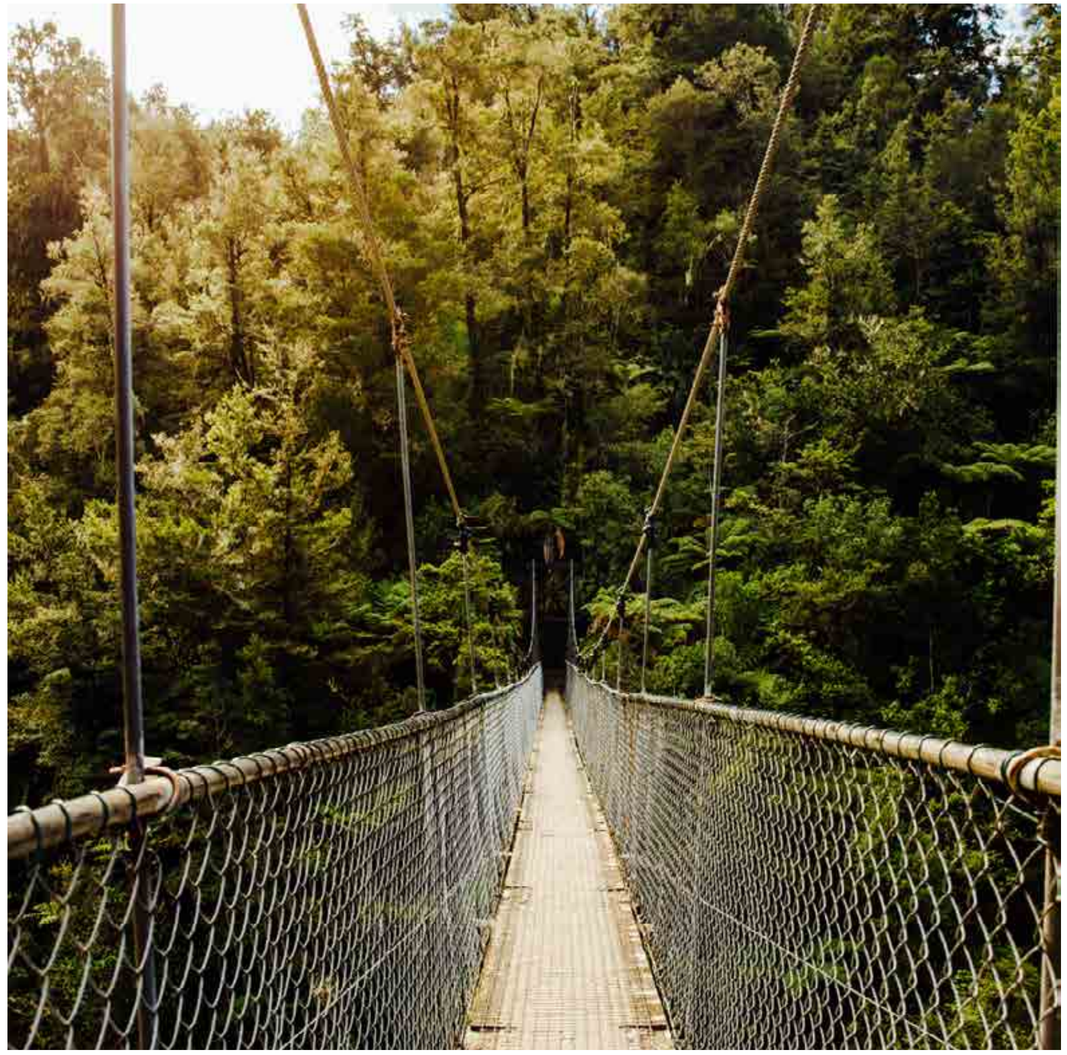


Table M.1 – Climate-related metrics

Current portfolio values only include Scheme or Fund assets which are in-scope and where data is available. This enables comparisons across schemes or funds and periods as data changes.

	Description	Calculation*	Unit	Physical/ transition risks or opportunity	31 March 2025 (Scheme)#	31 March 2024 (Scheme)#
Total carbon emissions	The absolute GHG emissions associated with the Scheme, expressed in tonnes CO_2e.+	$\sum_n^i \left(\frac{\text{current value of investment}}{\text{issuer's EVIC}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions} \right)$	tonnes CO_2e	Transition	244,404	239,583
Weighted average carbon intensity (WACI)	The Scheme's exposure to carbon- intensive companies, expressed in tonnes CO_2e/NZD mn revenue.	$\sum_n^i \left(\frac{\text{current value of investment}}{\text{current portfolio value}} \times \frac{\text{issuer's Scope 1 and Scope 2 GHG emissions}}{\text{issuer's \$M revenue}} \right)$	tonnes CO_2e/NZD mn revenue	Transition	47.9	43.1
Carbon footprint	Total carbon emissions for a portfolio normalised by the market value of the portfolio, expressed in tonnes CO_2e/NZD mn invested.	$\frac{\sum_n^i \left(\frac{\text{current value of investment}}{\text{issuer's EVIC}} \times \text{issuer's Scope 1 and Scope 2 GHG emissions} \right)}{\text{current portfolio value (\$M)}}$	tonnes CO_2e/NZD mn invested	Transition	44.0	47.3
Vulnerability to physical climate disruptions+	The potential change in Scheme value due to exposure to physical risks.	Exposure to physical risks as measured by MSCI CVaR 3°C Remind NDC Aggressive scenario (see Appendix 1 for more details)	Change in portfolio value	Physical	4.8%	4.5%
Exposure to transition risk+	The potential change in Scheme value due to exposure to transition risks.	Exposure to physical risks as measured by MSCI 1.5°C Aggregated Policy Risk – NGFS Disorderly scenario (see Appendix 1 for more details)	Change in portfolio value	Transition	9.2%	8.45%
Climate-aligned investments	The percentage of financed emissions in material sectors either assessed as net zero aligned or aligning with a net zero pathway.	$\frac{\sum_n^i \text{Financed emissions of companies in material sectors with net zero aligned or aligning companies}}{\sum_n^i \text{Total financed emissions of companies in material sectors}}$	% material sector FUM	Opportunity	44.3%	40.9%
Investment in climate solutions^	The percentage of actively managed FUM invested in climate solutions.	$\frac{\sum_n^i \text{FUM invested in climate solutions}}{\sum_n^i \text{Total actively managed FUM}}$	% actively managed FUM	Opportunity	3.0%	4.7%

+ New metric in 2025 due to change of third-party data provider to MSCI.
# 2024 and 2025 data is from MSCI except for 2024 climate aligned investments and climate solutions data. MSCI data now includes emissions for Sovereigns.
^ See the Targets section below for further information on climate solutions investments.
* EVIC – Enterprise Value including Cash.

Summary of financed emissions

The Scheme's WACI as at 31 March 2025 was 47.9 which is an increase from 31 March 2024 and down from our 2019 baseline of 105.7 as measured by MSCI. The reduction in WACI was a 54.7% reduction from our 2019 baseline. This reflects changes to exclusions implemented in accordance with the RI Policy, and a reduction in emissions from the underlying investee companies, relative to revenue.

Last year our 2019 WACI baseline was reported as 115.6 as measured using our third-party data provider at the time.

Total carbon emissions for the Scheme were 244,404 tCO_2e, increasing 2% from 31 March 2024. Our FUM increased by 9% over FY25.

The Scheme's 'Carbon Footprint' for the year ended 31 March 2025 was 44.0, a decrease of 7% from 31 March 2024 (as reported by MSCI) reflecting the larger increase in FUM and smaller decrease in overall emissions.

Our total emissions and carbon footprint metrics now include sovereign (government bonds) emissions data which wasn't available last year, and these are also included in our updated FY24 metrics. The sovereign total emissions are 148,913 in FY25 accounting for 60% of our total emissions.

Further climate-related metrics are set out in Tables M.2–M.7 below. We provide total carbon emissions, WACI and carbon footprint data for all of our Funds. This reporting is limited to the FUM for which we have available data, which was 88.8% of our total data this year (and differs for each Fund – please see Tables M.4–M.5 for details).

Further details of financed emissions

Financed emissions in Table M.2 below include only scope 1 and 2 GHG emissions from the Scheme's investee companies. These are classified as scope 3, category 15 (investments) emissions of the Scheme based upon the Corporate Value Chain (Scope 3) Accounting and Reporting Standard.

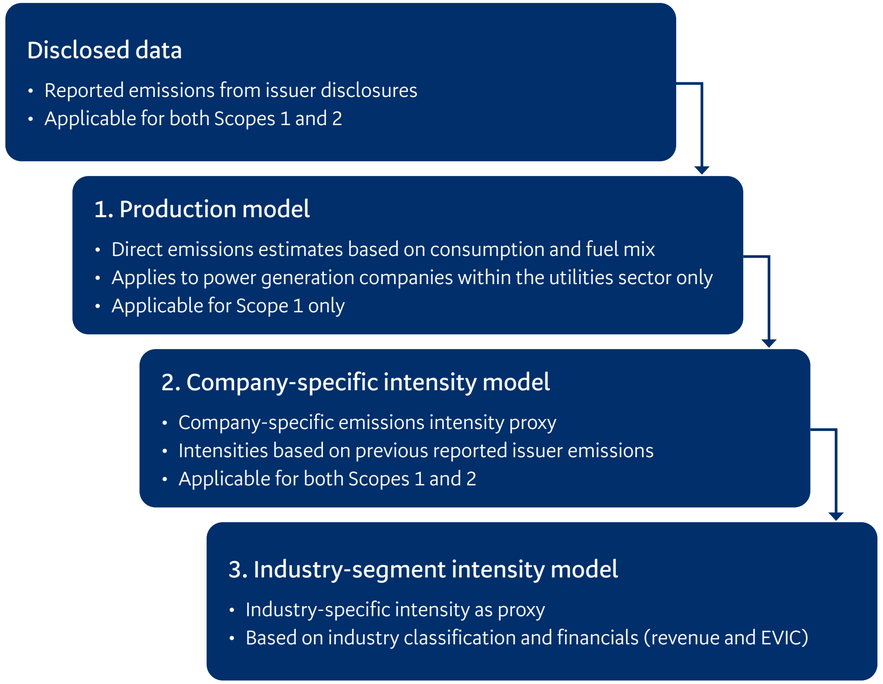
Scope 3 emissions for investee companies in material sectors are separately disclosed in Table M.3 and M.5 below.

In accordance with the PCAF Financed Emissions Standard, these Funds adopted the financial control consolidation approach. We excluded certain securities from the Scheme, in accordance with BNZ's Sanctions Policy. However, due to selling restrictions on foreign investors, the Scheme still has exposure to a small number of Russian equity securities. These securities hold a nil value in the Funds, and therefore, the emissions of the investee companies are excluded from our calculations.

Further details of data sources

We have utilised MSCI One and ESG Manager for investee companies' GHG emissions data and the calculation of certain metrics for our Funds. If reported data is not available for an investee company, where possible, MSCI uses an estimate based on the waterfall below.

Figure M.1 – Summary of approach for Scope 1 and Scope 2 emissions estimates



Source: MSCI ESG Research LLC.

The data in this report is based on information available as of 31 March 2025. Most investee companies and Governments report emissions on an annual basis. This, along with data collection processes, means emissions data is produced with a delay. For this report, emissions data is mostly from 2023 and 2024, combined with 2025 financial data where available.

Table M.2 – Climate-related metrics (Scheme)

For Fund level reporting, see Table M.4 below for Additional information.

Date	Total FUM NZD mn^	FUM in-scope (PCAF for available data) NZD mn	In-scope FUM for which data is available %	Total carbon emissions tCO_2e (scope 1 and 2 emissions)	Sovereign Emissions (a subset of Total carbon emissions)	WACI (tCO_2e/ NZD mn revenue)	Carbon footprint (tCO_2e/NZD mn invested)	Data quality score#
As at 31 March 2025	6,254.4	5,556.1	88.8%	244,404	148,913	47.9	44.0	2.8
As at 31 March 2024	5,726.4	5,061.8	88.4%	239,583	126,947	43.1	47.3	2.7
% difference to 31 March 2025	9%	10%	0.5%	2%	17%	11%	-7%	4%

Climate-related metrics for the above have not been assured.

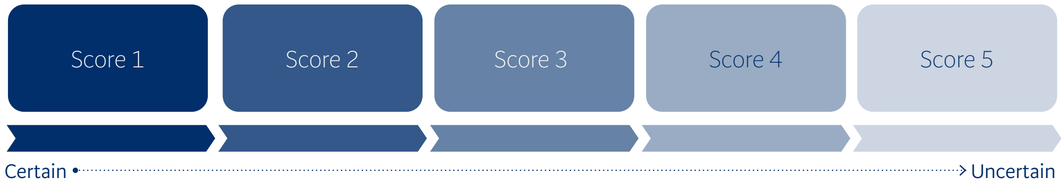
^ FUM may be different from the financial statements of the Scheme due to bid/ask adjustments, final day registry postings and price source differences.

See Data quality score section (below) for further explanation.

Data quality score

The PCAF Financed Emissions Standard provides guidance on data quality. Data quality scoring is specific to each asset class. High-quality data can be difficult to ascertain when calculating financed emissions, particularly for certain asset classes and emissions data of the many investee companies. In general, the lower the number, the more robust the data underlying the calculation. Further details of this can be found in the PCAF Financed Emissions Standard. The data quality score in this document has been calculated by MSCI applying the PCAF methodology. The data quality score for each Fund is included in Table M.5 below. The overall data quality score for the Scheme is 2.7 (see Figure M.2 below).

Figure M.2 – PCAF general data quality scorecard



Scope 3 emissions

Scope 3 emissions include all indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company. Scope 3 can be broken down into upstream emissions and downstream emissions.

Upstream emissions include all emissions that occur in the life cycle of a material, product, or service up to the point of sale by the producer, such as from the production or extraction of purchased materials.

Downstream emissions include all emissions that occur because of the distribution, storage, use, and end-of-life treatment of the organisation's products or services[15].

Scope 3 data still varies greatly per sector and data source. We have used MSCI as the source of scope 3 emissions, in line with the approach taken for scope 1 and 2.

We have provided scope 3 estimated total carbon emissions in Table M.3 for material sectors. Material sectors are classified using Global Industry Classification System (GICS)[16], hierarchical classification of industries. This classification differs from the Nomenclature of Economic Activity (NACE) classification recommended by PCAF; however, it allows for consistency with other sections of the CRD and disclosure of sectors considered material by BNZISL, which wouldn't have been possible if the NACE classification recommended by PCAF was used.

Table M.3 – Material sector scope 3 emissions (Scheme)

31 March 2025	Energy	Materials	Utilities	Transport
Total FUM NZD mn	59.1 (1.1% of Corporate FUM[17])	102.6 (2.0% of Corporate FUM)	329.2 (6.4% of Corporate FUM)	264.6 (5.1% of Corporate FUM)
Estimated total tCO_2e (scope 3 emissions)	31,887	73,529	30,269	33,454
Data quality score	3.3	2.5	2.5	2.5

For Fund level reporting, see Table M.5 on page 45 for Additional information.

Remuneration

In FY25 the Responsible Investment team had performance objectives relating to climate that included delivery of our stewardship and advocacy program, delivery of regulatory reporting relating to climate, and ongoing delivery incorporating climate related risks and opportunities into investments across Harbour and BNZISL. The Responsible Investment team reports directly to the Co-CEO who with our other Co-CEO has joint responsibility for delivery of the responsible investment policy and approach for BNZISL, which includes climate-related investment objectives.

[15] PCAF Financed Emissions Standard.
[16] The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of MSCI Inc. ("MSCI") and Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by Harbour Asset Management Limited. Neither MSCI, S&P nor any third party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaimer all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.
[17] Corporate FUM refers to Investee Companies and does not include Sovereign entities

Table M.4 – Additional information at Fund level

Fund name	Total FUM NZD mn	FUM in-scope (PCAF for available data) NZD mn	In-scope FUM for which data is available %	Total carbon emissions tCO_2e (scope 1 and 2 emissions)	Sovereign Emissions (a subset of Total carbon emissions)	WACI (tCO_2e/NZD mn revenue)	Carbon footprint (tCO_2e/NZD mn invested)	Data quality score
As at 31 March 2025								
High Growth Fund	252.0	245.2	97.3%	4,401.13	7.0	51.5	18.0	2.2
Growth Fund	1,896.7	1,854.0	97.7%	60,322.95	29,604.9	52.1	32.5	2.5
Balanced Fund	915.4	871.4	95.2%	39,170.95	25,104.8	51.4	45.0	2.7
Default Fund	755.0	719.9	95.3%	32,099.50	20,332.7	50.6	44.6	2.7
Moderate Fund	817.8	731.3	89.4%	40,842.41	27,985.7	48.6	55.8	2.9
Conservative Fund	899.1	752.2	83.6%	52,954.37	37,800.1	44.0	70.4	3.2
First Home Buyer Fund	370.4	237.3	64.1%	14,281.77	8,048.8	27.8	60.2	3.3
Cash Fund	348.0	144.9	41.6%	331.18	29.0	2.0	2.3	3.9
Total	**6,254.4**	**5,555.4**	**88.8%**	**244,404.26**	**148,913.08**	**47.9**	**44.0**	**2.8**
As at 31 March 2024								
High Growth Fund	62.5	61.4	98.2%	1,127.2	0.0	50.4	18.4	2.2
Growth Fund	1,766.6	1,704.6	96.5%	56,642.7	23,212.2	49.7	33.2	2.4
Balanced Fund	874.2	815.7	93.3%	39,072.1	21,274.9	48.0	47.9	2.6
Default Fund	660.8	616.8	93.3%	29,701.0	16,240.6	47.2	48.1	2.6
Moderate Fund	794.3	700.3	88.2%	42,783.3	25,065.8	43.4	61.1	2.8
Conservative Fund	885.6	735.5	83.0%	57,480.1	34,953.2	37.7	78.1	3.1
First Home Buyer Fund	346.5	243.1	70.2%	12,644.1	6,200.5	21.6	52.0	3.0
Cash Fund	335.9	184.3	54.9%	133.1	0.0	1.6	0.7	2.9
Total	**5,726.4**	**5,061.8**	**88.4%**	**239,583.6**	**126,947.2**	**43.1**	**47.3**	**2.7**

Climate-related metrics for the above have not been assured.

Table M.5 – Fund level material sector scope 3 emissions as at 31 March 2025

Fund name	Energy	Materials	Utilities	Transport
High Growth Fund				
Total FUM NZD mn	2.4	7.1	17	18.8
Estimated total tCO_2e (scope 3 emissions)	1,623	5,551	1,286	2,503
Data quality score	3.0	2.5	2.4	2.5
Growth Fund				
Total FUM NZD mn	19.6	45.1	122.0	115.9
Estimated total tCO_2e (scope 3 emissions)	11,828	34,317	10,400	15,062
Data quality score	3.2	2.5	2.5	2.5
Balanced Fund				
Total FUM NZD mn	9.8	17.1	53.9	43.0
Estimated total tCO_2e (scope 3 emissions)	5,288	12,716	5,037	5,424
Data quality score	3.2	2.5	2.5	2.5
Default Fund				
Total FUM NZD mn	8.0	12.9	46.8	37.3
Estimated total tCO_2e (scope 3 emissions)	4,361	6,642	4,298	4,715
Data quality score	3.2	2.5	2.5	2.5
Moderate Fund				
Total FUM NZD mn	8.5	11.1	41.5	26.4
Estimated total tCO_2e (scope 3 emissions)	4,171	7,922	4,213	3,181
Data quality score	3.2	2.5	2.5	2.5
Conservative Fund				
Total FUM NZD mn	8.9	7.4	39.2	18.1
Estimated total tCO_2e (scope 3 emissions)	3,790.6	5,029.8	4,177.0	1,993
Data quality score	3.2	2.5	2.5	2.5
First Home Buyer Fund				
Total FUM NZD mn	1.8	1.9	8.7	4.9
Estimated total tCO_2e (scope 3 emissions)	824.9	1,351	858.2	576.2
Data quality score	3.2	2.6	2.5	2.6
Cash Fund	The Cash Fund currently has no in-scope data in these sectors			

Table M.6 – Fund level vulnerability to physical climate disruption – Potential change in fund performance using MSCI Remind Aggressive 3°C Scenario

Year	High Growth Fund	Growth Fund	Balanced Fund	Default Fund	Moderate Fund	Conservative Fund	First Home Buyer Fund	Cash Fund
2025	-5.60%	-5.20%	-4.80%	-4.80%	-4.20%	-3.30%	-3.90%	0.00%
2024	-5.50%	-5.20%	-4.80%	-5.00%	-4.10%	-2.90%	-2.30%	0.00%

Table M.7 – Fund level vulnerability to transition based climate disruption – Potential change in fund performance using MSCI 1.5°C Aggregated Policy Risk – NGFS Disorderly

Year	High Growth Fund	Growth Fund	Balanced Fund	Default Fund	Moderate Fund	Conservative Fund	First Home Buyer Fund	Cash Fund
2025	-10.20%	-9.80%	-9.20%	-9.20%	-8.50%	7.10%	-7.80%	0.00%
2024	-10.20%	-9.70%	-9.00%	-9.00%	-7.80%	-5.80%	-4.40%	0.00%

Targets

Targets

At BNZISL, we believe that reaching net zero across our investment portfolio may be in the best long-term financial interests of our investors. In forming this belief, we have considered the physical impacts and economic costs and opportunities from climate change, the evolving global regulatory landscape, and changing consumer demand.

Our ambition is to align our investment portfolio with net zero GHG emissions by 2050 at the latest, in line with the Paris Agreement's 1.5°C threshold. We aim to meet or exceed a 50% reduction in our WACI from our 2019 baseline by 2030 for the scope 1 and 2 emissions of our investee companies. To achieve our net zero ambition, we have set four interim targets for 2030.

Our targets are included in the RI Policy and apply to BNZISL's investments at a portfolio level but are not applied specifically by the Scheme or by the Funds (see Strategy section above for more details on our targets). However, the Scheme, by virtue of its size, will play a material part in meeting those targets.

Table T.1 – Scheme progress towards targets

2030 target	Progress as at 31 March 2025	Tracking
Net zero alignment – absolute target At least 70% of our financed emissions in material sectors are either assessed as 'net zero aligned' or 'aligning with a net zero pathway'.	44.3%	On track
Stewardship – absolute target At least 60% of our financed emissions in material sectors are: a) the subject of stewardship actions b) invested with external investment managers that have credible net zero plans for their portfolios.	a) 30.2% b) 72.3%	On track
Climate solutions – absolute target Identify and allocate capital to climate solutions, targeting 10% of our actively managed FUM.	3.8%	More to do
Emissions reduction – intensity target Meet or exceed a 50% reduction in our WACI of financed emissions across our entire portfolio from our 2019 baseline.	54.7%	Exceeding

Table T.2 – BNZISL progress towards targets (across all BNZISL schemes and funds)

2030 target	Progress as at 31 March 2025	Tracking
Net zero alignment – absolute target At least 70% of our financed emissions in material sectors are either assessed as 'net zero aligned' or 'aligning with a net zero pathway'.	43.8%	On track
Stewardship – absolute target At least 60% of our financed emissions in material sectors are: a) the subject of stewardship actions b) invested with external investment managers that have credible net zero plans for their portfolios.	a) 32.2% b) 60.7%	On track
Climate solutions – absolute target Identify and allocate capital to climate solutions, targeting 10% of our actively managed FUM.	3.1%	More to do
Emissions reduction – intensity target Meet or exceed a 50% reduction in our WACI of financed emissions across our entire portfolio from our 2019 baseline.	54%	Exceeding

Summary of emissions reduction progress toward interim 2030 WACI target

WACI for the Scheme reduced by a total of 57.9 tCO_2e/NZD mn revenue from our 2019 baseline (restated as 105.7) to 31 March 2025 or 54.7%. Over the last 12 months we have seen an increase of 4.8 tCO_2e/NZD mn revenue which is an 11% increase in WACI for the year.

WACI for the BNZISL investment portfolio reduced by a total of 56.2tCO_2e/NZD mn or 54% from the 2019 baseline (restated as 104.0). In the last 12 months there was an increase of 3.5 tCO_2e/NZD mn revenue which is a 9% increase in WACI for the year. This is mainly due to an increase in carbon intensity of new positions over the year and a reduction in the revenue of issuers (the denominator). We have restated our 2019 baseline WACI due to a change in our third-party data provider. We reported a baseline WACI for the Scheme of 115.6 last year which was calculated using our previous third-party data provider. The underlying data used for our net zero alignment target is also now sourced from MSCI. The principles of aligning to a net zero pathway are the same, however, the assessment from MSCI uses both SBTi and PAII's NZIF mapping. We are comfortable that this approach aligns with our ambition and belief in investing in the energy transition.

These significant reductions in emissions from our 2019 baseline mean we have exceeded our interim 2030 WACI targets at the Scheme level and at the BNZISL investment portfolio level, which can be attributed to the following:

- Divestment from coal mining and companies involved in oil and gas exploration and production from 2020 onwards (see RI Policy for details).
- A reduction in the overall carbon intensity in our material sectors (from investee companies within those sectors).

As noted in the Limitations section above, using WACI as a measure of GHG emissions has certain limitations which will drive year on year variability in this metric. The WACI metric is sensitive to changes in company revenue and currency movements (which impact the denominator), i.e. a fall in revenue can increase WACI and an increase in revenue will see decreases in WACI without changes in underlying GHG emissions.

The increase in our stewardship absolute target – b) investing with external managers that have credible net zero plans for their portfolios – is the inclusion of SSGA as a credible net zero manager. SSGA are net zero asset managers' initiative signatories, and we have recently signed a Sustainability Stewardship service agreement with SSGA which will focus on four key themes, one of which is climate. This agreement will support our 2030 targets of net zero alignment and stewardship. Our other manager that is included in this target is Threadneedle.

We have more work to do on our climate solutions target which has decreased this year. Work underway to consider a private equity asset class allocation within the Scheme will also support this target as this will include climate-related investments.

Target review

Last year we noted we would review our interim 2030 target settings due to the significant reduction in WACI at the BNZISL investment portfolio in FY24. We completed this review and have decided not to make any changes to our targets or metrics at this stage. The decision to continue with the current metrics was based on:

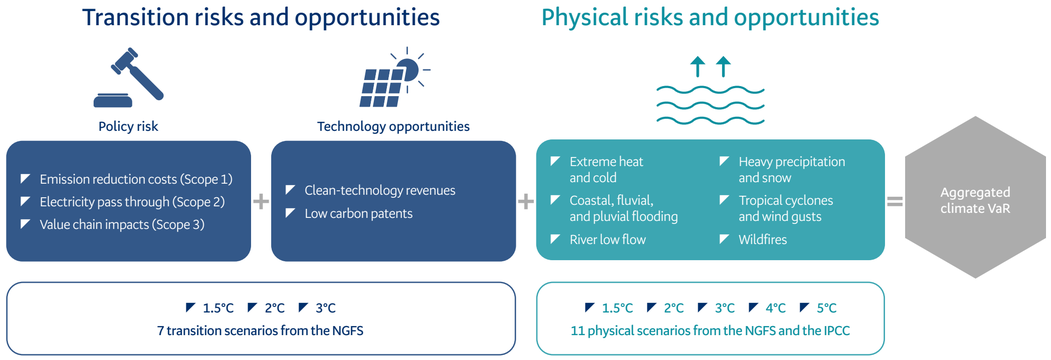
- While WACI has certain limitations, it still remains a commonly used metric by the investment management industry and allows for comparison across asset classes. We considered a carbon footprint metric; however, this metric is also subject to misinterpretation due to limitations, e.g. it does not account for differences in the size of companies (carbon efficiency of companies) and changes in underlying companies' market capitalization can be misinterpreted.
- With a number of larger countries in the process of reporting under their respective mandatory climate regulatory regimes, we expect an improvement in GHG emissions data due to more companies reporting. Improved data will support more confidence in the metrics used and better decision making on appropriate metrics.

Appendices

Appendix 1 – Climate Value at Risk

Climate Value-at-Risk (CVaR) provides a forward-looking and return-based valuation assessment to measure climate-related risks and opportunities. The aggregated company CVaR is calculated as a percentage of market value (from -100% to +100%) for multiple climate scenarios and includes the valuation impacts arising from technology opportunities, policy risks and physical risks.

CVaR is a quantitative assessment calculated at the company and security level.



Source: MSCI ESG Research, as of June 2024.

Physical Climate VaR (a component of CVaR) – we have used a physical climate value at risk metric to measure physical risk at the portfolio level across the Funds in the Scheme. This metric has been calculated using MSCI's climate product and shows the percentage of the fund's assets that are at risk for physical climate hazards. Both acute and chronic physical hazards are captured and the value at risk is calculated as the present value of each investee company's expected costs/profits resulting from these hazards under different global warming scenarios. MSCI's methodology involves assessing each individual company's exposure to the various physical hazards such as coastal flooding, tropical cyclones, wildfires and others based on the location of its assets. MSCI uses mathematical modelling to estimate the costs/profits from each hazard.

Transition Climate VaR (a component of CVaR) – transition climate VaR has two components. Policy risk and technology opportunities. Policy risk considers the direct and indirect costs of climate regulations on companies and can be broken down into three main categories: 1) direct costs from reducing direct scope 1 emissions, 2) indirect costs from scope 2 emissions (changes in electricity costs due to climate regulation), and 3) additional transition impacts from the value chain (such as changes in consumer demand). The technology opportunity component accounts for additional profits arising from development of new technologies relating to the climate transition.

We have used the physical and transition climate value at risk for both the "Orderly" (1.5-degree Net Zero) and "Hothouse" (3-degree Current Policies) scenarios to show the difference in risk at the two opposite ends of the global warming spectrum in our analysis.

The parameters applied to these assessments cannot include all climate-related risks and opportunities that an investee company or a country will face. As such, this does not present the full suite of climate-related risks facing BNZISL, the schemes, and the Funds that it manages. This risk assessment framework enables BNZISL to understand potential exposure to both physical and transition risks and undertake further assessment of investee companies. See our Risk Management section above for information on how this is monitored.

Limitations

The CVaR framework described above is an indicative assessment of potential climate risk based on a set of inputs acting as proxies for climate-related risks and opportunities. CVaR values are not a return forecast for a specific horizon, and the actual climate risk associated with a particular investee company may vary significantly from the values ascribed.

Further limitations relating to assessing climate risks are as follows:

a. **Climate-related risk uncertainty:** Significant uncertainty surrounding the sensitivity of the climate to the concentration of atmospheric GHGs, and further uncertainty regarding the extent to which global efforts to reduce GHG emissions will evolve, significantly challenging the potential assessment of climate-related risks and the magnitude of the possible impacts that these may carry.

b. **Data limitations:** There are economic aspects that are not currently covered by the analysis presented in this document due to lack of reliable, calculable data.

c. **Insurance:** It's difficult to assess the level of insurance that a given company might hold against extreme weather impacts.

d. **Resilience and adaptation:** As with insurance, it is difficult to measure resilience and adaptation measures that a company might have taken or the associated costs to do so.

e. **Supply chain risks:** Supply chain risk is relevant with respect to its linkage to physical impacts. Manufacturing can be seriously affected by broken supply chains, as the distribution of products can potentially be blocked. However, supply chains are often non transparent and complex.

f. **Level of granularity:** Assumptions are made on a number of inputs that may not directly reflect the investee companies' specific situation. This can include carbon prices, asset values and emissions pathways.

g. **Business opportunities:** Some business sectors who might benefit from weather extremes, like insurance companies, or those that provide climate adaptation technology are not covered in this analysis.

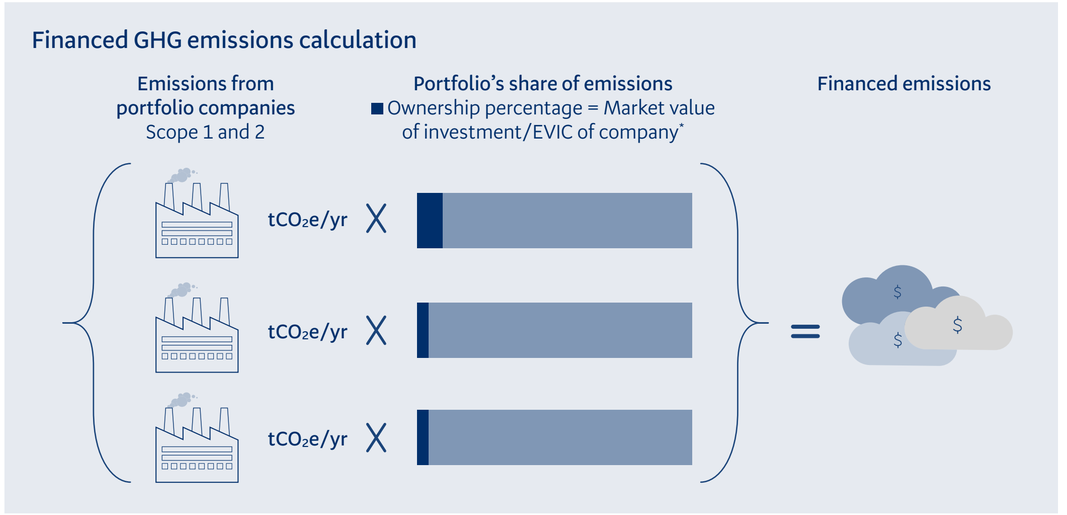
Appendix 2 – Green revenue exposure

The metric used to measure climate-related opportunities at the Scheme level is the weighted green revenue exposure. This has been calculated using MSCI's climate product that maps investee company revenues against the following environmental impact metrics:

- Alternative energy
- Energy efficiency
- Green building
- Natural capital
- Pollution prevention
- Sustainable water
- Sustainable agriculture.

We have selected only the three climate related themes (alternative energy, energy efficiency and green buildings) given the other environmental themes are outside of the scope of climate opportunities. MSCI's methodology involves screening companies that generate revenues from products or services which have a positive impact on each of the categories above and are further delineated by sub-categories e.g. solar, wind and geothermal under the umbrella of alternative energy and zero emissions vehicles, and LED/CFL lighting under the energy efficiency umbrella. The metrics are calculated based on company-disclosed activities and revenue as well as estimates of revenue that are extrapolated from company disclosures and other credible sources like non-government organisations.

Appendix 3 – Financed emissions methodology



* EVIC – Enterprise Value including Cash.

Financed emissions

Financed emissions (shown as total carbon emissions in the Metrics section) are the Funds' share of GHG emissions from the companies it invests in. The GHG emissions of the investee companies are attributed to the Funds based on the Funds' proportional share of investment in each of the investee companies of the portfolio (see Figure M.1).

The Partnership for Carbon Accounting Financials (PCAF)

To calculate the GHG emissions produced by investee companies and the appropriate metrics for each of our Funds, we've used the Financed Emissions Standard developed by the PCAF.

PCAF is an international industry-led initiative that helps financial institutions assess and disclose GHG emissions.

The PCAF Financed Emissions Standard provides detailed guidance for each asset class to calculate the financed GHG emissions resulting from activities in the real economy that are financed through lending and investment portfolios.

Where possible, we have adopted the guidance afforded by the PCAF Financed Emissions Standard across our listed equity, corporate bond, and sovereign bond exposures.

Where there is no current PCAF method for calculating GHG emissions or where reliable data is not yet available from our data supplier, those asset types have been excluded from the scope of the calculations (see Table M.3 in the metrics section above). Asset types excluded on this basis are derivatives and cash.

Limitations

The calculation date of the data and metrics disclosed in this report was 31 March 2025. GHG emissions reported by investee companies can take time to be reported to data suppliers. Therefore, metrics may contain GHG emissions data from earlier periods. Short-term variations in the calculation of GHG emissions metrics can also be impacted due to:

- limited data and/or data quality of investee companies
- changes in reported or estimated GHG emissions of investee companies
- changes in NZD currency.

Some limitations of using the metrics we have chosen include[18]:

Total carbon emissions:

- This metric is generally not used to compare portfolios because the data is not normalised to account for a Fund's proportional investment in a particular investee company.
- **WACI:**
- This metric is sensitive to outliers, e.g. one large investment by a Fund in a particularly high GHG emissions intensive investee company could significantly impact the WACI for that Fund.
- Using revenue to normalise the data to account for a Fund's proportional investment in a particular investee company tends to favour companies with higher pricing levels relative to their peers.

Carbon footprint:

- This metric does not account for differences in the size of companies (e.g. it does not consider the carbon efficiency of companies).

GHG emissions

MSCI Research methodology follows the greenhouse gas protocol (GHGP) in including CO_2 and the five other principal GHGs: hydrofluorocarbons (HFCs), methane (CH_4), nitrous oxide (N_20), perfluorocarbons (PFCs) and sulphur hexafluoride (SF6). Emissions of these gases are accounted for in terms of the quantity of CO_2 that has an equivalent global warming potential.

Scopes

GHG emissions are classified into three distinct 'scopes', as defined by the GHG Protocol Corporate Standard. This involves companies identifying GHG emissions associated with their operations and full value chain and categorising them as direct or indirect emissions.

Scope 1: Direct GHG emissions that occur from sources owned or controlled by the reporting company, i.e. emissions from running boilers, furnaces, vehicles, etc.

Scope 2: Indirect GHG emissions from the generation of purchased or acquired electricity, steam, heating, or cooling consumed by the reporting company. Scope 2 emissions physically occur at the facility where it is generated.

Scope 3: All other indirect GHG emissions (not included in scope 2) that occur in the value chain of the reporting company[19].

[18] We have followed the limitations published by the Task Force on Climate-related Financial Disclosures: Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures 2021, Table 3.
[19] PCAF Financed Emissions Standard.

Appendix 4 – Glossary

Key terms	Meaning
Actively managed investments	Actively managed means that specific investments are selected or traded with the goal of outperforming either the market or a benchmark.
Asset allocation risk	The risk that the allocation of a Fund's assets, across different asset classes, affects a Fund's returns. Funds that invest more in growth assets (such as equities) carry greater risk, but generally offer the potential of higher returns than Funds that invest more in income assets (such as cash or fixed interest).
Bottom-up approach	A bottom-up approach focuses on risks at an individual investee company level.
Capital Markets Assumptions (CMA)	Capital Markets Assumptions are the expected returns, standard deviations and correlation characteristics at an asset class level, and are used as an input for making investment decisions including SAA.
Climate Change Commission (CCC)	The Climate Change Commission has modelled domestic emissions for potential futures based on net zero by 2050, too little too late and hothouse scenarios. The data modelled was used in the FSC scenario for fund managers.
Climate damage function	A mathematical representation used to estimate the macroeconomic costs of climate change, such as GDP losses, based on changes in physical climate variables like global temperature. In NGFS Phase 5, this function reflects updated scientific evidence on the economic impacts of both gradual warming and extreme climate events.
Correlation	Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities or asset classes move in relation to each other. Correlations are used in advanced portfolio management and are computed as the correlation coefficient, which has a value that must fall between -1.0 and +1.0.
Financed emissions	Financed emissions (sometimes referred to as invested emissions) are GHG emissions attributable to financial institutions due to their involvement in providing capital or financing to the original emitter. Financed emissions are included within Category 15 'Investments' of the GHG Protocol Standards. BNZISL's financed emissions are scope 1 and 2 emissions (and scope 3 emissions, where available and relevant) of the investee companies across the BNZISL investment portfolio. (See below for more information on scope 1, 2 and 3 emissions).
Global Change Analysis Model (GCAM)	GCAM is an integrated, multi-sector model that explores both human and earth system dynamics. This integrated assessment model is used by NGFS for developing their scenarios.
Greenhouse gas (GHG) emissions: scope 1, 2, and 3	Greenhouse gas emissions are divided into three distinct categories: • Scope 1 refers to emissions that are directly released into the environment by a business, for example, from vehicles, or running boilers on the premises. • Scope 2 includes indirect emissions, for example, emissions related to electricity that is purchased to run a company's premises. • Scope 3 comprises all emissions both upstream and downstream within a company's value chain. This includes a wide range of emissions produced outside the company, such as transportation, distribution, waste disposal, product usage, and employee commuting.

Continued...

Key terms	Meaning
International Energy Agency (IEA)	The IEA developed global scenarios aligned to net zero, too little too late and hothouse scenario archetypes. The scenarios are specifically looking at energy supply and demand, for utilities, transport and other relevant sectors: • STEPS (Stated Policies Scenario): assumes implementation of current government policies, and commitment to reduce further GHG emissions. • APS (Announced Pledges Scenario): assumes policy implementation as in STEPS, and fulfilment of pledges currently not yet supported by policies. • NZE (Net Zero Scenario): assumes implementation of IEA pathway to net zero emissions by 2050, while minimising cost.
Investee company	An investee company is an entity that the Funds within the Scheme are directly invested in.
Liquidity risk	The risk that investments of a Fund cannot be sold at the desired time or without having a significant impact on their value. This risk is more likely to occur during stressed market conditions.
Manager risk	This is the risk that decisions made by us, and the underlying investment managers we choose, may either positively or negatively affect the return on investments.
Market risk	The risk that the value of a Fund changes due to factors that affect a particular financial market or markets. This could include changes in inflation, interest rates, credit availability, currency exchange rates, monetary policy by central banks, taxation and regulation, global politics, or investor sentiment.
ND-GAIN Country Index	An annual country index provided by the Notre Dame Global Adaptation Initiative (ND-GAIN) summarises a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience. It aims to help governments, businesses and communities better prioritise investments for a more efficient response to the immediate global challenges ahead.
Network for Greening the Financial System (NGFS)	The Network for Greening the Financial System is made up of a group of central banks and supervisors, including the Reserve Bank of New Zealand, which aims to contribute towards the development of climate-risk management.
Partnership for Carbon Accounting Financials (PCAF)	The Partnership for Carbon Accounting Financials is an industry-led initiative to enable financial institutions to consistently measure and disclose their GHG emissions financed by their loans and investments. These emissions are also called financed emissions, invested emissions, or portfolio climate impact emissions.
Passively managed investments	Passively managed means that investments are purchased or sold to mirror the holdings of an index.
Physical risk	Physical risk includes the economic activities impacted by the physical aspects of climate change due to their significant dependence on the natural environment. This can manifest itself through either an acute event (such as flooding or wildfires) or chronic or longer-term shifts in climate (such as increase in temperature). Chronic risks arise from incremental changes and usually take longer to materialise than acute risks, with impacts likely to be much more pervasive.
Risk premium	A risk premium is a measure of excess return that is required by an individual to compensate for being subjected to an increased level of risk.
Science Based Targets initiative (SBTi)	The Science Based Targets initiative is a corporate climate action organisation that enables companies and financial institutions worldwide to play their part in combating the climate crisis through target setting guidance and globally recognised target validation.

Continued...

Key terms	Meaning
Standard deviation	Standard deviation is a statistic term that describes measuring the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. In finance, it is often used as a measure of the relative riskiness of an asset. A volatile stock has a high standard deviation, while a stock with low volatility will have a lower standard deviation.
Stewardship Code Aotearoa New Zealand	The Stewardship Code Aotearoa New Zealand is an industry-led framework that supports investors to partner with companies to create long-term value by responsibly managing their investments. It sets out how institutional investors can best work with companies to minimise risk and maximise resilience in order to increase environmental, social, and economic value. (More info: www.stewardshipcode.nz)
Strategic Asset Allocation (SAA)	SAA is a portfolio strategy. The investor sets target allocations for various asset classes and rebalances the portfolio periodically. The portfolio is rebalanced to the original allocations when they deviate significantly from the initial settings due to differing returns from the various assets.
Taskforce for Climate-related Financial Disclosures (TCFD)	The G20 Taskforce for Climate-related Financial Disclosures, which released initial recommendations in 2017, and which were the basis for the Aotearoa New Zealand Climate Standards.
Top-down approach	A top-down approach focuses on high-level themes impacting countries, sectors, and macroeconomic factors when assessing risks.
Transition risk	Transition risk materialises through a company's and/or country's readiness to transition to a low-carbon economy. These include policy, legal, technological, and market changes in response to mitigating and adapting to climate change. Carbon-intensive companies are more likely to be impacted by the transition to a low-carbon economy; however, the demand for raw materials and new climate regulations will mean almost every sector and geography will be impacted.
Value chain	For a fund manager, the value chain covers the product and service development, investment management, administration, custody, distribution and advice, tax, and other functions (such as legal).