SOUTHERN PASTURES LP

RESPONSIBLY STRIVING TOWARDS SUSTAINABILITY

ANNUAL ESG REPORT 2015
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A Message from the General Partner

This report explains the actions Southern Pastures has taken and is committed to taking to put its Environmental, Social and Governance (ESG) policies into practice.

Dedication to responsible and sustainable investment based around ESG policies of the highest standards were built into the Southern Pastures proposition from inception and as such it is part of the DNA of both Southern Pastures and the General Partner (GP).

Southern Pastures is designed for pension funds and inter-generational investors with its commitment to increase sustainable returns well into the future. Such a focus requires judicious capital investments in the earlier years to increase future environmental and business sustainability.

Sustainability issues are often complex with many diverse and variable inputs and a myriad of outcomes. Many issues are at times global in origin or impact. As a single organisation, Southern Pastures is mindful of its limitations in making a material impact on all issues at a global level. Notwithstanding this, the GP is committed to thinking of the wider global picture whilst acting locally. As part of this strategy, in addition to its own actions, the GP requires its suppliers and service providers to consider ESG issues in their own businesses when seeking business from Southern Pastures.

The GP sees no conflict between promoting sustainability and maximising economic returns. On the contrary the GP is convinced that sustainability is the key to value creation and long term economic out-performance.

Environmental

Improving the environmental sustainability of farms makes a positive contribution to the national good and delivers higher and increasingly reliable long-term returns for investors.

The declining available global per capita arable land\(^1\) means that a portfolio of sustainable dairy farms with water security that minimises external inputs will inevitably increase in long-term value.

Apart from the economic justification for environmental sustainability, the GP’s philosophy is to improve the farms environmentally as a positive contribution to New Zealand and local communities. For ethical investors this ensures that their funds are not being utilised to deplete local farming resources but rather delivers positive and durable local value.

Social

While New Zealand is a global leader in terms of policies related to human, labour, indigenous, and animal rights, the GP has adopted a pro-active approach to ensure that such rights are always respected and in terms of animal rights, the policies go beyond the legal requirements.

Governance

Southern Pastures LP has been structured to ensure that the interests of the General Partner and the investors are aligned, to provide transparency for investors and to consult with an Advisory Committee that represents the Investors. External governance support is provided through the appointment of four independent members to the investment committee, the services of an external custodian (New Zealand Government owned Public Trust), an independent and reputable valuation panel, external accounting, and KPMG as auditors.

ESG Affiliations

Southern Pastures Management Limited (the GP) is a signatory of the United Nations backed Principles for Responsible Investments (PRI), a member of the PRI Farmland Working Group, and a signatory of the Farmland Principles (that was developed by a sub-group of PRI signatories to provide a framework for ESG for institutional investors investing in agriculture).

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\(^1\) Urbanisation, increasing salinity, erosion, and water constraints restricts supply whilst demand is expanding due to an increasing need for food, feed and fuel.
At a local level Southern Pastures is a member of DairyNZ (an industry good body) and a founding member of the Upper Waikato Sustainable Milk Project (UWSM) that is supported by 700 local farmers, DairyNZ, Waikato River Authority (WRA) and central government. All GP directors are members of the New Zealand Institute of Directors (IOD). Messrs Maan and Mourie are members of Federated Farmers of New Zealand.

The GP believes that this document demonstrates our commitment to ESG and that readers will agree that Southern Pastures is at the forefront of best practice in this regard. Your comments and queries are welcomed, please direct them to: maan@southernpastures.co.nz

Prem Maan
Managing Director & CEO

Graham Mourie
Executive Director

Taari Nicholas
Executive Director

Phillip Wight
Executive Director
# Glossary

**DairyNZ**
DairyNZ is the industry good organisation representing New Zealand’s dairy farmers

**DOC**
Department of Conservation

**ESG**
Environmental, Social and Governance

**ETS**
Emissions Trading Scheme

**Farmland Principles**
Investment principles developed by a group of institutional investors to improve sustainability, transparency and accountability of farmland investments

**FMA**
Financial Markets Authority (of New Zealand)

**F&G**
Fish & Game New Zealand

**GP**
General Partner

**Iwi**
Regional Maori tribal group

**Maori**
Indigenous people of New Zealand

**OIO**
Overseas Investment Office

**PKE**
Palm Kernel Expeller, a waste by-product of the palm oil processing

**PRI**
Principles for Responsible Investment, also known as UN PRI

**PT**
Public Trust

**RSPO**
Roundtable on Sustainable Palm Oil

**QEII**
QEII National Trust, an independent statutory organisation

**RFP**
Request for Proposal

**Southern Pastures**
Southern Pastures Limited Partnership

**UN**
United Nations

**WAC**
The New Zealand Walking Access Commission
We believe that the best governance is achieved through structural means that promotes best practice disciplines. To this end the Southern Pastures structure includes:

- **Alignment of interests:** the GP directors on a personal basis are committed to investing alongside and on the same terms as other investors.

- **Long-term focus:** the first performance fees are not due until year 10. This ensures a long-term focus on generating sustainable income.

- **Custody:** New Zealand Government owned Public Trust acts as the Custodian for Southern Pastures and controls all bank accounts.

- **Independent accounting:** the accounts are prepared by Baker Tilly Waikato.

- **Robust audit:** the annual financial statements are audited by KPMG.

- **Independent valuation:** all real assets are valued at purchase and reviewed annually by a member of Southern Pastures valuation panel.

- **Environmental audit and impact:** getting independent environmental reports prepared on the farms prior to purchasing farms as appropriate.

- **Legal due diligence:** commissioning in-depth legal due diligence prior to any land purchases.

- **Investment Committee:** there are four independent members on the investment committee ensuring a fresh unbiased analysis.

- **Advisory Committee:** the GP discusses its operations and plans with the investor appointed advisory committee once a quarter.

- **Cluster meetings:** all farm staff are invited to cluster meetings where farm performance is discussed for benchmarking and improvement purposes.

- **Monthly management reviews:** the Cluster’s operations are regularly reviewed and benchmarked.

- **Regular GP meetings:** the GP directors and key support staff meet as a team on a weekly basis.

- **Daily alerts:** the GP directors get daily collection data from the milk processor on milk collection and quality.

- **Leadership of key areas:** while the GP is responsible for the operations of Southern Pastures, each GP Director has individual oversight responsibilities, or leadership, for key areas as outlined in the matrix below.

<table>
<thead>
<tr>
<th>Overall Responsibility</th>
<th>GP Director</th>
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<tbody>
<tr>
<td>Leadership</td>
<td>Maan</td>
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<td>- Application of proven science</td>
<td>- Animal Welfare</td>
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<tr>
<td>- Local Government</td>
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Iwi is a local Maori tribal grouping. Maori are the indigenous people of New Zealand.

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As part of its stewardship policies, Southern Pastures requires all suppliers and service providers to respond to a Request for Proposal (RFP) that specifically states Southern Pastures commitment to ESG policies and asks for the respondents to provide their own ESG policies. This RFP process ensures that we choose partners, service providers and suppliers that provide an optimum combination of:

- Pricing
- Service levels
- “Fit for purpose” products and services
- “Meeting of minds” on various ESG issues

Southern Pastures has a policy of actively exercising its voting rights in any organisation where it has such rights. These rights are actively exercised.

Southern Pastures and the GP are Registered Financial Services Providers (RFSP) for “keeping, investing, administering, or managing money, securities, or investment portfolios on behalf of other persons” with the Financial Markets Authority of New Zealand (FMA).

The GP believes that Southern Pastures’ RFP process has compelled many organisations to start considering ESG issues and in particular wider global issues that they may have previously not concerned themselves with.
Environmental issues, including climate change, present challenges that the GP believes Southern Pastures can turn into long term opportunities.

The GP’s philosophy is that it is a guardian of land for future generations and as such endeavours to ensure that the farms’ sustainability conditions are at least maintained and where possible improved.

Human life on earth is entirely dependent on a thin layer of productive topsoil, water and moderate temperatures. Farmland that can deliver on these key traits will become an increasingly scarce commodity. The GP believes that by increasing sustainability of farms in temperate water-rich New Zealand, the GP will deliver long-term economic out-performance whilst doing its part in assisting with global food security by making the farms more productive alongside delivering a benefit to New Zealand and local communities.

The steps that Southern Pastures has taken or committed to taking to improve environmental conditions on its farms whilst being mindful of global issues are outlined below.

**Ecological audit**

Prior to the purchase of each farm, if the GP identifies any environmental issues then a comprehensive independent ecological audit is commissioned that in particular identifies native flora and fauna on the farm and areas of significant ecological value.

Business plans incorporate the protection of areas of significant ecological value to promote native flora and fauna.

The environmental audit and Southern Pastures’ business plan, which aim to protect and promote biodiversity, are submitted to the New Zealand Government through the Overseas Investment Office (OIO) as part of an application to purchase farms. This action places an obligation on Southern Pastures to deliver on its environmental protection and improvement plans.

Southern Pastures has and continues to meet its ecological obligations and reports to the OIO on an annual basis.

**Structural integrity**

Prior to integrating any new land area into the dairy platform, Southern Pastures is committed to commissioning independent surveyor and civil engineering reports on the structural integrity of the land and in particular on water flows.

These reports and conversion plans include building suitable structures to enable the preservation of on-farm topsoil while allowing water to flow through to its natural waterways.

**Riverbank Protection**

The riverbanks on some of the Canterbury farms are subject to erosion. Southern Pastures will undertake riverbank protection where necessary.

**Significant Natural Areas**

The Resource Management Act 1991 requires the Department of Conservation\(^3\) (DOC) and Regional and District Councils to protect “areas of significant indigenous vegetation and significant habitats of indigenous fauna\(^4\).”

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\(^3\) The Department of Conservation is a department of the New Zealand Government

\(^4\) Resource Management Act 1991, S 6, (c)
DOC is also charged with “promoting conservation of the natural and historic heritage of New Zealand on behalf of, and for the benefit of, the present and future generations.”

The GP, DOC and the District and Regional Councils have agreed to co-operate and seek to develop farm plans and ecological protocols to foster bio-diversity and to protect wetlands and Significant Natural Areas with Memorandums of Encumbrance.

Promotion of Biodiversity and Native Flora

Grey willow control has been undertaken on two areas of Kereru farm and another area on Miromiro farm.

Wilding pine removal has been undertaken on Manako farm, Kahu farm, Kereru farm and Miromiro farm.

Steeper areas have been retired from farming to allow the reversion of native vegetation on Manako farm, Kahu farm, Kereru farm, Nikau farm, Miromiro farm and Rimu farm.

Native trees have been planted on the perimeters of all effluent ponds.

Shade trees for the animals have been planted on Miromiro farm.

As part of Southern Pastures’ strategy to promote biodiversity the names of some farms have been changed to promote Te Reo (Mori language) and to reflect the biodiversity of New Zealand flora and fauna: Nikau (Native Palm) farm from Palm farm, Rimu (Native Conifer) farm from Gum farm, Kahu (Native Hawk) farm from Osprey farm and Miromiro (Native Tomtit) farm from Rogerson farm.

Wetlands

Southern Pastures is preserving and improving the wetlands on its farms through fencing and removing exotic plants to allow native flora and fauna to flourish. Protected wetland areas are currently being development on the following farms:

Kereru Farm: Two wetland areas will be enhanced over a three-year period to become a single large management unit. Wilding pines have been removed from the escarpment and wetland area to allow indigenous vegetation to flourish. DOC has approved a permanent protection covenant with the Queen Elizabeth II National Trust over 14.2 ha of escarpment and wetland area. Southern Pastures has agreed to protect the area in respect of particular trees, shrubs and plants and the wetland habitat.


6 QEII National Trust is an independent statutory organisation set up in 1977 to “encourage and promote, for the benefit of New Zealand, the provision, protection, preservation and enhancement of open space.” Open Space (as described in the QEII National Trust Act 1977) means any area of land or body of water that serves to preserve or to facilitate the preservation of any landscape of aesthetic, cultural, recreational, scenic, scientific or social interest or value.
**Nikau and Rimu farms:** Two smaller wetlands are being protected on these adjacent farms.

**Kahu farm:** Two wetlands have been identified on this farm and they have been protected and enhanced.

**Manako farm:** A potential new wetland has been identified on Manako farm and Southern Pasture plans to preserve this and to foster native plant regeneration.

**Waima and Mamaku farms:** A number of smaller wetland areas have been identified on these farms and they will all be protected through fencing.

**Riparian protection**

Southern Pastures has ensured that livestock to not get access to waterways through maintenance of existing and installation of new fencing.

Buffer areas have also been retained or established between fences and waterways. Wilding pines and grey willows are being pulled out of such areas and destroyed to enhance the cover, quality and regeneration of indigenous vegetation.

Southern Pastures is fully compliant with all aspects of the Fonterra Dairying and Clean Streams Accord and,

- all livestock have been excluded from waterways;
- culverts have been created as appropriate on new pasture areas;
- all effluent discharge is compliant; and
- wetland areas and waterways have been fenced to exclude livestock and will be further enhanced through the planting of the margins in native trees and plants and the removal of grey willow during the late summer.

The GP is working with DOC to provide access to the community and ornithologists to view, monitor and protect a very rare and endangered native bird, the Kokako (Callaeas Cinereus). Part of the protection of the Kokako will include 1) the removal of feral species to improve the forest cover and the bird’s environment and 2) the control of possums and rats. This is aimed at enhancing the environment of the largest naturally remaining Kokako population in the world (located in an area that borders Mauri farm).

Appropriate plants have also been planted on Kereru farm to encourage bee and native bird activity.

Southern Pastures has also introduced a ‘pets’ policy that restricts the number of cats to one neutered or spayed cat per household and a requirement for such cats to wear bells to warn native wildlife of their approach.

**Fish**

A culvert built by the previous owner on Kereru farm has been identified as impeding fish passage.

Southern Pastures has installed mussel-spats ropes into the culvert as an effective measure to improve fish passage.

**Geothermal**

An area of heated ground has been identified on Nikau farm that may be geothermal.

Southern Pastures has decided to fence this area off for a two-year period to let it rest and regenerate. The area will then be studied to assess its ecologically significance and if required protected to foster biodiversity.
**Pests**

Many of the farms have pests in the tree plantations, particularly possums, feral pigs and deer.

Southern Pastures manages pest populations through the encouragement of controlled hunting by responsible hunters. This is seen as being important to allow the regeneration of indigenous plant species.

**Soil**

Southern Pastures is committed to improving the soil humus and topsoil levels.

This is done through the application of chicken manure and through allowing old tree stumps and other plant material to decompose in piled heaps which are then spread over the paddocks as part of the planned pasture renewal programme.

All livestock effluent that is not naturally deposited on the land by the cows as they graze is collected and spray irrigated over the paddock. The number of paddocks receiving such treatment has increased since Southern Pastures purchased the farms.

**Earthworms**

Southern Pastures has introduced and is fostering populations of beneficial earthworm species that were not present on its South Waikato farms when Southern Pastures first acquired the farms.

Earthworms improve soil quality and productivity through sequestering carbon, castings, and increasing drainage and aeration. This then leads to better pasture production, increased fertiliser and effluent efficiency and retention, lower grass grub pest populations, and virtual elimination of livestock facial eczema.

**Dung Beetles**

Southern Pastures has joined with Landcare Research (a government entity), Environment Southland, the Greater Wellington Regional Council, and the Ministry for Primary Industries (MPI) to research the benefits of dung beetles and to import dung beetles into New Zealand.

Landcare Research has already undertaken extensive research around the benefits of dung beetles and a number of species have been
approved for release in New Zealand. The research has shown that dung beetles improve pasture productivity, soil biological, carbon content and reduce methane emissions. Nutrient leaching can also be reduced by over 80% through utilizing dung beetles, fencing and plantings (in comparison, fencing and plantings without dung beetles reduce leaching by 47%).

Southern Pastures has introduced dung beetles (*Onitis alexis alexis*) onto Miromiro farm as a trial with the long term goal of introducing dung beetles to all Central North Island farms.

**Effluent**

While all the farms are more than fully compliant with current laws, Southern Pastures is working through a programme of increasing effluent storage facilities and areas that effluent is applied to on the farms. As mentioned under ‘Soil’, effluent is seen as a valuable resource to be used to improve soil nutrient levels.

This means that there is less risk of the effluent having to be discharged on wet days when ground absorption is low and there is a heightened risk of the effluent running off-farm.

The GP was chosen by Fonterra to invite the local regional council to one of its South Waikato farms to demonstrate how forestry could successfully and responsibly be converted to dairy farming. The GP demonstrated the farm’s effluent storage and distribution systems, which are in excess of the industry’s current standards.

**Feed pads**

Southern Pastures has continued the construction of feed pads on its farms.

Feed pads are valuable during the wet winter days in particular when they assist in the maintenance of cow condition, preserve pasture areas and provide a better ability to withstand adverse weather conditions. An added bonus is that they also provide better utilisation from and therefore better returns on any non-grazing / supplementary feed utilised. Feed pads also allow for better effluent management.

**Weather patterns and climatic change**

Whilst the Southern Pastures farms are in areas with high and generally reliable rainfall patterns, Southern Pastures is mindful that such patterns can never be relied on 100%.

Southern Pastures has planted additional winter crops and summer crops to supplement the pasture as and when required. The planting of additional summer crops and pastures that can survive during times of low rainfall is planned in order to make the portfolio even more resistant to weather patterns and climatic change.

Southern Pastures actively follows Fonterra’s published suggestions on reducing on-farm greenhouse gas emissions and in this regard has taken the following steps:

- Constructing feed pads;
- Regular pasture monitoring to improve feed utilisation and feed quality;
- Utilising Sustain Nitrogen to reduce ammonia volatilisation at high risk times; and
- Ensuring all farms have nutrient management plans.

**PKE**

Palm Kernel Expeller (PKE) was being used as a feed on the farms when Southern Pastures bought the farms as a going concern. A decision was taken to maintain this for an interim period whilst the farms were further developed to produce more feed and alternatives to PKE were investigated.

Palm oil sustainability is still in its infancy with just 20% of global production being certified as sustainable by the RSPO - up from 14% over the past 2 years.

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7 Roundtable on Sustainable Palm Oil RSPO Website.

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The following countries have industries which have committed to use 100% RSPO certified sustainable palm oil by 2020 – Sweden, Norway, Denmark, Germany, United Kingdom, Netherlands, France and Belgium.

However the trend to RSPO certified palm oil is definitely in ascendancy in that USA, Switzerland, Italy, China, India, and Australia are listed by the RSPO as ‘nations showing positive momentum” towards more sustainable use of PKE.

In New Zealand, Federated Farmers has lobbied for, and the Ministry of Primary Industries is enforcing more stringent rules on PKE importation.

Even though PKE is a waste product of the palm oil process and Southern Pastures purchases are inconsequential, Southern Pastures as part of its RFP process requires potential suppliers to demonstrate and to certify that the PKW they supply is from sustainable sources.

Southern Pastures has completed an RFP process and now sources all of its PKE from RSPO certified plantations and processing processors in Malaysia.

**Offset plantings**

Southern Pastures has adopted a policy of undertaking offset plantings to generate carbon sinks rather than pay ETS liabilities once this becomes economically viable.

This is being monitored but it is noted that at current low carbon prices, it is materially cheaper to discharge ETS liabilities through the purchase of carbon credits.

Southern Pastures is actively managing ineffective and non-exotic forestry areas back into indigenous forest to provide carbon sinks.

**Bees**

Southern Pastures is fostering bee colonies by encouraging responsible beekeepers to place beehives on the farms.

Native plant regeneration that is being encouraged on the farms will provide a valuable food source for the bees.

**Animal Welfare**

Southern Pastures, as a UN PRI signatory, has worked with a group of investors to compile a booklet of case studies to show how investors concerned with farm animal welfare consider this in their investment policies and how they implement farm animal welfare considerations in practice. The booklet is being produced by the Jeremy Coller Foundation and is titled ‘Considering farm animal welfare in investment decision-making, Case Studies & Guidance’ (see www.fairr.org).

DairyNZ (A New Zealand dairy industry body) has highlighted the animal welfare based ‘Bobby’ calf (male calves) practices on one of Southern Pastures’ farms (Tatua) as a case study. These practices ensure the safe and humane treatment of Bobby calves.

**Southern Pastures’ Environmental Sustainability Policies**

Southern Pastures adopted a number of environmental sustainability polices at inception which were:

- The GP will seek to minimise the risk and magnitude of negative environmental impacts and to mitigate such impacts.
- The GP will promote environmental sustainability on a farm-by-farm basis.

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8 Roundtable on Sustainable Palm Oil
9 RFP – Request for Proposal
10 New Zealand’s Emission Trading Scheme
• The GP will seek to promote bio-diversity through, where economically viable, the creation of regeneration reserves and wetlands.
• The GP will not clear any native forests or virgin land for farmland.

The GP has used the Southern Pastures policies as its touchstone and has strictly adhered to them.
New Zealand is generally regarded as a leader in social issues including human and animal rights. Nevertheless Southern Pastures has its own policies that complement and at times go beyond local legal requirements.

These policies and the steps taken by Southern Pastures to comply with them are outlined below.

**Existing Land and Resource Rights:** The GP will respect existing rights to land and natural resources and proactively protect and provide access to any sites of cultural significance to the local population.

The Resource Management Act 1991 requires the New Zealand Government including DOC, Regional and District Councils to provide for “(d) the maintenance and enhancement of public access to and along the coastal marine area, lakes, and rivers; and (e) the relationship of Maori and their culture and traditions with their ancestral lands, water, sites, waahi tapu\(^\text{11}\) and other taonga.\(^\text{12,13}\)

The GP has met with the Department of Conservation, the local Regional Council, the local district council, local public good organisations and Iwi and discussed the GP’s intention to co-operate with them to protect existing land and resource rights.

In particular the GP has met with:

- the Department of Conservation (DoC) to discuss providing access to DoC to significant areas of interest.

- Fish & Game New Zealand\(^\text{14}\) (F&G) and agreed to provide access through one of its farms for F&G members to travel through to a fishing area that would otherwise be inaccessible.

- the New Zealand Walking Access Commission\(^\text{15}\) (WAC) to discuss the Commissions principles and aims and their areas of interest on the farms and waterways.

**Human Rights:** The GP will respect human and labour rights.

The GP has held seminars on health and safety issues for its sharemilking staff.

All GP and farm staff have been informed of the GP’s expectation that fellow staff are to be treated with due respect.

All staff have been informed of the GP’s whistleblower policy that allows human or animal rights abuses or any criminal or fraudulent activity to be brought to any GP director’s attention without fear.

In a global context, Southern Pastures has ensured that the phosphate that it buys is not from Western Sahara. This is due to concerns about possible human, labour and indigenous rights abuses in the region.

**Indigenous Rights:** The GP respects the Treaty of Waitangi as the founding document of modern New Zealand and the indigenous (Maori) peoples rights enshrined therein.

The GP has meet many times with the local iwi\(^\text{16}\) with the aim of developing a long-term mutually beneficial,

\(^{11}\text{waahi tapu = sacred sites}\)

\(^{12}\text{taonga = treasures}\)

\(^{13}\text{Resource Management Act 1991, S 6 (d), S 6 (e),}\)

\(^{14}\text{Fish & Game New Zealand is a non-profit organisation that manages, maintains and enhances sports fish and game birds and their habitats in the best long-term interests of present and future generations of anglers and hunters. It is funded by fishing and hunting licence fees.}\)

\(^{15}\text{The New Zealand Walking Access Commission is the Crown (i.e. State or Government) entity that works to enhance free, certain, enduring, and practical walking access to the outdoors for New Zealanders and overseas visitors.}\)

\(^{16}\text{Iwi – Maori Tribe – Maori are the Indigenous people of New Zealand}\)
positive and pro-active relationship with them.

The GP has provided access through our farms to the Iwi to support their plans to clear local streams of weeds.

The GP has worked with local Iwi and their archeologists to investigate an area on one of Southern Pastures’ farms that showed signs of pre-European settlement. The GP has reserved this area from farming operation to preserve the site in its current form and the GP will allow the iwi access to the site.

The GP has agreed to allow a Central North Island Maori community to plant shelter trees along a shared boundary to provide protection for their village against prevailing winds.

Southern Pastures has changed the names of twelve of its farms to Maori names to promote the sustainability of the Maori culture and the Maori language and to better reflect New Zealand’s natural environment.

<table>
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<tr>
<th>Farm Name</th>
<th>Meaning</th>
<th>Previous Name</th>
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<td>Waima</td>
<td>White Water</td>
<td>Tiger</td>
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<tr>
<td>Mauri</td>
<td>Spirit of Life</td>
<td>McDowall</td>
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<td>Manako</td>
<td>Desire/Hope</td>
<td>Grizzly</td>
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<tr>
<td>Kahu</td>
<td>Native Hawk</td>
<td>Osprey</td>
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<td>Kereru</td>
<td>Native Wood Pigeon</td>
<td>Granite</td>
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<tr>
<td>Nikau</td>
<td>Native Palm species</td>
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<td>Rimu</td>
<td>Native (gum) tree</td>
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<td>Native Tree Fern</td>
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<td>Miromiro</td>
<td>Native Bird (Tomtit)</td>
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<td>The Plains</td>
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<td>Pareka</td>
<td>Riverbank</td>
<td>Inch Farm</td>
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</table>

**Food Security**: The GP will act to ensure that farmland investments enhance rather than diminish food security at both a local and a global level.

The GP’s plans include increasing milk production and sustainability. This enhances food security.

**Animal Welfare**: The GP will employ farming systems based on humane treatment of the livestock. The GP’s policy in particular requires: free-range farming systems, no call inducements unless required by a vet for the cow’s health, adequate feeding of calves, no tail docking of cows, and no live exports of animals.

These polices have been complied with and written into sharemilking contracts where applicable.

All GP and farm staff have been informed of the GP’s expectation that livestock are to be treated humanely.

It is worth noting that, as far as we are aware, Southern Pastures is the only entity in New Zealand that has
explicitly ruled itself out from participating in the live cow export trade\textsuperscript{17}.

**Empowering Local Participation:** The GP will actively seek to empower local participation by employing local people wherever possible and encouraging the economic participation in the farms by key staff and sharemilkers.

The GP continues to comply with this policy and has provided financial support to some of its sharemilking staff to enable them to continue on in their roles.

The GP has offered to provide sponsorship of local school and community projects. It has also supported a community event to introduce new members to the community.

**Responsible Global Citizenship:** The GP will take action based on being a responsible global corporate citizen.

In this regard the GP has adopted the following policies

- Only sourcing PKE sourced from RSPO certified plantations, facilities and processors as a feedstock for its livestock, and
- Not sourcing phosphate from Western Sahara.

The GP believes that its actions, through the questioning in its RFP, has in its small way contributed to global good as it forced importers of PKE and phosphate to confront sustainability and human rights issues that they previously had either been unaware of or not focused on.

In a local context, Southern Pastures has funded the following projects in the Central North Island:

- Library books; and headphones for the hearing impaired for Amisfield School - a local school in Tokoroa that children of the sharemilkers and their staff attend;
- iPad for Central Kids Kindergarten – a local kindergarten in Tokoroa that children of the sharemilkers and their staff attend;
- Creation of a bus stop shelter area near the Mamaku dairy farm. Southern Pastures worked with neighboring farm owners and provided the roading materials as part of this joint initiative. This new bus stop will help children of the sharemilkers and their staff to attend a local school. The bus did not previously pick up children from this location so this contribution has a tangible benefit to the local community;
- Sponsored a sharemilker who completed a trail walk to raise money for Oxfam;
- Sponsored a Federated Farmers event welcoming new sharemilkers to the South Waikato region

\textsuperscript{17} While New Zealand does not permit the live exports of animals for the meat trade, it does permit the live exports of cows for the establishment of dairy farms in other countries.
APPENDIX 1:
PRI Principles for Responsible Investment

The Principles for Responsible Investment (PRI) were developed by an international group of institutional investors, reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The United Nations Secretary-General convened the process.

As a signatory of the PRI, we (Southern Pastures Management Limited (the GP)) are committed to implementing the Principles, where consistent with our fiduciary responsibilities, to better align our investment activities and the interests of our investors with the broader interests of society.

The preamble to the signatory states:

“As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Consideration of ESG issues is a specific requirement for all our investment analysis and incorporated into our decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
ESG issues have been integrated into our operating business plans for the assets

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
We have sought and reviewed ESG policies of the entities into which we have invested.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
We have promoted PRI and ESG in our marketing to other institutional investors.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
We are participants in PRI Farmland Working Group and in the Farmland Principles group of investors in farmland.

Principle 6: We will each report on our activities and progress towards implementing the Principles.”

We participate in the formal reporting to PRI and this report is an additional report on our activities and progress towards implementing the Principles.
Appendix 2:

Farmland Principles

Investing in farmland has emerged as a new asset class for institutional investors.

‘Farmland Principles’ were developed by a group of institutional investors in September 2011 to guide investors who wish to invest in farmland in a responsible manner.

Southern Pastures Management Limited (the GP) became a signatory to the Farmland Principles in August 2012 and committed to applying the Principles in its activities.

Principle 1: Promoting environmental sustainability
As outlined under the ‘Environmental’ section, we have undertaken measures aimed at protecting the environment and contributing to sustainability.

Principle 2: Respecting labour and human rights
As outlined under the sub-section ‘Human rights’ in the ‘Social’ section, we have taken measures to ensure that labour and human rights are respected. We have also ensured that animal rights are also respected.

Principle 3: Respecting existing land and resource rights
As outlined under the sub-sections ‘Existing land and resource rights’ and ‘Indigenous rights’ in the ‘Social’ section, we have respected existing land and resource rights.

Principle 4: Upholding high business and ethical standards
As outlined under the ‘Governance’ section, we have adopted and practised the highest business and ethical standards. We have promoted such standards to our suppliers and service providers by specifically requesting information on their ESG policies and practices in all RFPs.

Principle 5: Reporting on activities and progress towards implementing the Principles and promoting the Principles
This report is our second annual report in this regard.
APPENDIX 3: STEWARDSHIP PRINCIPLES

The GP has adopted the following principles based on the Financial Reporting Council’s UK Stewardship Code.

**Principle 1:** Institutional Investors should disclose their policy on how they will discharge their stewardship responsibilities.

Stewardship responsibilities have been incorporated into investment and management decision-making.

**Principle 2:** Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be disclosed.

The GP regards investor interests as paramount and is committed to managing any conflicts of interest fairly and to carrying out its business in compliance with the highest standards or corporate governance and control. The GP recognises that conflicts of interest may arise and has a clear policy on how to manage such conflicts:

- Commitment of all directors to conflict identification and management
- Consistent treatment of conflicts of interest (such as not being able to vote on any matters where there is a conflict and/or not being privy to any new information once the conflict has been identified)
- Regular reviews of the policy.

**Principle 3:** Institutional investors should monitor their investee companies.

The only significant equity investment Southern Pastures has is in Fonterra and the GP maintains a dialogue with Fonterra to ensure that it is as fully informed as possible.

**Principle 4:** Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

The GP will vote in any of Southern Pasture’s investments in line with its core philosophies. If there was a particular issue where the GP felt that the investee company was not managing its risks/ opportunities in a responsible manner then the GP will endeavour to engage in a more active dialogue.

**Principle 5:** Institutional investors should be willing to act collectively with other investors where appropriate.

As per Principle 4, if the GP felt that a company was acting in a manner that was not consistent with the GP’s core philosophies, then the GP will endeavour to identify similar minded investors with whom it could act collectively in order to maximize the potential for a positive change.

**Principle 6:** Institutional investors should have a clear policy on voting and disclosure of voting activity.

The GP has a clear policy of voting in line with its core Responsible Investment Principles. All voting is disclosed to investors.

**Principle 7:** Institutional investors should report periodically on their stewardship and voting activities.

The GP reports to investors through quarterly advisory committee meetings, annual reports, annual meetings and through an annual ESG report.