Welcome to the Autumn edition of Investor

Hot on the heels of the Paris Climate Conference in December last year, New Zealanders enjoyed one of the warmest summers on record. In this issue's lead article, we explore the economics of climate change – and the implications for companies and consumers across New Zealand.

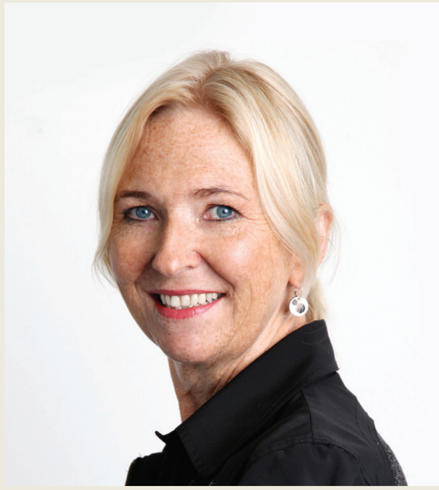
We also shed light on the foundations of a solid financial strategy on page 9. The core focus is on the issue of underinsurance in New Zealand – and how this may be leaving many of us exposed to unnecessary risk.

In a rapidly changing world, the rise of the flexible working environment is a movement that Westpac continues to champion. In our article "Say Goodbye to the 9-5", we go into more detail on what this growing global trend means for both employers and employees.

As always, our team of dedicated Financial Advisers is on hand to help you with your investment strategy. In this issue, Executive Financial Adviser Tony Conroy shares his thoughts on long-term investment objectives and the importance of going the distance.

You'll also find our regular features in this issue, including "Stocktake", a profile of three companies you may have investments with through our managed funds.

We hope you find this edition of Investor insightful and interesting. As always, if you have any questions or feedback, please feel free to get in touch with us.



Warm regards,

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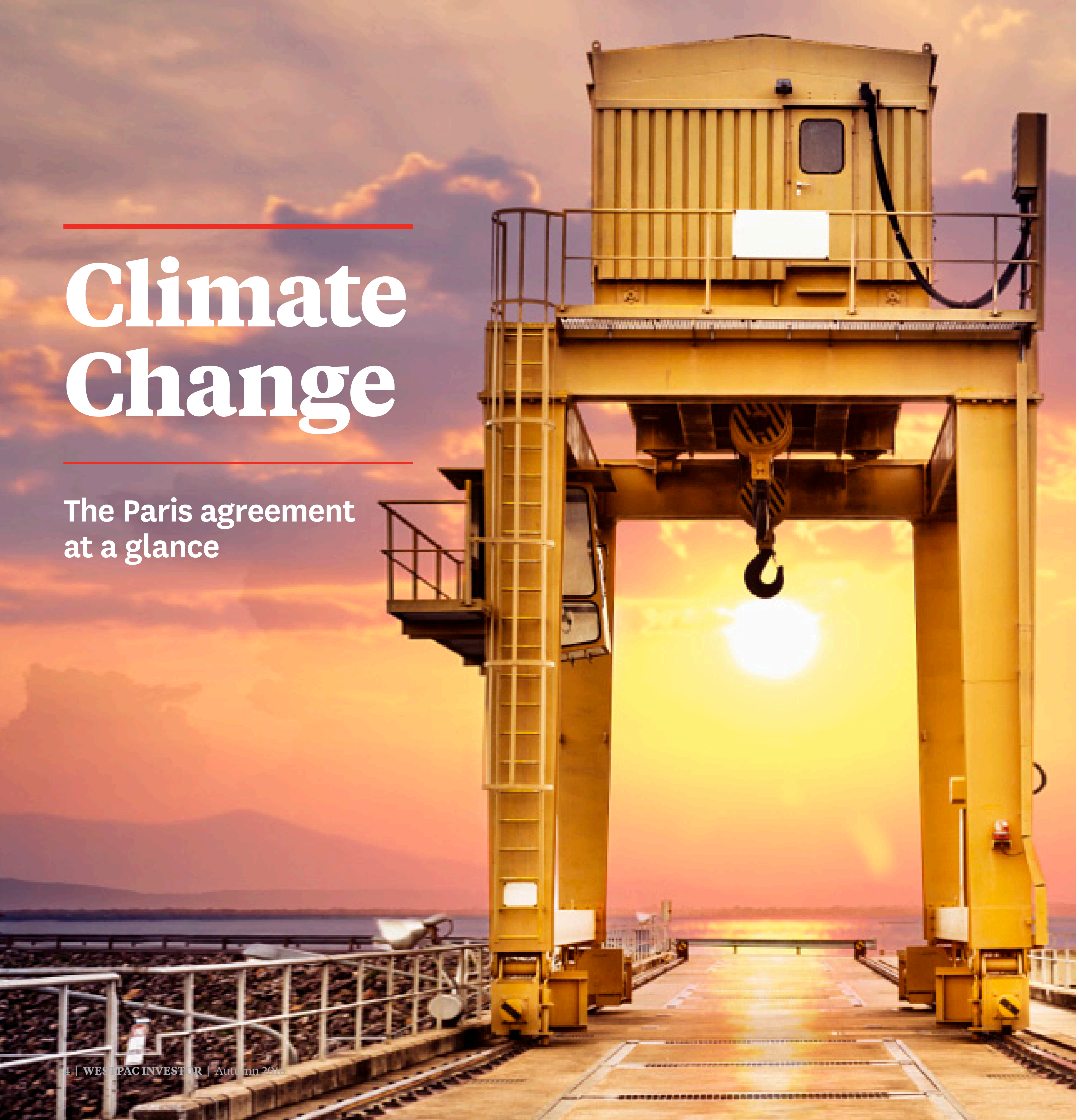


Climate Change

The Paris agreement at a glance

When Leonardo DiCaprio finally clinched a best actor Oscar this year, he covered off the usual acceptance speech touchstones. The Academy, cast, crew and studio bosses all received a hat tip; his parents too, naturally. But DiCaprio used his moment in the global spotlight to direct attention to climate change.

"Climate change is real, it is happening right now. It is the most urgent threat facing our entire species, and we need to work collectively together and stop procrastinating."

Cutting the procrastination and pulling together was certainly the agenda late last year at the 2015 Paris Climate Conference when close to 200 countries signed up to what is now known as the Paris Agreement.

What happened in Paris?

World leaders from 196 countries agreed to a deal aimed at keeping increases in average global temperatures to no more than 2°C above pre-industrial levels, ideally with temperatures increasing no more than 1.5°C. That agreement will be opened for signing on 22 April 2016, but can only become legally binding if signed before 21 April 2017 by at least 55 countries representing 55 percent of global emissions.

This is a step forward from the climate change conference in Copenhagen six years earlier – talks that ended in disarray rather than agreement.

As part of the Paris agreement, countries tabled Intended Nationally Determined Contributions (INDCs) setting out how they would trim back CO^2 gas emissions over the next 5 to 15 years.

While these INDCs alone won't be enough to bring predicted temperature rises below the 2°C mark, it's a good start. And with the INDCs set for review every five years there are regular opportunities to beef up the country-by-country commitments.

Longer term, the Paris agreement aims to cut emissions to the point where they're balanced out by carbon absorption. The ultimate goal is net zero emissions – with a plan to achieve this between 2050 and 2100. UN climate experts say 2070 is the critical deadline for zero emissions.

On the home front

In the lead-up to the Paris conference, New Zealand set a new target to cut greenhouse gas emissions to 30% below 2005 levels by 2030. The Government states it will meet that target through a mix of domestic emission reductions, the removal of carbon dioxide by forests and participation in international carbon markets.

Dr Suzi Kerr, from non-profit research institute Motu Economic and Public Policy Research, says the cumulative nature of carbon dioxide emissions means every reduction made along the way counts.

The challenge is working out how to bring in new systems and technologies that are zero emission while phasing out old habits and existing technology.

Kerr says it will come down to two solutions: a technology approach such as electric cars, renewable energy, efficient heating and the like – some of which are already in action, some still evolving – combined with social reform aimed at changing habits and the way we use zero emission technology.

"The solution ultimately will be some mixture of those. Neither of those alone will do the whole job but there are lots of choices."

- Suzi Kerr

Making it work in New Zealand

It is clear there will be no quick wins when it comes to reducing New Zealand's emissions, but with emissions 25% above 1990 levels and climbing, action needs to be taken.

One of the bigger challenges in New Zealand is our agriculture industry. Currently, it's responsible for the majority of New Zealand's emissions – in 2013 the sector totaled 48% of all gas emissions.

While this needs to change in the long run, former Climate Change Issues Minister Tim Groser announced that it is currently not cost-effective to reduce agricultural emissions, when he revealed the new climate change targets last year.

"We are putting considerable investment in research and development to find new options to reduce agricultural emissions, and we will continue to work with the agricultural sector to enable and incentivise the sector to adopt new mitigation options as they become available." says Groser.

while there is no quick fix for the reduction of agricultural emissions, the sector certainly isn't sitting on the climate change sidelines, with the likes of the New Zealand Agricultural Greenhouse Gas Research Centre overseeing work to develop innovation in pastures, animal breeding and soil carbon storage.

Right now, the exclusion of agriculture means passing the cost of reducing emissions onto the other half of emitters – our transport, energy, industrial and waste industries – as well as the taxpayer. However, there are several options, at the industry and individual levels, which could help meet the targets set out at the Paris conference last year.

Emissions trading still has value

Kerr says New Zealand's small size and market orientation has meant it has taken the lead on things like emissions trading, where it was among the first in the world to launch a scheme.

Back in 2008, The Emissions Trading Scheme (ETS) was established to help meet New Zealand's climate change targets. The scheme, which is currently under review, put a price on greenhouse gas emissions that provided an incentive to reduce emissions and plant forests to absorb carbon dioxide.

A surplus of credits when energy demand crashed in the shadow of the Global Financial Crisis saw prices plummet, offering major polluters a cheap way to offset emissions. But since mid-2015, New Zealand companies have been unable to purchase cheaper offshore carbon units to offset emissions, nudging businesses towards reducing their emission levels.

Petrol retailer Z Energy agrees that purchasing carbon units at the right price gives New Zealand an opportunity to build on the momentum created by the Paris agreement.

"A market-based emissions trading scheme is likely to be the most effective way to encourage meaningful behaviour change" says Z Energy in its submission on the ETS review.

As an early advocate of the transition to a low-carbon environment, Westpac is committed to the development of a successful emissions trading scheme. In a submission on the ETS review, Westpac noted the need for a progressive approach to climate change that would achieve environmental integrity, economic efficiency, investment certainty and market confidence.

That approach is beginning to take shape, with Climate Change Minister Paula Bennett announcing the upcoming removal of the subsidy on carbon emissions at an international conference held in Wellington in March. That 'two for one' concession, initially put in place to support businesses" after "initially put in place in the wake of the global financial crisis, allowed big emitters to offset only half of their emissions.

"It was always a temporary measure," said Bennett. "It is abundantly clear that if the ETS is going to work, carbon must cost more than it does right now."

A final decision on the ETS review is expected in the coming few months, but as Bennett states, it is not a question of if but when these stricter restrictions on the big emitters are put in place.

Change is happening now

Increased penalties for excessive gas emissions may sit with our core industries, but those costs will be passed onto consumers through price increases and tax hikes. So in order to climate-proof New Zealand, collaboration will be key to success – alongside technological change and a shift in behaviour towards sustainable consumption.

Many of New Zealand's industries, research institutes and NGOs are already making positive changes and the Sustainable Business Council says there's a lot of business goodwill for progress on the state of our climate.

Business organisations are contributing to a shift towards green economic growth through programmes like the Sustainable Business Network and Pure Advance. These and other initiatives focus on developing new economic opportunities and sustainable business practices that can add value to our economy.

On the forestry front, the Government has started a $22.5m incentive programme, which it hopes will see about 15,000ha replanted over the next six years. If successful, that programme will go some way to offset greenhouse gas emissions from other industries.

Certainly within the energy sector, the age of the power station is coming to an end. Genesis Energy has announced it will close the country's last two coal-fired electricity generators at Huntly in 2018 and Mighty River Power will close its last gas turbine this year.

And with 17 percent of New Zealand's total emissions generated by transport, there is a growing need for innovative transportation solutions such as electric cars, car-pooling and "access, not ownership" strategies.

The transition to electric cars is already a realistic option. Mighty River Power chief executive Fraser Whineray says New Zealand has planning consent for enough green power to make a complete switch to electric cars.

Estimates suggest that by 2030, 10%-20% of New Zealand's vehicle fleet will be electric, as consumer uptake of "green" alternatives increases.

Investing in the future

As the government gets to grips with how it will address climate change, it is important for investors to understand the impacts of that on their portfolios.

Global consultant Mercer has expanded further on the implications of climate change for investors, identifying four key risk factors: technology, resource availability, impact and policy.

Mercer sees the focus shifting towards the development of technology to support a low-carbon environment, as well as the changing impact and nature of resources and the social policies put in place to reduce the risk of further climate change.

Further afield, international not-for-profit organisation The Carbon Disclosure Project (CDP) is driving greater transparency around climate change by lifting the lid on corporate emissions data. Currently the largest global source of environmental information, CDP provides investors with targeted sector insights to encourage dialogue between investors and companies.

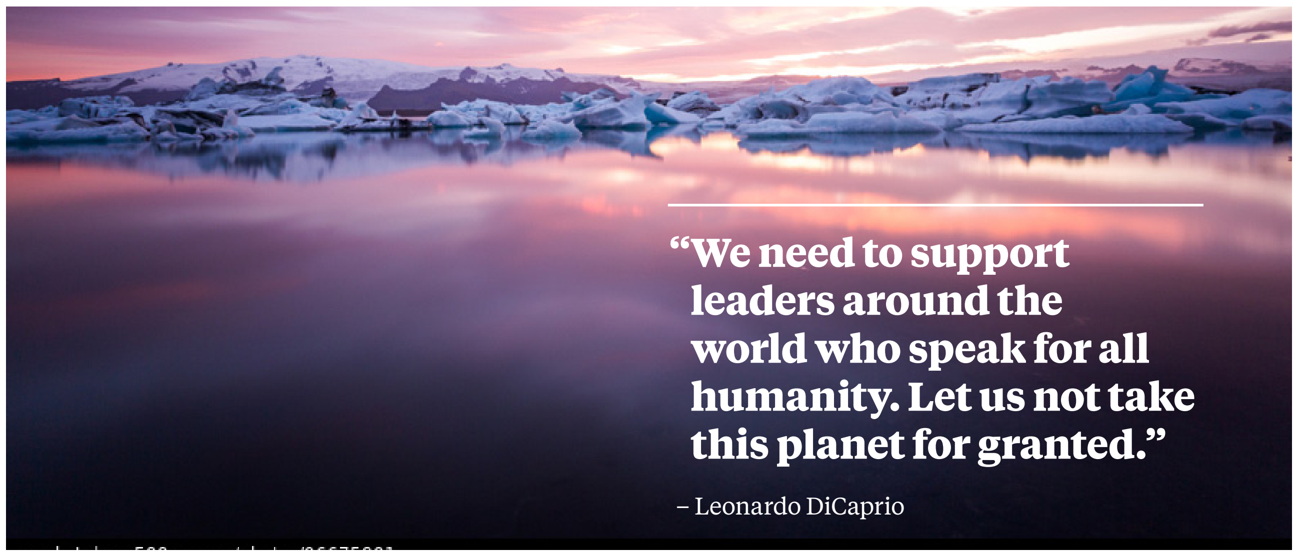
Since its inception, CDP has seen a twenty-fold increase in investor signatories – and in 2015, its initiatives were backed by 822 institutional investors representing more than US$95 trillion in assets.

According to James Magness, Head of Investor Research at CDP, the Paris conference further highlights the role of investors in the transition to a low carbon world and underpins the need for high quality climate change research.

As institutional investors look to reduce the risks of climate change to their portfolios, demand for more comprehensive research and information is growing. CDP, voted the no. 1 climate change research provider in 2015, is a frontrunner in that transition. But as we continue to address the national and international implications of climate change, more research will inevitably emerge.

BT Financial Group, the investment arm of Westpac in New Zealand and Australia, believes that good environmental, social and governance factors (ESG) could be material to long-term returns. As such, ESG is becoming an increasingly important component of its investment strategy.

Professor Dave Frame, Director of the Climate Change Research Institute at Victoria University says we're up in the front bunch when describing New Zealand's position in the race to control climate change. Now, it is about making informed decisions and weighing up the risks and rewards of investing in future change.



Feel like you have your financial plan sorted?

Kiwis now have a better understanding of the importance of having a good retirement plan in place. With NZ Super covering a basic standard of living, KiwiSaver has provided New Zealanders with an easy way to grow their savings over the long term for a more comfortable lifestyle in retirement.

But what about your other financial goals?

Planned holidays? Home renovations? Your childrens' education? Building up your business?

These all require regular saving and possibly investing. Your ability to earn an income is a key factor in achieving these financial goals. But if your income stopped, could you:

Maintain your current standard of living?

Continue building towards the future lifestyle or plans you have in mind?

Fulfil your dreams and tick things off your bucket list?

Insurance protects what you have built

The foundation of any good financial plan is protecting what you have already built up. You've worked hard to build the lifestyle you have – and chances are you have insurance in place to protect your physical assets. But it is also important to protect the pillar that supports your lifestyle, your income.

With the right insurance cover in place, you can continue to build the lifestyle you enjoy now, as well as make plans for the future.

The Underinsurance Project, commissioned by the Financial Services Council and Massey University, estimates that only 57-60% of New Zealanders have life insurance coverage – and that plummets to 15-20% coverage for income protection. That coverage, alongside 'living insurance' such as crisis cover, enables us to maintain our lifestyles and safeguard our loved ones if our financial security is challenged by illness or injury.

Our families and our life-work balance are highly valued by New Zealanders. Yet it is clear that our ability to protect these, by having the right insurance in place, is significantly misaligned.

Whether you're employed full time, a stay-at-home-parent or a business owner, insurance protection should never be underestimated. If the unexpected happened and you were unable to work, could you continue to support your family?

Adviser Profile

Tony Conroy

Need help planning for retirement or understanding the best way to invest? Phone **0800 601 901** to set up a time to speak to one of our Authorised Financial Advisers.

From his 23-year career in financial services to restoring his 1902 Kauri Villa, Tony Conroy has always believed in thinking long-term. And it's this focus on long-term investment strategies that Tony's clients at Westpac have benefitted from over the last four years.

What is your background in the industry?

I started out in financial services in 1992 following a stint as a solicitor with Perpetual Trust's head office in Dunedin. During my time at Perpetual Trust, I developed a keen interest in financial markets and so began studying towards my financial qualifications. Thereafter I moved to an independent financial planning firm and later transitioned into an advisory and financial planning role at PriceWaterhouse Coopers, followed by BNZ and then Forsyth Barr. With nineteen years' experience behind me, I moved to Westpac, where I've been advising clients for over four years.

What are you excited about for the year ahead? Where do you see the opportunities?

Having enjoyed a good run in the markets in recent years, it is now more important than ever for clients to stick to well-thought through investment strategies. Throughout my career, investors I've seen remain focussed on long term objectives are those who are well rewarded. Personally, I'm looking forward to helping existing clients remain focussed through the increased volatility we are expecting this year.

With a low interest rate environment, many investors are wondering where to invest and how to fund their retirement – areas where I am able to provide much-needed assistance.

What's the most important thing you can do to help your clients realise their financial goals?

It's very important to understand each individual's goals so I am in a position to help achieve them. Again, keeping the focus on long term objectives is the most important factor, and ensuring my clients don't become distracted by the short term "noise" of the markets.

What do you do to relax?

I enjoy socialising with friends and family, spending time at our crib – a 'bach' to Northerners – by the beach. Recently, I've been busy restoring our old 1902 kauri villa, along with restoring a couple of old cars.

Stocktake

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Saying goodbye to the 9-5

Is it possible to get more from less?

At the heart of a global trend towards flexible working hours is the belief that less can deliver more when it comes to work.

The trend shows a pull away from traditional working hours in favour of arrangements that, together with technology, can not only boost productivity but also give employees greater autonomy. But what is driving this trend? Why is it important? And is it really possible to get more productivity from less structure?

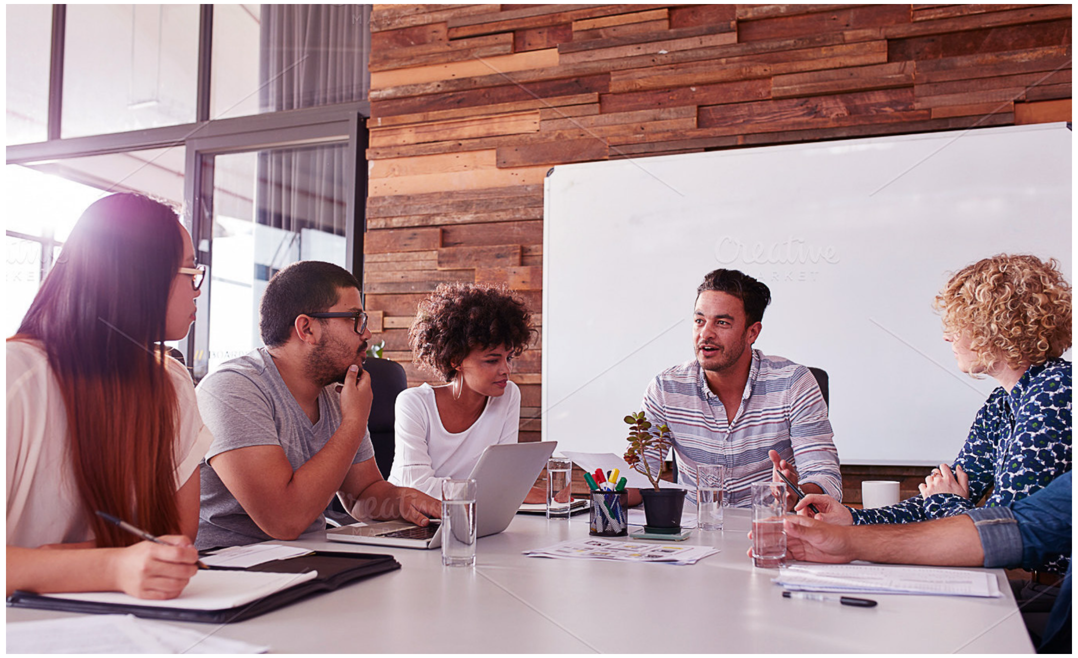
Game changing technology

The Industrial Revolution gave us the 9-5 workday, but the Information Revolution has given us 24/7 connectivity. The rise of digital technologies like mobile internet, apps, online messaging and cloud-based software has changed the way we live and work. By digitising the work environment, companies are now able to increase productivity by introducing more flexible working practices. According to Olivia Blaylock, MD of leadership and sales training firm David Foreman, "People are the most direct way to creating a high-performance culture and growing your business." Now more than ever, long-term success hinges on a company's ability to tap into the energy and talents of its people, as well as leveraging new technologies.

Introducing the big players

As with any form of widespread change, there are early adopters and late starters – and global industry leaders are leading the trend towards greater flexibility and freedom. Back in 2004, the still relatively small Netflix attracted attention when it went public with its HR policies encouraging employees to set their own working hours and keep track of holiday leave. Since then, the company has grown to become the world's leading subscription video on demand (SVOD) service. During 2013 alone the company's stock more than tripled, its U.S. subscriber base grew to nearly 29 million and Netflix states it has also directly benefited from increased talent density and employee freedom.

> *"Productivity is the key determinant of a country's standard of living in the long term."*
>
> - New Zealand Productivity Commission



Change at the national level

It's not just large corporations that are bringing about structural changes in the workplace. We are also seeing national changes through initiatives like Singapore's Work-Life grants, which offer funding of up to $120,000 as an incentive for companies to offer flexible working arrangements. Similarly in Sweden, private and public sector workers have been experimenting with a 6-hour working day and lead project consultant Bengt Lorensson states "Right now, we're only looking at early indications, but we can see the quality of work is higher."

According to Maria Brath, boss of Swedish Internet startup Brath, the six-hour workday is a competitive advantage because it attracts better staff and keeps them. Stockholm-based career coach Pia Webb has also noted the trend, saying "Swedish businesses understand that a healthy workforce is more productive." There is a long list of studies that support this view, with a recent Fortune 500 company study finding that flexibility meant employees achieved more, were happier at work and less prone to burnout. The phenomenon is clearly being embraced from the top down, with the results providing valuable insights and guidance for organisations worldwide.

What's happening in New Zealand?

New Zealand has a workforce that Roman Rogers, executive general manager of Hudson Recruitment New Zealand, says is particularly inquisitive, with a pent up appetite for change. But we have been slow to stray from traditional working hours and currently, there is a disparity between the hours we work and the output created. According to a 2013 report by the New Zealand Productivity Commission, our labour input is among the highest in the OECD, but our hourly productivity ranks in the lower third of OECD countries. So with more people in the workforce, working longer hours, New Zealand has not been able to balance its effort with its productivity. This has opened the door to exploring new work structures that are more in line with global trends.

The transition to flexible work has proved successful for New Zealand telephony company Cogent. CEO Ray Noonan says that the new 'BYO device' policy and extended hot-desking has led to happier, more productive employees and savings of $1 million a year. Cogent is not alone; initiatives like Generator Auckland and The Crate are capitalising on that need for flexibility by renting out fully equipped workspaces. Bayleys National Director for commercial real estate John Church states, "It is a chance to feed off the move toward a more mobile and independent workforce" and is proving highly cost-effective for individuals and businesses.

The growth of the Millennial demographic, the diversity of global teams, and the need to innovate and work more closely with customers are driving a new organizational flexibility – Deloitte, Global Human Capital Trends 2016

Within Westpac, flexible working is considered standard among employees, with 54 percent of those surveyed in 2014 already working non-traditional hours in some way. That is in part thanks to the 'All in Flex' structure where all roles are considered flexible.

That policy is suplemented by a staff portal, making it easier for employees to take advantage of part-time work, flexible hours, working remotely, condensed weeks and job sharing. Equally important is the bank's internal support network, made up of 'flexibility champions' who enable employees to ask questions, raise concerns or give feedback on their working structure. By facilitating new, fluid working arrangements, Westpac is able to draw from a wider talent pool, support employee engagement and encourage greater work-life balance for all.

As our workforce becomes more educated and marketable, the power has shifted in favour of the employee. And that employee is likely to be young, skilled and technologically savvy. A Deloitte New Zealand survey published last year predicted Millennials will make up 75 percent of the global work force by 2025.

That is significant for today's leaders since it highlights the changing landscape of business towards a digital, collaborative and flexible environment. According to the NZ Productivity Commission, the pace at which new and more efficient technologies and business practices are adopted is key to long-term success. Companies that lag behind in technology adoption and employee engagement will struggle to attract our future leaders.

Where to from here?

New Zealand has a reputation for innovation and creativity, with a skilled workforce, solution-driven thinking and an entrepreneurial business culture. While the 9-5 workday is still ingrained in our psyche, it is becoming increasingly clear that as our lives continue to evolve, so too will our working environment. This evolution is already in motion among forward-thinking organisations, with the adoption of new technologies, new ways of working and the mantra 'work smarter, not longer'. Clearly, a more fluid work-life balance will allow us to balance the books between input and productivity, benefiting both employer and employee.