Profile of the asset allocation to international equities in the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme

As at 31 March 2022

We apply our responsible investment policy across everything we invest in. The core component (or the MAS responsible investing mandate) of the international equities asset allocation in the MAS KiwiSaver Scheme and the MAS Retirement Savings Scheme is managed to select companies that are leaders in their industries with respect to environmental, social and governance (ESG) practices. This is approximately 75% of the total international equities portfolio. The remainder is invested in accordance with the MAS responsible investing policy on exclusions, but takes into account factors other than just ESG ratings. International equities forms a part of the growth asset allocation within our Funds.

In this summary, we profile the top ten holdings within the MAS international equities portfolio and compare this to that of the broader market index which is the MSCI All Countries World Index. We also provide commentary on individual companies in the next section.

Top Ten Holdings

MAS international equities portfolio		MSCI All Countries World Index	
Company	**Allocation**	**Company**	**Allocation**
Microsoft	6.1%	Apple	4.3%
Tesla	2.4%	Microsoft	3.3%
Alphabet – Class A	2.3%	Amazon	2.3%
Alphabet – Class C	2.2%	Tesla	1.4%
Nvidia Group	2.0%	Alphabet – Class A	1.3%
Taiwan Semiconductor	1.3%	Alphabet – Class C	1.2%
Procter & Gamble	1.2%	Nvidia Group	1.0%
Visa	1.0%	Meta Platforms (formerly Facebook)	0.8%
Thermo Fisher Scientific Inc	1.0%	Taiwan Semiconductor	0.8%
Abbot Laboratories	0.9%	United Health Group	0.7%
Total	**20.4%**	**Total**	**17.1%**

Commentary

This section provides an overview of companies where there is a notable difference between the weightings of companies held within the MAS international equities portfolio and the MSCI World Index.

Notable underweights

Apple

Apple maintains robust data security programs and has made enhancements to user rights for third-party cookie-tracking across its devices. However, the company has over 1.8 billion active users and handles a large volume of sensitive personal data, exposing it to risks of compliance cost and adverse impact on reputation in case of a breach.

While the company offers strong employee welfare benefits and professional development programs, controversies pertaining to alleged unfair dismissals and employee discrimination persist. Apple's reliance on outsourced production exposes it to reputational risks and operational disruptions in case of labour unrest in its supply chain. Although the company has instituted several industry best practices for supplier oversight, controversies related to supply chain labour may hint at potential gaps in policy implementation. Evidence suggests that Apple maintains robust business ethics policies and associated audit mechanisms. However, it has faced allegations ranging from anti-competitive business practices to misrepresentation of products features which could lead to penalties, if found guilty.

Amazon

Amazon's privacy policies provide transparency on customers' digital rights, however the global e-commerce firm supports commissions with advertising revenue. This could expose its data use practices to the risk of scrutiny. For example, Amazon was fined €746 million by Luxembourg's data protection authority in 2021 for alleged use of customer data in targeted advertising. This followed a €35 million fine in 2020 by a French regulator along similar lines.

Amazon may also face labour management challenges as it employs a large workforce of over 1.5 million employees globally and has heavy reliance on part-time workers. While wages offered to staff in the US, Canada, and the EU appear to be in line with living wage levels, it faces allegations of non-payment of bonuses, poor working conditions, and limited safety measures for staff during the COVID-19 pandemic.

Although Amazon's corporate governance practices compare favorably with global peers, it faces controversies related to anticompetitive practices, including allegations of antitrust violations in the US, India, and the EU.

Meta Platforms (formerly Facebook)

Meta Platforms (Meta) has implemented Federal Trade Commission mandated privacy enhancements (including a board-level privacy committee and external audit oversight of privacy controls).

Despite this, its involvement in privacy-related controversies raises questions about the effectiveness of its new controls. For example, Ireland's Data Protection Commission issued a US$260 million fine in 2021 to Facebook for data sharing between its platforms.

The company is also exposed to several business ethics-related risks. Together with its US 'big tech' peers, Meta has faced substantial antitrust scrutiny in recent years, notably in its home market and the EU, as well as in several other markets. The EU's Digital Services Act (expected to become effective this year) is intended to regulate Meta’s targeted advertising revenue model and may increase compliance costs.

Notable overweights

Microsoft

Microsoft's complex business mix of a global-scale cloud service, social and gaming platforms, and software solutions exposes it to talent retention challenges.

To mitigate these risks, the company offers strong employee management programs, and is consistently regarded as an employer of choice in the industry. Non-pay benefits are strong, comprising the physical, emotional, and financial well-being needs of its employees.

While Microsoft has a robust cybersecurity framework, security threats continue to emerge and become more complex. For example, the company intercepted 30 billion email threats and 31 billion authentication attacks in 2021, and faces allegations of security flaws in exchange servers and Power Apps Data.

To address these challenges, Microsoft has committed to strengthening its security solutions, aiming to invest US$20 billion over the next five years.

The company's investment in carbon-neutral data centres for on-demand compute and storage also appears to offer strong monetisation opportunities from its investments in clean technology.

Tesla

Tesla is a global leader in clean technology strategy and EV production. After having sold close to its target of 500,000 units in 2020, the company announced its new goal to sell 20 million EVs per year by 2030.

In 2021, Tesla applied to sell retail electricity to the Texas grid. This, in addition to sales of carbon credits and relatively high R&D investment, reflects Tesla's robust capacity to capitalise revenue streams from the solar energy, battery storage, and EV markets.

While the company performs above its peers on governance, Tesla's CEO continues to face shareholder action over the 2016 SolarCity acquisition and scrutiny over his social media posts. The company also faces issues in other areas such as health and safety, labour management, and product safety and quality. Despite these issues, the company is clearly a leader in helping solve one of the world’s most important problems.

Nvidia Group

Nvidia displays strong ESG performance relative to its peers in the semiconductor industry. It has managed integration challenges arising from its 2020 acquisition of Mellanox well, it invests heaviliy in R&D, and the company appears well positioned to benefit from growth opportunities in the clean technology space.

As a company specializing in graphics and artificial intelligence chips, Nvidia's operations are research intensive, entailing high reliance on skilled employees. Its initiatives include employment benefits, professional development programs and engagement channels.

Nvidia outperforms global peers on governance structures and appears to have industry-leading policies on responsible sourcing of minerals.

There are however, some potential entrenchment concerns with 5 of Nvidia’s 13 directors serving on the board for more than 15 years. That being said, the board has a majority of independent directors and all key committees are fully independent. Nvidia also appears to have a robust ethics framework, backed by measures such as executive oversight, code of conduct trainings, and whistleblower protection.

Learn more

You can get regular updates on the top 10 holdings of each of the Schemes in their most recent Fund Updates as well as a complete list of holdings here:

MAS KiwiSaver Scheme

MAS Retirement Savings Scheme

Important notes:

1. This information is sourced from international ESG evaluation specialist firm MSCI and relates to the ESG ratings for each company.
2. The ESG ratings developed and used by MSCI are designed to measure a company's resilience to long-term, industry material ESG risks. More information about the ESG ratings can be located on the MSCI website here.

Disclaimer

The Product Disclosure Statement for the MAS KiwiSaver Scheme is available here. The Product Disclosure Statement for the MAS Retirement Savings Scheme is available here. Medical Funds Management Limited is the issuer and manager of each of those Schemes.

Holdings may change at any time. The actual percentages held as a total of each Fund will differ. Fund holdings are current as at 31 March 2022, and do not necessarily indicate future holdings, which may be different from those stated. Investments in the MAS KiwiSaver Scheme are managed in accordance with the MAS KiwiSaver Scheme's SIPO, available on the MAS website at **mas.co.nz/kiwisaver***. Investments in the MAS Retirement Savings Scheme are managed in accordance with the MAS Retirement Savings Scheme's SIPO, available on the MAS website at* ***mas.co.nz/retirement-savings***