



## Responsible Investment Certification Program

### #15. Disclosure Requirements for Short-selling in executing Responsible Investment Strategies

#### 1. Purpose

To outline RIAA's expectations on strategy and holdings disclosure for Certified funds and superfunds short-selling to deliver their responsible investing strategies, such as for example funds invested in indices.

#### 2. Background

There are three main reasons that RIAA has sought to more clearly explain its expectations regarding holdings disclosure:

1. As of July 1, 2016, the Program Requirements were updated to include full holdings disclosure across the three, key product-based categories;
2. The prevalence of low-cost indices appearing funds' asset classes; and
3. Public scrutiny into the industry's behaviours and performance has increased (witness August 2016 [KiwiSaver scandal](#)).

#### 3. Program Requirements

As of July 1, 2016, full holdings disclosure became a requirement for entry into or renewal of certified products and superfund options. Specially the requirements by category are:

Certified RI Product Providers:

**Disclose holdings and product performance:** regularly publish (with no longer than a quarterly lag period) the past performance results/returns of the product (where relevant) and provide full holdings disclosure (for equities funds, or an equivalent disclosure for other products) for the product ensuring that these are updated at least every six months; and

Certified RI Superannuation Fund products/option:

**Disclose managers, holdings and product performance:** regularly publish (with no longer than a quarterly lag period) the past performance results/returns of the product and disclose both the names of the underlying fund managers and the names of the portfolio holdings ensuring that these are updated at least every six months; and

Certified RI Superannuation Funds whole-of-fund:

**Disclose holdings and product performance:** regularly publish (with no longer than a quarterly lag period) the fund performance results/returns on a six-monthly basis as well as the underlying holdings across each asset class (where relevant).

It is also a Program Requirement for certified products and superfund options to **have their RI strategies documented in legal product documentation**. This means that they are required to provide full disclosure of their responsible investment strategies in the Product Disclosure Statement (retail), Information Memorandum or Pitch book (wholesale) and/or equivalent documentation that supports the product.



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For the purposes of the Program, RIAA considers short-selling strategies as part of the RI strategies that are required to be documented in legal product documentation. The strategy to short, is directly related to managing the risk of holdings excluded stocks when investing in an index and so forms part of the RI strategy.

### 4. Intent

One of the aims of the Program (and hence the products it certifies) is to improve the transparency and visibility of investment options with an ethical or responsible investment strategy or overlay. We want RIAA members to increase their AUM and we want investors to be able to confidently find, compare, select and invest in these types of investment products.

If providers (or their underlying fund managers) of Certified products or Superfund options invest in indices for all or part of their Certified product, it is essential that extra care is taken to:

1. Explain how indices are managed, including the use of shorting as part of the Responsible Investment Strategy which would appear in the PDS, Information Memorandum, Investment Mandate, Product Supplementary Information Guide and/or website.
2. Provide, by way of making accessible via publication on a website or equivalent, would-be investors with a gateway (or range) of the likely proportion of the Certified product that comprises excluded stocks (before shorting).
3. Clearly disclose all holdings, including those contained in the index for net flat and long positions.

This way the consumers of these investment products are better able to make informed decision about how the manager approaches indices as well as whether the underlying holdings are not inconsistent with the investors investment objectives and/or values.

As an example, if a product provider takes an investment approach (i.e. taking short positions, by borrowing the desired security to cancel out the position of holdings excluded stocks in an index), then this tactic needs to be explained in the relevant product documents (also part of RIAA's Program Requirements) and via holdings disclosure.

### 5. Requirements explained

#### 1. What is the expectation for reporting short positions when reporting fund holdings?

You do not need to disclose the names of short positions; but you must state any short strategies used (these would appear alongside your RI Strategies in relevant documents).

2. **What is the expectation for reporting net flat positions?** If a fund was to buy an index and then short some of the index constituents to end up with a net flat position made up of an equal and opposite long and short holding either directly or via a derivative position, would we be expected to report the long and short positions or could we not report the position at all?

Net positions, not gross, should be reported.



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### 3. What are the suggested ways that I disclose these?

It is expected practice to provide disclosures in the product's RI strategy or charter and alongside the regular listing of holdings.

Suggested wording in your RI Strategy or charter:

"On occasion, we invest in indices which may contain stocks that would otherwise be inconsistent with the [RI Strategy or charter]. In this case, we will offset these inconsistent investments by selling these positions outside the index but within the fund."

You must state the proportion of the fund that is potentially comprised by excluded stocks, before shorting. Suggested wording for your regular disclosure (at least six monthly):

"Between x% and y% of the portfolio is likely to be subject to shorting and our net positions are disclosed [as follows]."

Suggested wording for your regular disclosure (at least six monthly):

"We have invested in [name of index] and our net holdings after exclusions are shown above."

End.