



# AE KIWISAVER PLAN

## Statement of Investment Policy and Objectives - SIPO

Issued by Always-Ethical Limited\*

Dated 30 September 2021

This document replaces the Statement of Investment Policy and Objectives dated 12 November 2020. This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose). Always-Ethical Limited\* has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you make an investment decision.  
\*Formerly known as Amanah Trust Management (NZ) Limited

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## INTRODUCTION

This Statement of Investment Policies and Objectives (SIPO) sets out the Investment objectives, philosophies, and strategy for AE KiwiSaver Plan .

The Manager of the Scheme is AE KiwiSaver Limited (company number: 4674859) (Manager).

AE KiwiSaver Plan is governed by a trust deed dated 9 November 2016 between AE KiwiSaver Limited (the Manager) and Trustees Executors Limited (TE, the Supervisor). Your investments are held by the Supervisor's Custodial Division.

Trustees Executors Limited is independent from the Manager Always-Ethical Limited.

The assets of AE KiwiSaver Plan are not available to meet the liabilities of any other fund.

No KiwiSaver funds are guaranteed by the New Zealand government or any other person.

KiwiSaver funds for an 18 year old, are a 47 year investment maturing at the age of 65. The maturity date is set by the government, and could change if government policies changed.

The effective date of this SIPO is the 1<sup>st</sup> October 2021.

## DESCRIPTION OF SCHEME

AE KiwiSaver Plan (the Scheme) is registered under the Financial Markets Conduct Act 2013 (FMC) as a KiwiSaver scheme under the KiwiSaver Act 2006.

### HOW DOES IT WORK

KiwiSaver is a voluntary work-based savings initiative to help you save for your retirement. The Fund receives contributions from the member, the member's employer and the government. The employer and government contributions are set by legislation.

### WHAT ARE THE BENEFITS?

AE KiwiSaver Plan has a unique Strict Ethical Mandate that defines its investment objectives, philosophy and strategies.

## INVESTMENT OBJECTIVES

AE KiwiSaver Plan has clear objectives:

- i) To comply at all times with its Strict Ethical Mandate.
- ii) To actively manage risk for the Investors as the Market requires.

- iii) Applying (i) and (ii) to provide long term growth for the benefit of Investors.
- iv) It is a long-term fund.

AE KiwiSaver Plan believes Investors need certainty to understand the philosophical aims and has developed a plain English statement called "The Strict Ethical Mandate" which is unique to AE.

#### **STRICT ETHICAL MANDATE:**

Up to 50 equities, being ordinary shares listed on the NYSE or Nasdaq, and cash; USD or NZD.

#### **Equity investments to be in companies with strong balance sheets that meet the financial ratios:**

- i) Interest-bearing debt less than 30%.
- ii) Interest-bearing investments less than 30%.
- iii) Illiquid assets greater than 33% (i.e. they are assets making or doing something for the good of mankind that exceed 67% of total assets).

#### **Prohibited activities:**

- Products whose return is based on receipt of interest. Including money lending\*.  
\*Explanation: this excludes all financial institutions, Banks, Money Lenders and Insurance Companies.
- Gambling and speculative investments\*  
\*Explanation: this is not just a prohibition of gambling organisations like Casinos, but also excludes high-risk investment products that rely on chance for success, eg. hedging products.
- Derivatives\*  
\*Explanation: these are a high-risk product that rely on chance for success. These are gambling.
- Alcohol.
- Tobacco.
- Weapons of war.
- Adult entertainment.
- Gold and Silver hedging.
- Pork\*.  
\*Explanation: This limits the investment in meat-based businesses.
- Leverage\* (i.e. borrowing by the manager against investors' (your) money, not the manager's assets).  
\*Explanation of leverage: Leverage is a practice of many fund managers. Leverage puts your investment at an unethical risk. Leverage is absolutely prohibited.
- Fossil fuel exploration.

**If an investment breaches the Ethical mandate, it is sold on the next trading day.**

## **CASH**

Any cash held in the Scheme is held in USD or NZD interest-free bank accounts.

Non permissible income generated from non-compliant business operations or investments (both operations and non-operations) should not exceed 5% of the total income generated by the company invested in.

Each year the effect of the non-permissible income is "purified" by a donation to the poor.

Purification is calculated by the Manager and AE Investor pays the sum calculated annually to charities for the poor.

Our investment philosophy, strategy, and policies all derive from the Objectives.

## **INVESTMENT PHILOSOPHY**

### **AE Growth Fund invests in AE Investor, a unit trust that complies with its Strict Ethical Mandate, or holds cash in NZD.**

The decision as to the cash held and investment by AE Growth Fund into AE Investor is made by the Management Committee of Always-Ethical Limited and is based on the cash needs of the AE KiwiSaver Plan members.

AE Investor was expressly designed to meet the investment requirements of AE KiwiSaver Fund and its AE Growth Fund.

- It complies with AE KiwiSaver Plan's Strict Ethical Mandate.
- It is actively managed.
- It manages risk for its Investors, including AE KiwiSaver Plan.
- It invests in strong balance sheet companies listed on the NYSE and Nasdaq.
- It selects and manages its investments - no outsourcing.
- Compliance with the Strict Ethical Mandate is checked daily.
- It is based in New Zealand.
- It is managed by the same team as manages AE KiwiSaver Plan.
- It is a long-term investment.
- All investments are made on a five-year horizon.

AE Investor is the only approved investment for AE KiwiSaver Plan, all fund assets are held by the Custodian as Units in AE Investor or cash, NZD.

Until a further investment is approved, the only investment issue is the amount of cash NZD held from time to time by AE KiwiSaver Plan.

This is an administrative decision (based on the upcoming cash requirement for members, ie maturity, first home, and other approved withdrawals under the KiwiSaver rules).

The Investment Committee can give guidance to the Management Committee as to the level of cash to be held.

Active management by AE Investor ensures that AE KiwiSaver Plan has investments that are highly liquid and able to comply with the Strict Ethical Mandate.

This ensures two key features; first, that the Fund is liquid and, secondly, has superior ability to meet any stress test requirements of the regulator for the protection of Investors.

An Equities fund needs to be nimble in its investment decisions. It is considered very important to AE KiwiSaver Plan that its investments work in the market to the benefit of members.

Strict Compliance with the Strict Ethical Mandate is the key promise by AE KiwiSaver Plan to all Investors.

**AE KiwiSaver Plan seeks to provide long term asset growth, within its strict investment mandate, for the benefit of Investors**

### **Outcome for Investors**

The desired outcome for Investors is long term growth from investments that are as we define ethical, ethical.

All investments are expected to be doing or making something for the good of humanity as defined by the Strict Ethical Mandate.

## **INVESTMENT STRATEGY**

Key requirements in the strategy to manage AE KiwiSaver Plan equity investments are:

- i) Compliance with our Strict Ethical Mandate
- ii) Actively adjust the risk (volatility) of the Fund
- iii) Maintenance of sufficient liquidity

There being no fund available at the time of creating AE KiwiSaver Plan (2014), the Manager Always-Ethical Limited, simultaneously developed AE Investor, specially to meet AE KiwiSaver Plan's unique investment requirements.

AE Investor meets the strategic needs of AE KiwiSaver Plan as:

- a) It complies with the Strict Ethical Mandate
- b) Compliance with the Strict Ethical Mandate is monitored each trading day.

- c) When selecting investments, factors considered include:
- o High quality companies in terms of long-term competitive advantage;
  - o Track-record of sustainable growth;
  - o Strong balance sheets and low debt.
- d) It is actively managed. The Investment Committee meets monthly or as otherwise considered prudent and adjusts the risk profile of the fund based on the Investment Committee's assessment of the world economy.

AE Investor can hold 100% cash (either USD or NZD or a mixture thereof) or 100% equities that comply with the Strict Ethical Mandate. The fund will normally hold a mixture of both cash and equities.

This is a unique aspect of AE Investor that is relied upon by AE KiwiSaver Plan and is unlike other funds where the Investor is required to select the Risk of their investments.

Part of the AE Investor's investment strategy is to manage volatility by holding a balance of equities and cash. When there is a market event, the intent is to hold a war chest to take up opportunities to deliver long term growth by buying at prices below the future market price potential of the stock.

The combination of these philosophies works as a strategy to the long-term benefit of Investors. AE Investor manages risk (volatility) and provides opportunities for acquiring stock at below the future market potential price.

This impacts our Investors' Risk exposure. As a helpful guide the table below is taken from the NZ Retirement Commission website [www.sorted.govt.nz](http://www.sorted.govt.nz)

<b>Fund - risk type</b>	<b>% Equities</b>	<b>% Cash</b>
Growth	89.9 - 63%	10.1 - 37%
Balanced	62.9 - 35%	37.1 - 65%
Conservative	34.9 - 10%	65.1 - 90%
Defensive	0 - 9.9%	90.1 - 100%

The Manager recommends all Investors treat AE KiwiSaver Plan as aggressive.

AE Investor's policy of active management and being nimble in its decision making is very important to AE KiwiSaver Plan as it works in the market and is a point of difference to index passive funds.

## INVESTMENT POLICIES

### COMPLY WITH STRICT ETHICAL INVESTMENT MANDATE

AE KiwiSaver Plan's main investment policy is to comply with the Strict Ethical Investment Mandate.

### PRICING

Its units are valued daily using the closing price of the relevant stock exchange where AE Investor has invested the money.

### LEVERAGE

Leverage is prohibited.

### DERIVATIVES

Derivatives are prohibited.

### HEDGING

Hedging is strictly prohibited.

AE Ethical does not use hedging instruments to manage currency risk since we view it as speculative gambling, which is prohibited.

### PURIFICATION

AE KiwiSaver Plan only invests in investments that do not require it to purify breaches of the Strict Ethical Mandate.

### TAXATION

AE KiwiSaver Plan is registered as a Portfolio Investment Entity (PIE). Taxation on the Scheme's investment income is calculated by Appello Services Limited (ASL) in accordance with the relevant law. Taxation on investment income for each Scheme member is calculated using the Scheme member's prescribed investor rate (PIR). The PIR of an individual Scheme member is based on their taxable income over the last two income years; in most circumstances the PIR will be 10.5%, 17.5% or 28%.

Any PIE tax payments required by a member are deducted from their account as a redemption of units, and any PIE tax credits to a Scheme member are paid as an application for units, in accordance with the Trust Deed.

AE KiwiSaver Plan is responsible for ensuring that PIE tax is paid on behalf of members, and the preparation and lodgement of any PIE tax filings.

### **LIQUIDITY/STRESS TESTING**

The Investment Manager monitors the volume of shares traded by each investment when preparing reports for the Investment Committee. This is part of the fund's ongoing liquidity assurance review.

All our investments are highly liquid. We do not perceive that there is a material liquidity risk at this stage, having regard to the nature and size of our investments.

There is minimal liquidity or stress testing risk whilst our fund is less than USD2 billion.

### **SOCIAL RESPONSIBILITY AND ETHICAL INVESTING POLICIES**

AE Investor has as set out a strict ethical investment mandate.

It also considers the ESG rating of its investments, the key ethical policy, akin to ESG, is that all investments must either be making or doing something for the good of humanity.

For more details go to the Manager's website [www.Always-Ethical.com](http://www.Always-Ethical.com)

## **INVESTMENT PERFORMANCE MONITORING**

### **ETHICAL MANDATE/ SIPO MONITORING**

The key performance criteria is compliance with the Strict Ethical Mandate as set out in this SIPO. The methodology to ensure compliance has been explained above.

### **INVESTMENT PERFORMANCE**

The Fund is an absolute return investment. This is measured by its daily unit price. The daily unit price is calculated (on an accruals basis) by the Registry and published on the website.

Internal monthly price reports are prepared and provided to the Supervisor and each quarter the price is published as part of the quarterly return filed on the disclose website.

The performance of the Fund is reported as a percentage of the FUM (Funds Under Management).

Although it is an absolute return fund, AE KiwiSaver Plan also prepares reviews of the performance of the Scheme relative to major market indices, in particular, the Dow Jones Islamic Market US Index (DJIM US). It is noted that this index's Ethical Mandate does not meet the Strict Ethical Mandate criteria and, the index, unlike AE Investor, does not immediately sell stock if they become non-compliant (they check compliance in some cases annually, other quarterly, but only AE Investor ensures compliance daily). Furthermore, the indexes do not manage risk or have fees, expenses or purification deducted from performance.

### **AE KIWISAVER PLAN INVESTMENT RISKS**

The AE KiwiSaver Plan's investment risk is managed by the AE Investor Investment Committee.

AE Investor Investment Committee at each monthly meeting assesses the market risk. Due to market volatility, as described above, the Investment Committee also assesses the performance of the individual investments, particularly when re-weighting the investments

in the book. If the Investment Committee has any concerns, it can sell the investment in whole or part.

If when checked daily a stock no longer complies with the Strict Ethical Mandate, it is sold the next trading day without regard to the future growth of the investment.

### **ASSET MONITORING SYSTEMS**

AE KiwiSaver Plan has access to AE Investor ASL asset registry services via its "Sandpit" service. Examples of asset information included in the Sandpit are:

- i) Historical and current asset positions (including profit/ loss calculations) and portfolio weightings
- ii) Historical and current daily market prices of asset positions
- iii) Historical and current benchmark data (including charts)
- iv) Equities performance rankings (including returns information)
- v) Historical and current equities volatility data

The analytical team monitor the performance of the portfolio on a daily basis. The analytical team also uses the data in the Sandpit regularly for both internal and external reporting purposes.

### **LIMIT BREAKS**

A material breach of any limit on the nature or type of investment, or the proportion of each type of asset that may be invested in, is called a limit break.

Where a limit break occurs, this must be reported to the Supervisor in the mandated form within the time required by the relevant law.

## **INVESTMENT STRATEGY REVIEW**

The Strict Investment Mandate is a firm commitment to members. Any substantive change to the Strict Investment Mandate requires the approval of the members. To be clear, that does not include changes to the plain wording of the Mandate which is reviewed from time to time as the Management Committee decides. These are communication improvements, not a change to the underlying philosophy which are based in 100's of years of philosophic and faith-based debate and teachings by the followers of Abraham. The moral base of the Strict Ethical Mandate is a rejection of specified business activities, and of interest-based investments where the investor is paid interest as charged irrespective of the outcome of the borrower's business. It is fundamental that the investment participates in the business risk, such as holding ordinary shares.

## **SIPO Review**

A review of this SIPO is undertaken by the Management Committee as required. Any proposed changes must be approved by the Board of Directors and the Supervisor.

Reviews may arise as a result of regulatory changes, however we do not anticipate that there will be any material changes to this SIPO.

Amended versions of the SIPO will be uploaded to the Disclose Register on the New Zealand Companies Office website.