

**Memorandum recording
Strict Ethical Mandate**

Management Committee
(On behalf of the Manager)

Islamic Advisory Board

MEMORANDUM ESTABLISHING BASIS
FOR AUDIT OF
THE “STRICT INVESTMENT MANDATE”

Audit Standard SAE3100

1st APRIL 2021

**MEMORANDUM ESTABLISHING BASIS
FOR AUDIT OF
THE "STRICT INVESTMENT MANDATE"
Audit Standard SAE3100**

The MC and IAB approve this memorandum as the investment mandate of AmanahNZ and Amanah KiwiSaver Plan - audited to the SAE1300 audit standard that:

1. AmanahNZ is the sole investment of the Amanah KiwiSaver Plan.
2. Both funds are strictly Shari'ah compliant.
3. AmanahNZ is seeking to have the investments compliance with the Strict Ethical Mandate audited to the SAE 3100 standard by an External Auditor.
4. The purpose of this memorandum is to set out the understandings and practises of the Ethical Mandate.
 - a. The Ethical Mandate requires all investments to be strictly Shari'ah compliant.
 - b. At inception on 14/3/2014, the Islamic Advisory Board, in conjunction with the Ulama Council of New Zealand, agreed that the financial products are to be strictly Shari'ah compliant:
 - i) The applicable standard for Islamic investment was the Audit and Accounting for Islamic Financial Institutions (AAOIFI) found at www.aaofii.com these standards are set and updated by the scholars that work with that organisation and it is recognised as the strictest Islamic rule book.
 - ii) The application of the AAOIFI rule book was to be delegated to IdealRatings a recognized US based rating agency. The scheme is subscription based and the evaluation of the stock are set out in the AAOIFI rule book.
 - iii) The Manager was required by the IAB to check the IdealRatings website for each stock, each trading day. If a stock no longer complies with AAOIFI, then it is to be sold immediately.
 - iv) By immediate sale of a non-complaint stock, the AAOIFI rules are complied with.
 - v) It is a common industry practise, applying AAOIFI to interpret the rule as permitting 90 days before the infringing stock is sold, but the manager applies the rules strictly and conducts the sale the next trading day.
 - vi) Ratio (iii) below is achieved if both (i) and (ii) are met.

- vii) 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.
5. The Manager also has decided to prohibit leverage of its investments and fossil fuel exploration.
6. The Manager has translated the Ethical Mandate, including the AAOIFI rules, into simple English as follows:

ETHICAL MANDATE

Up to 50 equities, being ordinary shares listed on the NYSE or NASDAQ and cash in USD and 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%; and
- iii) Illiquid assets greater than 33%

i.e. there are assets making or doing something for the good of humanity that exceed 67% of total assets.

Prohibited activities:

- i) Products whose return is based on receipt of interest. Including money lending (i.e. this excludes all financial institutions e.g. banks, money lenders and insurance companies.
- ii) Gambling and speculative investments (this is not just a prohibition of gambling organisations like Casino's, but also excludes high-risk investment products that rely on chance for success, e.g. hedging products).
- iii) Derivatives (these are a high-risk product that rely on chance for success, these are gambling).
- iv) Alcohol.
- v) Tobacco.
- vi) Weapons of war.
- vii) Adult entertainment.
- viii) Gold and Silver hedging.
- ix) Pork.
 - *This limits the investment in meat-based businesses.*

If an investment is suspected of not complying with the Ethical Mandate it is sold on the next trading day.

- i) Leverage (i.e.- borrowing against investors (your) money, not assets).
 - *Explanation of leverage: Leverage is a practice of many fund managers. Leverage puts your investment at an unethical risk. Leverage is absolutely prohibited.*
- ii) Fossil fuel exploration.

CASH

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

7. The Ethical Mandate is strictly applied and is assured compliance by daily checking, utilising the IdealRatings screening agency.
 - i) The investment Manager, each trading day, checks the IdealRatings screen for each stock and downloads the report, which is that day circulated by email to the Management Committee.
 - ii) At months end the Investment Manger prepares a monthly and annual ethical compliance report (at 31/3 each year) showing any stock that was non-compliant with the terms of the mandate and the remedial action taken by the Manager in compliance with the mandate.
 - iii) These reports are checked by the Internal Auditor as part of the MIRCR:A monthly report providing compliance assurance of the strict mandate in the MIRCR:A monthly report.
8. The manager uses IdealRatings to calculate "purification" each year.
9. The External Auditor audits the annual ethical compliance report (as at 31/3 each year) and supporting documentation to ensure compliance with the SAE 3100 audit standard.
10. The audit certificate covers the annual ethical compliance for both AmanahNZ and Amanah KiwiSaver Plan.

Dated this 1st day of April 2021

Approved by the Islamic Advisory Board

Per:

Faruk Balli



Approved by the Management Committee

Per:

