



# AE Investor

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## Statement of Investment Policy And Objectives - SIPO

Issued by Always-Ethical Limited

Dated 8 October 2024

This document replaces the Statement of Investment Policy and Objectives dated 18 July 2024. 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 <https://disclose-register.companiesoffice.govt.nz/>. 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 Policy and Objectives (SIPO) sets out the Investment objectives, philosophies, and strategy for AE Investor, a managed investment scheme.

The Manager of the Scheme is Always Ethical Limited (company number 4570259) (Manager).

AE Investor is governed by a trust deed between Always-Ethical Limited (formerly known as Amanah Trust Management (NZ) Limited) (the Manager) and Trustees Executors Limited (TEL, the Supervisor). By Notice of Assignment between TEL and Apex Investment Administration (NZ) Limited (Apex), your investments are held by Apex, the Custodian.

Trustees Executors Limited and Apex Investment Administration (NZ) Limited are independent from the Manager.

Funds are not guaranteed by the New Zealand government or any other person.

The effective date of this SIPO is 8 October 2024.

## DESCRIPTION OF THE SCHEME

AE Investor is a USD denominated managed investment fund that invests in up to 50 US stocks listed on the New York Stock Exchange (NYSE) or Nasdaq, and Cash ( USD and/or NZD).

AE Investor is constituted to operate under a Strict Ethical Mandate that restricts the investing activities of the Manager to permitted investments, providing transparency for investors and enabling investors to achieve financial growth by investing in businesses with strong balance sheets that are doing or making something for the good of humanity.

The Directors of Always-Ethical Limited are responsible for all aspects of the management of AE Investor. The board has delegated management of the Investments to the Investment Committee. The Investment Committee, with the assistance of the Investment Manager, makes all investment decisions.

The operation of the Investment Committee is set out in this SIPO.

The CEO and the Investment Manager attend Investment Committee meetings.

## INVESTMENT OBJECTIVES

AE Investor has clear objectives:

- i) To comply at all times with its Strict Ethical Mandate.
- ii) To actively manage risk for investors as the market requires.
- iii) Applying (i) and (ii) to provide long term growth for the benefit of investors.

AE Investor 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.

## INVESTMENT STRATEGY

The Manager applies an “Absolute Return” style of active management while adhering to its Strict Ethical Mandate.

AE Investor is a USD denominated managed investment fund that invests in up to 50 US stocks listed on the New York Stock Exchange (NYSE) or Nasdaq or may hold Cash in either USD or NZD.

Part of AE Investor’s investment strategy is to manage volatility by rebalancing equity and cash holdings. The balance may change depending on market events and the Manager’s view of the market.

In times of market uncertainty AE Investor may sell equities and hold high cash levels, thereby taking a more conservative position. AE Investor will then look for opportunities to deliver long term growth by buying at prices below the future market price potential of the stock.

## INVESTMENT PHILOSOPHY

### **i) To comply at all times with its Strict Ethical Mandate.**

AE Investor only invests in equities listed on the NYSE or the Nasdaq, or Cash (USD and/or NZD). This is a very limited range of investments. The investment options are further limited as all equities must also comply with the Strict Ethical Mandate.

Our view of gambling is not limited to no casinos, but also excludes products whose source of return is chance, e.g. derivatives and currency hedging. They depend on having a counterparty who effectively takes a “bet” that the outcome the investor thinks will occur in the future will not occur.

Compliance with the Strict Ethical Mandate is the key promise to all investors.

### **ii) To actively manage risk for the Investors**

Active management ensures that AE Investor is highly liquid and able to comply with the Strict Ethical Mandate.

The Investment Committee considers the appropriate ratio of equities to cash each time it meets. This requires consideration of the market conditions, world events and any other factors the Investment Committee consider may impact the stocks invested in. This is an experienced, intuitive decision by the Investment Committee assisted by reports prepared by the Investment Manager.

The fund can at short notice shift between 100% cash and 100% equities. The Investment Committee manages the ratio of cash/equities to manage the impact of volatility.

The ratio decisions can change the fund risk category from aggressive (90% – 100% stock) to conservative (10-34.9% stock). For example, the fund held a conservative style asset allocation in February 2020, then, after the March market event, quickly repositioned the ratio of cash to equity into a more aggressive style asset allocation .

These decisions are made to meet the Investment Committee’s view of the market, however the Manager suggests all Investors when making investment decisions should regard AE Investor as an aggressive style investment given the fund mandate permits the Manager to quickly adjust the asset allocation.

**AE Investor seeks to apply (i) and (ii) to provide long term growth, within the Strict Ethical Mandate, for the benefit of Investors.**

### **Outcome for Investors**

The desired outcome for Investors is long term growth from ethical investments (as defined by our Strict Ethical Mandate).

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

AE Investor is a long-term fund. All investments are made on a 5 year plus horizon.

### **STRICT ETHICAL MANDATE:**

#### **EQUITIES**

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

- Interest-bearing debt less than 30%.
- Interest-bearing investments less than 30%.
- The assets of the company making or doing something for the good of humanity to exceed 67% of total assets.

**Prohibited Investments:** the fund itself does not invest in any of these activities. The underlying equity investments may, provided the prohibited investment is under 5% of the business activity and is appropriately purified.

#### **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(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 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.*
- Fossil fuel exploration.

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

**CASH**

Any cash held in the Scheme is held in US dollar or NZ dollar interest-free bank accounts.

The Strict Ethical Mandate prohibits investment in fixed-return products or derivative instruments.

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.

**PURIFICATION**

Purification is the method used to cleanse any investment income that may have been generated by a company from non-permissible activities. The Manager calculates the required purification for each stock, which is then accumulated and “purified” by a donation to charity for the poor. The amount of purification varies between stocks and is based on the portion of the company’s income that is derived from non-permissible sources.

Any interest the fund cannot avoid receiving, is not received into the fund accounts. The registry diverts such payments into a purification account. The purification monies are covered in the notes to the audited financial statements each year.

**DIVIDEND PURIFICATION**

Dividend purification is the process of purging any income a company makes from sources that are not compliant with the Strict Ethical Mandate, such as any non-permissible business activities or interest income. This non-permissible revenue must be less than 5% of a company’s total revenue for the company to pass the Strict Ethical Mandate screening. If the investments exceed this, then it is sold the next trading day.

The “cleansing/purification” is made in proportion to the percentage of the non-compliant income of the company investment.

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

*For more information see OMI section Purification (Page 16)*

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

## INVESTMENT POLICIES

AE Investor only invests in Stocks (Equities) listed on the NYSE or the Nasdaq and Cash (USD and/or NZD). This is a very limited range of investment types.

The range of stock is further limited as all stock invested in must comply with the Strict Ethical Mandate, meeting the financial ratios, and not breaching the Strict Ethical Mandate by participating in prohibited activities.

**PRICING**

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

**LEVERAGE**

Leverage (ie. borrowing) is strictly prohibited. AE Investor does not leverage its investments.

**DERIVATIVES**

Derivatives are prohibited.

We are unable to utilise financial products such as call/put options, forward contracts or interest rate swaps etc.

**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.

**CASH**

No interest is received for cash assets held in the Scheme's bank accounts. AE Investor has specifically elected that these bank accounts are non-interest bearing.

**PURIFICATION**

AE Investor monitors the compliance of all investments on a daily basis. If an investment breaches our Strict Ethical Mandate, it is sold at the first opportunity. Where investments do breach the Strict Ethical Mandate, AE Investor makes a purification payment to a recognised charity that is established to look after the sick or impoverished.

**VOTING**

AE Investor may vote at any shareholders' meetings in a manner that best reflects this SIPO.

**TAXATION**

AE Investor 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%. Non-residents who hold investments in the Scheme may elect to be treated as a notified foreign investor; the PIR for notified foreign investors is 0%.

Any PIE tax payments required by a Scheme 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 Investor is responsible for ensuring that PIE tax is paid on behalf of Scheme 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.

**SOCIAL RESPONSIBILITY AND ETHICAL INVESTING POLICIES**

AE Investor has a Strict Ethical Mandate.

The Manager 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

### STRICT ETHICAL MANDATE/SIPO MONITORING

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

Key requirements of the strategy to manage our equity investments are:

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

#### a) **Selecting Investments to comply with the Strict Ethical Mandate**

AE Investor invests in up to 50 listed US stocks. The Manager's analytical team uses an International Rating Agency – IdealRatings - to provide a population of stocks that comply with the Strict Ethical Mandate. Many of the stocks that comply are not considered, (for example, if their current market price is below US\$10.00 per share, or their trading volumes are low), as we only invest in highly liquid stocks due to the requirement to be able to sell the next trading day should they fail to comply with the Strict Ethical Mandate.

Factors considered are:

- High quality companies in terms of long-term competitive advantage;
- Track-record of sustainable growth;
- Strong balance sheets and low debt.

Stock is selected by the Investment Committee, which generally proceeds by consensus based on research by the Investment Manager.

#### b) **Monitoring existing Investments**

The Manager monitors compliance with the Strict Ethical Mandate each trading day. A reporting tool checks the current information available on the financial ratios of each company in which we hold stock. Compliance with the prescribed ratios ensures all investments have a strong balance sheet. Our investment strategy is to be invested in stocks with a strong balance sheet, i.e. less than 30% debt.

If an investment's daily report shows it no longer complies with the financial ratios, it is sold the next trading day without regard to the future potential of the investment.

Companies that met the Strict Ethical Mandate when we purchased stock can change. Prohibited activities issues usually arise when a company is involved with new products, mergers and acquisitions. If the changes mean the stock is no longer compliant, the investment is sold the next trading day without regard to the to its future potential.

#### c) **Investment Committee Meetings**

The Investment Committee Meetings (held monthly or as required) are conducted by the Chair. Normally at the start of an Investment Committee meeting the Chair will ascertain the views of the members as to the balance of cash to equities. Often there is vigorous debate until a decision is made either by majority vote or preferably by consensus.



These decisions are made to meet the Committee's view of the market. Once the ratio of cash to equities is agreed, the Investment Committee looks to selection of new stock and the weightings of stock (including adjusting part or all of existing stock investments) before deciding on the equity investment mix. The Investment Manager prepares reports and gives recommendations on the investments which are the basis for these decisions, together with the collective experience of the Investment Committee members.

Investment Committee meetings often have a robust exchange of views before reaching an investment decision.

- d) **Applying our investment strategy to provide long term growth for the benefit of Investors**  
The selection and weightings decisions are made by the Investment Committee based on the Committee's views of the potential of the investment based on a 5-year horizon.

A significant investor in AE Investor is AE KiwiSaver Plan, a New Zealand superannuation type scheme.

### **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 accrual basis) by the Registry and published on the website.

Each quarter the price is published as part of the quarterly Fund Update filed on the Disclose Register website.

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

Although it is an absolute return fund, AE Investor also reviews the performance of the Scheme relative to major market indices, in particular the Dow Jones Islamic Market US Index (Total Return) (DJIM US).

This index's Strict Ethical Mandate does not meet AE Investors Strict Ethical Mandate and, unlike AE Investor, does not immediately sell stocks if they become non-compliant (they rebalance quarterly rather than daily). This index also assumes the immediate re-investment of dividends in the stock that produced the dividend which is unlikely to be the Manager's practice. Furthermore, the index does not have fees, expenses or purification deducted from performance. This index is, however, the index that best meets the requirements of the FMC Regulations as at the date of this SIPO and is now used in preference to the Dow Jones Islamic Market US Index (Price Return) which was the index the Manager used up until November 2022.

### **INVESTMENT RISKS**

We also monitor investment risk. The Investment Committee assesses market risk due to market volatility at each meeting. As described above, the Investment Committee also assesses the performance of individual investments, particularly when re-weighting the investment portfolio.

When checking daily our investments, should the Investment Committee have any concerns, it can sell the investment in whole or part.

### **ASSET MONITORING SYSTEMS**

ASL provides asset registry services to the Manager 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 equity/sector that may be invested in, is called a limit break. Where a limit break occurs, the breach is immediately remedied and is reported to the Supervisor in the mandated form within the time required by the relevant law.

## **INVESTMENT STRATEGY REVIEW**

The Strict Ethical Mandate is a firm commitment to investors. Any substantive change to the Strict Ethical Mandate would require the approval of the Investors. To be clear, that does not include changes to the plain wording of the Strict Ethical 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 scholarly religious teachings by the children 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. <https://disclose-register.companiesoffice.govt.nz/>