Statement of Investment Policies and Objectives (SIPO)

The Royal New Zealand Society for the Prevention of Cruelty to Animals

April 2020

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Contents

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This Statement of Investment Policy and Objectives (SIPO) sets out the investment objectives and the manner in which the investments will be managed to meet those objectives.

1.1 Introduction

The Royal New Zealand Society for the Prevention of Cruelty to Animals ("SPCA") is a charitable organization established in 1933 for the purpose to protect animals and prevent cruelty to animals. Its mission is to advance the welfare of all animals in New Zealand by preventing cruelty & suffering of animals and promoting policies through education and advocacy.

The SPCA is a registered charity (Charities Commission number CC22705). As it is registered for charitable purposes, the Organisation is exempt from income tax.

Board structure; the Board is made up of elected Board members including a Chairman and Vice-Chairman. The CEO and GM Finance & Shared Services are members of the Senior Leadership team.

From time to time the society will have funds and assets that are surplus to current operational requirements. These assets that may be deemed longer term in nature should be managed prudently and within a structure that is appropriate for the SPCA'S risk profile and overall objectives.

Directors are required to provide authorisation on behalf of the SPCA in relation to implementation of this SIPO. The CEO and GM Finance & Shared Services are delegated to manage investments, as recommended by Craig Investments/JB Were, in accordance with the SIPO.

The SPCA treasury and investment policy stipulates that 4 months of cash and short term investments will be retained in the organisation. Any surplus funds will be provided to Craig Investments, JB Were, ASB or other ARC authorised institution for investment in accordance with this SIPO.

All investable assets will be covered under this SIPO.

1.2 Objectives of the SPCA investment portfolio

- The primary purpose of the investment portfolio is to protect the capital and income from inflation, while providing an income to support the SPCA'S operations nationwide.

- The perpetual nature of the SPCA dictates a focus on moderate growth, however the requirement for income is recognised in the investment strategy hence capital preservation is important.

- Total Return Objective - The long-term total return objective of the assets is to outperform inflation (measured as CPI) plus a hurdle rate of 4% per annum. It is expected that over a twenty-year period this benchmark will be met more than 80% of the time.

- Relative performance objective - the manager should outperform the relevant benchmark indices outlined on page 11 weighted by the benchmark portfolio asset class weightings over rolling three year periods.

- The tax exempt status of the Organisation should be recognized / utilised in the portfolio's investment strategy to the extent that is practical.

1.3 The Organisation's Risk Profile

The SPCA is a medium term investor and has a moderately conservative tolerance, suggesting it prefers to preserve capital, but is still willing to take a slight level of risk to drive returns. Enough risk should be taken in order to realistically achieve the growth targets outlined in section 1.2, however the focus on protecting capital should always be emphasised.

1.4 Roles and Responsibilities

Role of Director

- The key responsibilities of the Directors, as they relate to the investments made by the Manager, are to maintain an investment governance framework; set investment objectives and risk tolerances; determine an investment strategy (including benchmark asset allocations and permitted ranges); and to monitor the Fund's investment performance and compliance within strategic limits.

- All Directors are required to provide authorisation on behalf of the SPCA in relation to implementation of this SIPO.

- The SPCA'S investments will be invested by the Management as per its discretion. The Directors will have overall responsibility for asset allocation and for the Investment Portfolio, and for ensuring the standards and parameters of this SIPO are met and maintained.

- The Directors or their delegates will look to meet with the investment manager on a quarterly basis to review the Investment Portfolio and investment decisions.

- The Directors will be required to sign off any changes to this document.

Role of the Investment Adviser / Manager

- The manager should advise the Directors/Management on an appropriate asset allocation (suitable for the SPCA's risk profile), as well as providing advice and guidance on any relevant investment matters.

- The Manager should advise on and respond to Corporate Actions.

- The Manager should comply with the SIPO and report any breaches to the Directors.

1.5 Effective date and review dates

This SIPO, subject to the approval of the Organisation’s Directors, takes effect from 1 July 2018. There is no existing Statement of Investment Policy and Objectives. This SIPO should be reviewed annually, or more regularly if markets are subject to major changes.

2.0 Investment Strategy

2.1 Asset allocation

Strategic asset allocation

The SPCA aims to meet its investment objectives by investing in accordance with the target asset allocation set out below:

Table 1: Asset Allocation and Ranges

Asset class	Current Portfolio %	Minimum %	Maximum %
NZ Equities	13%	7%	17%
Australian Equities	13%	8%	18%
Global Equities	7%	4%	18%
Property	7%	2%	12%
Alternative Assets	0%	0%	0%
Total Growth Assets	**40%**	**30%**	**50%**
NZ Fixed Interest	50%	35%	60%
Cash	10%	8%	20%
Total Income Assets	**60%**	**50%**	**70%**

The Director and advisers may adopt tactical asset allocation positions that differ from the target allocations if they deem it appropriate given market conditions at the time. However, the portfolio should remain invested within the ranges for each asset class. The ranges have been set with the intention to limit the overall risk of the SPCA failing to meet its objectives.

Asset Allocation Strategy

- The SPCA'S asset allocation is similar to that of a Balanced Income portfolio. The portfolio targets 40% growth assets (with a range of 30% - 50%) and 60% income assets (with a range of 50% to 70%).

- The Portfolio has exposure to New Zealand and Australian based investments, yet the need for the portfolio to provide some offshore diversification is recognised. This caters for a reduction in New Zealand dollar and country risk, as well as achieving growth opportunities in higher-growth markets.

- The appropriateness of this target asset allocation will be formally assessed at least once a year and kept under constant review to reflect any fundamental changes in the investment environment and changes to investment policy of the Society.

- The Listed Property exposure will be predominantly New Zealand & Australia orientated, as these are tax efficient investments for Charitable Organisations.

- Up to 5% of the total managed portfolio may be invested in Alternative Assets (private equity, gold, hedge funds etc) with any one investment limited to 1.25% of the portfolio.

Rebalancing

The SPCA'S portfolio should be monitored regularly and any allocations that fall outside their allowable range or deviate materially from benchmark will be brought to Management's attention and a suitable rebalance recommendation should be discussed. Portfolio rebalancing may also be proposed following significant market movements and/or events. Rebalancing may also be required following a review of the Benchmark Portfolio.

Currency Hedging

To provide diversification away from New Zealand, global equities will remain unhedged if the portfolio has a relatively high weighting to local assets. A policy of fully hedging global bonds and partially hedging global equities will be considered as appropriate.

3.0 Investment guidelines (Managed Portfolio)

3.1 New Zealand cash and Fixed Interest

Overview

The primary role of the fixed interest portfolio is to provide security of income and capital. A key intention of these guidelines is to minimise credit risk by constraining the core of the portfolio to investment grade securities and limiting exposures to any individual issuer and/or security. Mitigating interest rate risk should also be achieved by the maintenance of a laddered portfolio. Fixed interest securities should generally be held to maturity to minimise costs.

Cash

Cash is defined as cash, term deposits (out to 90 days) and any other money market securities with twelve months or less until maturity. Up to one third of the cash can be invested with any of the New Zealand Registered banks with a Standard & Poor's credit rating of at least A1 (or equivalent rating). Alternatively, other money market securities with a credit rating of at least A1 may be purchased.

Fixed Interest Investment Parameters (excluding cash)

- No single entity or issue should represent more than 15% of the portfolio (across all asset classes - equities, bonds and property) to minimise default risk.
- The fixed interest portfolio will be implemented with a laddered maturity profile to minimise interest rate risk. The average duration will vary subject to the interest rate outlook.
- No one fixed interest security from a single issuer should represent more than 10% of the total fixed interest portfolio.
- All direct holdings on the fixed interest portfolio should be invested in Investment Grade bonds with a minimum investment grade of BBB- as defined by Standard & Poors, or a similar rating from a recognised credit rating agency. Approved Global Bond Funds may have some but no more than half of the funds exposure in non-rated or sub investment grade bonds.
- The fixed interest portfolio will only invest in issues from Government, Local Authorities, Major Trading Banks and Corporates meeting the minimum credit rating (investment grade as defined above) and approved Global Bond Funds.
- The portfolio will be diversified across sectors as much as possible.
- At least 60% of the fixed interest portfolio should be invested in A rated or better securities. This includes unrated Local Authority issues.
- Perpetual securities should represent no more than 20% of the fixed interest portfolio.
- Fixed interest securities will only be considered when they provide a fair rate of return relative to their associated risk, maturity, terms and subordination.
- Bank term deposits with a maturity term longer than 90 days will be classified as a fixed interest holding.

3.2 New Zealand and Australian equities

Overview

The primary goal of the equity portfolios is to provide capital growth and growth in income. The best risk-adjusted returns come from holdings in high-quality companies purchased at reasonable prices.

Investment parameters

- A portfolio of a minimum of 20 stocks will be held, split more or less evenly across New Zealand and Australia.
- No individual direct security will represent more than 12% of the New Zealand or Australian portfolios.
- A minimum of 75% of the portfolio should be held in large cap stocks (market capitalization of > $400m in New Zealand, and > $1bn in Australia in local currency).
- The portfolio will be diversified across industry sectors.
- Stocks are purchased to access current and future dividend streams and with the intention of being held for the long-term (5 years +).
- The New Zealand and Australian equity portfolios should complement each other as much as possible and sectors not available in New Zealand should be obtained in Australia. Duplicate sector exposures should be minimised.
- Turnover should be kept to a minimum. The Organisation has a long-term investment horizon and a buy and hold approach.
- Up to 5% of the total Managed portfolio may be invested in Alternative Assets (private equity, gold, alterative funds etc) with any one equity investment limited to 2.0% of the portfolio. Any investment in these assets will require the approval of the Directors.

3.3 Global equities

Overview

The primary goal of the global equity allocation is to provide capital growth, and growth in income, as well as diversification away from New Zealand dollar dominated investments. As such, these investments will generally be unhedged against the New Zealand dollar.

The Organisation will implement its Global Equities allocation to UK or NZ listed investment trusts, exchange traded funds (ETF's) and direct equities.

Investment parameters

- The global equity allocation is to be well diversified across geographies, sectors and markets.
- As investment trusts and exchange-traded funds are diversified in their own right, no one investment Organisation or ETF can account for more than 20% of the amount invested in global equities.
- For any direct equity investments, no one company can account for more than 10% of the amount invested in global equities.

3.4 Property

Investment parameters

- The portfolio will hold listed property vehicles to provide a higher level of liquidity.
- The Property allocation will look to hold a diversified portfolio of property investments, with a minimum of five securities and with no one holding representing more than 25% of the property portfolio.

3.5 Socially Responsible Investing

3.5.1 SRI Overview

The Organisation is committed to incorporating Responsible Investment considerations into its investment decision-making processes. In managing the portfolio, the Organisation adheres to a Responsible Investment Framework that governs specific investments ("Restricted Investments"), as well as factors to be considered in the initial due diligence, and ongoing monitoring, of investments. In particular, the Organisation believes wherever possible its investments should be consistent with the main tenet of the organisation, namely the welfare of animals.

3.5.2 Restricted Investments

The SPCA will avoid direct investments in:

- Companies whose core business involves the use of animal testing;
- Companies whose only, core or majority business involves the exploitation of animals or animal products; and
- Companies who produce and sell cluster munitions, nuclear weapons, and anti-personnel mines.

This policy does not preclude investment in:

- Exchange Traded Funds (ETFs);
- Diversified or composite equity funds;
- Absolute return funds; or
- Fixed interest funds;

that are consistent with and do not run counter to the overall intent of 3.5.1.

Notes:
For the purposes of this policy, direct investment includes single stock equity ownership.
For the purpose of investment in exchange traded funds or diversified funds, for practicality a materiality test of 10% exposure to restricted investments in the ETF or Fund will apply.

3.5.3 Monitoring and Implementation

- Investments will be evaluated prior to purchase for exposure to restricted investments;
- The Board accepts that ethical screening is complex and data can be inaccurate, the policy therefore is intended as a best endeavours guideline and intended to provide a framework to preclude the SPCA from knowingly investing in restricted investments; and
- While SPCA will endeavour to maintain portfolio compliance, it accepts and there is the risk that an investment is outside the above policy from time to time. This may occur in error or due to a change to a company's operations in a restricted activity since purchase. If it is discovered that the portfolio holds a restricted investment in breach of the above guidelines, SPCA will divest that investment in an orderly manner within three months (or as soon as practical) of becoming aware of the position.

4.0 Monitoring and reporting

4.1 Performance monitoring

Performance for individual asset classes will be measured against suitable Capital Market indices. The current indices are:

Table 3: Performance benchmarks

Asset Class	Index
NZ Equities	S&P/NZX 50 Gross Index
Australian Equites	S&P/ASX 200 Index (unhedged NZD)
Global Equities	S&P/MSCI World Gross Index (unhedged NZD), incl dividends
Property	S&P/NZX All Real Estate Index
NZ Fixed Interest	S&P/NZX Investment Grade Corporate Bond Index
Global Fixed Interest	S&P/Citi Global Bond Index
NZ Cash	S&P/NZX Bank Bills 90 Days Index

MSCI = Morgan Stanley Capital International
NZX = New Zealand Exchange
ASX = Australian Stock Exchange
S&P = Standard & Poor's
Citi = Citibank

4.2 Portfolio Reporting

The investment performance of the Portfolio will be monitored on a regular basis.

CIP will provide quarterly reports showing:

- Each Portfolio's holdings and changes in those holdings to the reporting date;
- The performance of the assets under management against the agreed targets;
- Confirmation that all constraints have been complied with;
- Any other information that will assist in understanding further the performance of the Portfolios;
- A review of the Portfolio's current asset allocation and any recommendations in this respect;
- Future trends, predictions and other relevant and useful information;
- Any other information that pertains to the performance or risk profile of the Fund.

The Directors/Management will also receive six monthly Regulatory reports and an annual tax report.