Statement of Investment Policies and Objectives (SIPO)

SPCA Investments Ltd (SIL)

17 November 2022

Contents

Statement of Investment Policies and Objectives

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.

1.0 Introduction

The Royal New Zealand Society for the Prevention of Cruelty to Animals ("SPCA") is a charitable organization established in 1933 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. SPCA Investments Ltd ("SIL") is a subsidiary of SPCA, with SPCA being the sole shareholder.

SIL is a registered charity (Charities Commission number CC58630). As it is registered for charitable purposes, SIL is exempt from income tax. The tax exempt status of SIL should be recognized / utilised in SIL's investment strategy to the extent that is practical.

Balance Date: 30 June

Board structure; the Board is made up of two Board members appointed by SPCA and three independent Board members. The CEO and GM Finance & Shared Services of SPCA provide management support to SIL.

From time to time the SPCA 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 SIL'S risk profile and overall objectives.

Directors are required to provide authorisation to authorised investment manager/s on behalf of SIL in relation to implementation of this SIPO. This SIPO is to be approved by the SPCA Board.

The SPCA treasury and investment policy stipulates that three (3) months of cash and short term investments will be retained in the organisation. Any surplus funds will be provided to SIL for investment in accordance with this SIPO.

All investable assets will be covered under this SIPO. Direct property holdings, if any, are not covered by this SIPO.

1.1 Definitions

1.1.1 Base Capital

SIL was incorporated in March 2020 and SPCA adopted the SIL Constitution on 30 June 2020. The SIL Constitution defines the Base Capital Amount as:

a) the amount of $26,627,670 on account of assets and investments of SPCA Trust transferred to SIL, via SPCA, as at the Transfer Date, being 30 April 2021;

b) plus or minus the Annual CPI Adjustment.

As at the time of writing, the Base Capital Amount (as adjusted for CPI up to 30 June 2022) was $28,571,834.

1.1.2 CPI

CPI (Consumers Price Index) means the level of household inflation in New Zealand on an annual basis as measured by the Reserve Bank of New Zealand.

1.1.3 Annual CPI Adjustment

Annual CPI Adjustment means the adjustment, at the end of each Financial Year, of the amount specified in paragraph (a) of the definition of Base Capital Amount (as adjusted by all previous Annual CPI Adjustments) that is equal to any percentage movement in the CPI as measured between:

a) the CPI for the quarter that ended most recently before the end of the relevant Financial Year; and

b) the CPI for the equivalent quarter in the preceding year.

1.1.4 Capital Funds

Since the incorporation of SIL, the Base Capital Amount has been comingled with other capital contributions from SPCA in a single investment portfolio, together with income and capital returns on the invested capital. In November 2022, the Directors resolved to split the SIL investment portfolio into two capital funds:

Endowment Fund	Development Fund
The Endowment Fund consists of the Base Capital Amount as at 30 June 2022 of $28,571,834 together with all investment earnings (income and capital gains) from 1 December 2022 onwards.	The Development Fund consists of the balance of the existing SIL portfolio as at 30 November 2022 which does not represent the Base Capital Amount, being approximately $24,800,000, together with all investment earnings (income and capital gains) from 1 December 2022 onwards.

To give effect to the split portfolio, the Endowment Fund and the Development Fund will be managed as two separate portfolios from 1 December 2022, with no comingling of assets.

Funds transferred into SIL in accordance with the SPCA treasury and investment policy will be invested in the Development Fund.

1.1.5 Real Capital

Real capital is the capital of SIL adjusted annually by the movement in the CPI.

1.2 Objectives of the SIL investment portfolio

The purpose of each Fund influences their respective liquidity requirements, risk capacity and objectives:

	Endowment Fund	Development Fund
Purpose	To preserve and grow the real capital to ensure the ongoing financial sustainability of SPCA over the long term.	The primary role of the Development Fund is to provide liquidity to support the short to medium term funding requirements of SPCA for operational or capital needs. The secondary role of the Development Fund is to contribute to the long-term growth and financial sustainability of SPCA.
Investment timeframe	Long-term, 50+ years	Long-term, 30+ years
Liquidity requirements	Low / nil	Medium to High: • The Development Fund may be called upon to contribute materially to major capital projects in the medium term • The Development Fund may be called upon to meet shortfalls in operational funding at short notice
Risk capacity	High	Moderate
Investment objectives	• Preserve and grow the real capital	• Preserve the real capital over the long term, 30+ years, recognising real capital may be impacted by demands for capital expenditure or operational support • Provide liquidity to support the operational or capital expenditure needs of SPCA • Secondary to capital preservation and liquidity, to the extent possible, grow the real capital
Return expectations	• The benchmark Strategic Asset Allocation set out in section 2.1 is expected to generate a gross total return of 6.07%-6.47% per annum (before investment management costs and any tax leakage) over the long-term, with a standard deviation of 12.7%. This expected risk-return profile is based on long-term capital market expectations as at August 2022. Capital market expectations change over time and the expected risk-return profile of the Endowment Fund will also vary. • Based on a long-run inflation assumption of 2.0% p.a. the gross	• The benchmark Strategic Asset Allocation set out in section 2.1 is expected to generate a gross total return of 4.84%-5.24% per annum (before investment management costs and any tax leakage) over the long-term, with a standard deviation of 7.45%. This expected risk-return profile is based on long-term capital market expectations as at August 2022. Capital market expectations change over time and the expected risk-return profile of the Development Fund will also vary. • Based on a long-run inflation assumption of 2.0% p.a. the gross

	return expectation translates to a real return expectation of 4.07%-4.47% per annum (before investment management costs and any tax leakage), over the long-term. • The Endowment Fund's performance vs the long-term return expectations will be measured over rolling five-year periods. The Directors recognize that the return expectation is a long-term one that may not be achieved in every measurement period and in some years, the return may be negative.	return expectation translates to a real return expectation of 2.84%-3.24% per annum (before investment management costs and any tax leakage), over the long-term. • The Development Fund's performance vs the long-term return expectations will be measured over rolling five-year periods. The Directors recognize that the return expectation is a long-term one that may not be achieved in every measurement period and in some years, the return may be negative.
Distribution policy	• The Directors do not intend to make any distributions from the Endowment Fund. • In exceptional circumstances, distributions may be approved by unanimous resolution of the Directors if it is considered necessary or desirable in order to maintain the financial viability of SPCA.	• The Directors will consider distributions from the Development Fund to SPCA on a case by case basis, as required to meet SPCA's capital and operational funding needs. • The Directors have discretion to transfer funds from the Development Fund to the Endowment Fund, having regard to the size of the Development Fund relative to the purpose of the Development Fund and the projected medium term funding needs of SPCA.

1.3 Investment Beliefs

SIL's approach to investing is framed by a set of clearly defined beliefs:

- Investment markets are broadly efficient but they also have a strong behavioral element;
- There is a trade-off between risk and return for each investment decision made;
- Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits from diversification when they are aggregated into a total portfolio;
- The prime driver of investment returns is the benchmark asset allocation and it is important to limit asset allocation movements around this long term position i.e. periodic rebalancing is a necessary discipline;
- Active management may add incremental value (after fees) over and above the benchmark, but it requires skill, good knowledge and sound research;
- Value can be added by efficient implementation and carefully managing investment costs; and
- Environmental, social and governance ("ESG") issues have an important role to play in investments and should be considered at all points of the decision-making process.

1.4 Roles and Responsibilities

1.4.1 Role of Directors

- 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 investment performance of each Fund and compliance within strategic limits.
- All Directors are required to provide authorisation on behalf of SIL in relation to implementation of this SIPO.
- SIL's investments will be invested by the Manager and the Directors are authorised to agree a discretionary investment management services ("DIMS") mandate with the Manager, if considered appropriate. The Directors will have overall responsibility for asset allocation and for the investment of each Fund, 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 Manager/s on a quarterly basis to review both Fund portfolios.
- The Directors will be required to sign off any changes to this document.
- The Directors may authorise specific deviations from this SIPO to enable the directions or requests from SPCA to be executed.

1.4.2 External roles

The Investment Adviser / Manager

- The Manager will manage the Funds in strict accordance with the stated objectives and parameters set within this SIPO.
- The Manager will advise on asset allocation (suitable for the risk profile of each Fund), strategic tactical tilts, security and product selection.
- The Manager should be able to execute investment transactions.
- The Manager shall ensure that the investment portfolios are not exposed in any way to the balance sheets of any fund manager, investment adviser or investment manager.
- The Manager should have appropriate reporting and be able to report to relevant benchmarks and performance objectives.
- The Manager should advise on and respond to Corporate Actions.
- The Manager should comply with the SIPO and report any breaches to SIL.

The Custodian

- An external Custodian will be appointed to hold and administer the financial assets of SIL.
- The Manager and Custodian may be integrated as long there is clear separation of duties, governance and assets.
- An external audit report of the Custodian must be available for Directors.
- The Custodian will hold the assets in safe keeping in a bare Trustee capacity, i.e.. no change of beneficial ownership.
- For each Fund, the Custodian will provide:
  - Performance, accounting, and tax reporting sufficient for Audit.

- Intraday valuation (based on market pricing where traded prices are available) and transaction reports viewable online using a password protected facility.
- A quarterly summary review emailed at the end of each financial quarter including value of investments held, transactions executed, cashflows received and paid, and performance of the portfolio against relevant benchmarks over the quarter.
- Annual financial statements and audit information for tax purposes.
- Settlement of transactions.

- The Custodian will be responsible for corporate actions and for minimising other areas of potential operational risk.
- The Custodian must have standard commercial insurance.

1.5 Effective date and review dates

This SIPO, subject to the approval of the SPCA Board and SIL's Directors, takes effect from the effective date of the Deed of Distribution in April 2021. Prior to this date, there was no existing Statement of Investment Policy and Objectives. This SIPO should be reviewed annually, or more regularly if markets are subject to major changes.

The most recent review of this SIPO was concluded in November 2022.

2.0 Investment Strategy

2.1 Strategic Asset allocation

SIL aims to meet the investment objectives of each Fund by investing in accordance with the target asset allocations set out below:

Table 2.1.1: Asset Allocation and Ranges for the Endowment Fund

Asset class	Benchmark portfolio	Minimum	Maximum
NZ Equities	15%	7%	23%
Australian Equities	15%	7%	23%
International Equities – Hedged	19%	9%	29%
International Equities - Unhedged	19%	9%	29%
Australasian Property	3%	0%	6%
Alternative growth assets	9%	4%	14%
Total growth assets	**80%**	**70%***	**90%***
NZ Fixed Interest	10%	2%	18%
International Fixed Interest	5%	0%	10%
Alternative income assets	2%	0%	5%
Cash	3%	0%	10%
Total income assets	**20%**	**10%***	**30%***

* These figures are a minimum and maximum band for total growth and total income assets only. They are not a subtotal of the individual asset classes.

Table 2.1.2: Asset Allocation and Ranges for the Development Fund

Asset class	Benchmark portfolio	Minimum	Maximum
NZ Equities	11%	3%	19%
Australian Equities	10%	2%	18%
International Equities	26%	16%	36%
Australasian Property	3%	0%	6%
Alternative growth assets	0%	0%	5%
Total growth assets	**50%**	**40%***	**60%***
NZ Fixed Interest	45%	35%	55%
International Fixed Interest	0%	0%	5%
Cash	5%	2%	20%
Total income assets	**50%**	**40%***	**60%***

* These figures are a minimum and maximum band for total growth and total income assets only. They are not a subtotal of the individual asset classes.

2.1.1 Asset Allocation Strategy

- The Endowment Fund has a strategic asset allocation appropriate for a growth portfolio, targeting 80% growth assets (with a range of 70% - 90%) and 20% income assets (with a range of 10% to 30%).
- The Development Fund has a strategic asset allocation appropriate for a portfolio seeking capital preservation and liquidity. The balanced income asset allocation targets 50% growth assets (with a range of 40% - 60%) and 50% income assets (with a range of 40% to 60%).
- The appropriateness of the target asset allocation for each Fund 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 SPCA/SIL.

The Directors and Manager/s may adopt tactical asset allocation positions that differ from the target allocations if they deem it appropriate given market conditions at the time. However, each Fund should remain invested within the applicable minimum-maximum ranges for each asset class and within the applicable total growth/income ranges. The ranges have been set with the intention to limit the overall risk of SIL failing to meet its objectives.

2.1.2 Rebalancing

The Fund portfolios should be monitored regularly and any allocations that fall outside their allowable range will be brought to the Directors' attention as soon as practicable after discovery of the breach and must be remedied within five business days of discovery.

The Directors recognize that an asset allocation that is materially different to the benchmark allocation represents a departure from the agreed risk-return profile of each fund respectively.

The Manager/s will periodically rebalance the Fund portfolios towards the benchmark allocations, taking into account any tactical over- or under-weight positions. Unless a DIMS mandate is in place, rebalancing will require the approval of the Directors.

2.1.3 Currency Hedging

Any International Fixed Interest exposures will be fully hedged into NZD. As International Fixed Interest is likely to be accessed via specialist managed funds, provided the fund is denominated in NZD, this will be considered "fully hedged" even if the managed fund mandate permits minor deviation from 100% (e.g. 98-102% hedged).

Partially hedging international equities into NZD may reduce volatility without detracting from long-term returns. However, the NZD weakness that often coincides with market downturns does provide a 'buffer' during risk-on periods. Risk appetite is therefore a factor in whether hedging is appropriate or not. As such, the default hedging policy differs across the two Funds:

- For the Endowment Fund, the Manager/s will target 50% of the international equities portfolio being hedged to NZD, with an allowable range of 25%-75%.
- For the Development Fund, the Manager/s will target 0% of the international equities portfolio being hedged to NZD, with an allowable range of 0%-50%.

3.0 Investment guidelines

3.1 Income assets

3.1.1 Cash and Fixed Interest

Overview

The primary role of fixed interest assets is to provide security of income and capital. A key intention of these guidelines is to minimise credit risk by constraining investments 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 laddered portfolios. Fixed interest securities should generally be held to maturity to minimise costs.

The average duration for the Endowment Fund will vary subject to the interest rate outlook. SIL will provide forecast cashflow needs to the Manager/s to assist the Manager/s to manage the duration of the Development Fund income assets accordingly.

Fixed Interest

The fixed interest portfolios will primarily invest in issues from Government, Local Authorities, Major Trading Banks, Corporates and approved Bond Funds. Alternative income exposures such as private credit funds are permitted in the Endowment Fund subject to the Alternative Asset guidelines below and the investment parameters for income assets.

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 Moody'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. Bank term deposits with a maturity term longer than 90 days will be classified as a fixed interest holding.

International Fixed Interest

The role of International Fixed Interest in a portfolio is to provide diversification of exposures and access to longer duration instruments. It is expected that most (or all) investments in International Fixed Interest will be via funds rather than direct investment. Given the shorter target duration of the Development Fund, it is anticipated that exposure to International Fixed Interest will only be via the Endowment Fund.

3.1.2 Investment Parameters for income assets (applicable to each Fund individually)

- Minimum of 15 Fixed interest securities, including term deposits.
- Maximum 20% (of the fixed interest portfolio value) in any one issuer (excluding cash and funds)
- Minimum of 90% of direct holdings on each fixed interest portfolio should be invested in Investment Grade bonds with a minimum investment grade of BBB- as defined by Standard & Poor's or a similar rating from a recognised credit rating agency.
- Minimum of 60% to be invested in A- or above.
- Maximum of 10% allowable in unrated bonds. There is an allowance for unrated bonds in certain circumstances provided the issuer is rated or they are senior bonds. This is limited to 10% of each fixed interest portfolio.
- When investing in bond funds, the Manager will assess the investment parameters and composition of any proposed fund for compatibility with the SIL parameters above.
- Maximum of 5% of the total income asset allocation of the Endowment Fund allowable in alternative income exposures.
- There shall be no exposure to the balance sheets of any fund manager.

3.2 Growth assets

The primary goal of equity investments 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. Equity investments will consist of publicly listed, widely-held securities trading on recognised stock exchanges. The equity portfolios will be diversified across industry sectors and geographies.

3.2.1 New Zealand and Australian equities

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. The portfolios should mostly consist of holdings in direct equities however some indirect exposure is acceptable.

3.2.2 International equities

The primary goal of the International equity allocation is to provide capital growth, and growth in income. The international equities portfolios will be diversified across industry sectors and geographies. It would be expected the Manager has access to Direct equities, Funds, Exchange traded funds and investment trusts to implement the International equities strategy.

3.2.3 Property (listed)

The Property exposure will be predominantly New Zealand & Australia orientated, as these are tax efficient investments for Charitable Organisations. Property investment will be via listed property vehicles to provide a higher level of liquidity.

3.2.4 Alternative assets

Alternative assets can provide investment returns that are less correlated to financial market returns. In this regard, they can offer diversification benefits. Examples of alternative assets include infrastructure, private equity, private debt, venture capital, direct real estate, and agricultural or horticulture investments. Investment in alternative assets must be via a fund or collective investment vehicle. Direct investment in alternative assets is not permitted. Each alternative asset investment must be assessed on its merits with regard to:

- Transparency of process and purpose
- Experience of the management team and track record of success
- Appropriate governance
- Access to liquidity
- Pricing and valuation methodology
- Duration of the fund
- Investment and reinvestment period
- Distribution policy
- Contribution to diversification of risk and return of the total portfolio
- Investment mandate
- Credit quality (if applicable)

3.2.5 Investment parameters for growth assets (applicable to each Fund individually)

- Maximum 20% exposure to one industry (excluding generalist funds)
- Minimum 30 Securities held across the growth portfolio (excluding Property)
- Maximum 10% (of the growth portfolio) to any one stock (not applicable to investment in funds or ETFs)
- Minimum five listed property investments must be held
- Maximum of 25% (of the property portfolio value) to be held in any one listed property investment fund
- Maximum exposure to any one Alternative Asset investment of 2% of the total Endowment Fund portfolio

3.3 Socially Responsible Investing/Prohibited investments

3.3.1 SRI Overview

SIL is committed to incorporating Responsible Investment considerations into its investment decision-making processes. In managing the Funds, SIL adheres to a Responsible Investment Framework that governs specific investments ("Restricted Investments"), as well as incorporates environmental, social and governance (ESG) considerations into investment analysis, recommendations and decision making. In particular, the Directors believe that wherever possible, SIL's investments should be consistent with the main tenet of the organisation, namely the welfare of animals.

3.3.2 Prohibited Investments

SIL 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 prohibited investments in the ETF or Fund will apply.

3.3.3 Monitoring and Implementation

- Investments will be evaluated prior to purchase for exposure to restricted investments and ESG factors;
- The Directors accept 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 SIL from knowingly investing in restricted investments; and

- While SIL will endeavour to maintain portfolio compliance, it accepts that 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, SIL 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

The performance of each Fund will be measured against suitable Capital Market indices for each asset class, with each benchmark portfolio weighted to match the strategic asset allocation targets of the respective Fund. Where an active management strategy is implemented for a given asset class, the Manager is expected to outperform the relevant benchmark(s) over rolling five-year periods. The current indices are:

Table 4.1.1: Performance benchmarks

Asset Class	Index
NZ Equities	S&P/NZX 50 Gross Index
Australian Equites	S&P/ASX 200 Accumulation Index (unhedged NZD)
Global Equities	Endowment Fund: S&P/MSCI World Gross Index (50% hedged to NZD), incl dividends Development Fund: S&P/MSCI World Gross Index (unhedged), incl dividends
Property	S&P/NZX All Real Estate Index
NZ Fixed Interest	Bloomberg NZ Bond Composite 0+ Year Index
Global Fixed Interest	Bloomberg Barclays Global Aggregate Bond Index (100% hedged)
NZ Cash	S&P/NZX Bank Bills 90 Days Index
Alternatives	As agreed with the Manager

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

4.2 Portfolio Reporting

The investment performance of each Fund will be monitored on a regular basis.

The Manager will provide quarterly reports showing:

- Each Fund's holdings and changes in those holdings to the reporting date;
- The performance of the assets under management against the agreed performance benchmarks and return targets;
- Confirmation that all investment parameters in this SIPO have been complied with;
- Any other information that will assist in understanding further the performance of the Funds;
- A review of each Fund'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 Funds.

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