Statement of Investment Policy and Objectives for Environment Southland's Investment Portfolio

This Statement of Investment Policy and Objectives (SIPO) for Environment Southland (Council), covers the equity, money market and fixed interest investment activities of Council.

Neither the investment in South Port NZ, nor Council's day-to-day management of operating cash flows fall within the ambit of this SIPO.

The SIPO seeks to ensure that the investment activities of Council are carried out in an optimal manner and in a way which conforms to the risk and return expectations of the Council. Additionally, the document prescribes the best practice governance processes that shall be adopted by all parties associated with Council's investment activities.

Policy No.	Policy Sponsor	Adoption Date and Date of Next Scheduled Review	Adopted By	MORF Reference	Related Standards
CP B.17.2	General Manager Business Services	**Adopted –** 18 May 2016 **Reviewed –** 20 July 2017 **Reviewed -** 20 February 2019 **Reviewed –** February 2024	Council	A397342	-

CONTENTS

.

1 Guiding Principles

The guiding principles which govern the Council's equity and financial market investment activities are as follows:

- Council's time horizon is long-term, i.e. it is greater than 15 years, and it intends to hold investments for the long-term.
- there is a positive relationship between risk and return, higher expected returns mean higher risk.
- every investment has an associated level of risk. This risk is best mitigated by investment diversification.
- investors who have a Strategic Asset Allocation (SAA) generally outperform investors who do not.
- frequent trading, completely liquidating all investments, or allocating all investments to one specific sector which is predicted to outperform is deemed to be speculation, not investment.
- periodic rebalancing back to SAA target weights is likely to enhance investment returns over the long-term.
- periodic review of the SIPO, to ensure alignment with Councils Reserve obligation is likely to ensure that any material changes in circumstances are captured and reflected in the management of the portfolio. Reviews should occur annually, but not less frequently then biannually.

1.1 Investment Objective

Council's long-term objectives are to:

- maintain the real value of the investment portfolio in perpetuity.
- ensure that the real value of distributions can be maintained.
- maintain intergenerational equity between current and future ratepayers of Council.

1.2 Purpose

The purpose of this SIPO is to assist the full Council, the Finance and Performance Committee of Council (FPC), Council executives and the Investment Manager(s) in effectively supervising, monitoring, and evaluating the management of the investment portfolios ("the portfolios").

The investment activities are defined in various sections of the SIPO by:

- stating in a written document Council's attitudes, expectations, objectives, and guidelines for investment.
- clearly defining an investment structure for managing the portfolio. This structure includes various asset classes, investment management styles, asset allocation and acceptable investment ranges that, in total, are expected to produce an appropriate level of diversification and total return over the investment time horizon.
- establishing formal criteria to set, monitor, evaluate and compare the performance of securities on a regular basis.
- encouraging effective communication between the Council, FPC, Council executives and the Investment Manager(s).
- complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilise, and with applicable laws, rules and regulations.
- providing guidelines and criteria for the appointment of Investment Manager(s).

1.3 Social Responsibility

Council recognises that it has obligations to its community, including the delivery of social, environmental, cultural, and economic well beings.

Council expects its investment portfolio to demonstrate Corporate and Social Responsibility not only in the way it is managed, but also in the way that it determines its investments. This includes ensuring any Managers apply industry standard methods and principles in the way they operate and in how underlying investments are selected.

Investments are to be thoroughly researched and screened where practical to ensure that they meet our responsible investment criteria, including consideration for mitigating and adapting to the impacts of climate change, without material negative impact on overall investment objectives. The following initiatives are to be adopted by the appointed Manager/s

- Incorporate Environment, Social and Governance (ESG) considerations into investment processes to enhance understanding of the potential risk and reward of investments in the portfolio. Corporate engagement and voting is also encouraged where practical.
- Aim to move to a net-zero carbon investment strategy by 2030, but at a pace commensurate with improvement in data quality, availability, and global standardisation of information from corporate climate risk disclosure.
- Using data from a globally recognised ESG research agency, avoid investing in entities that exceed the ethical exclusion criteria described in Appendix 2 by prohibited activities and thresholds, as these activities are inconsistent with our values.
- With assistance from the manager/s, this Responsible Investment Policy will be reviewed annually and updated as necessary to reflect changes in best practices, and to ensure continued alignment with our values and mission.

Council also excludes investment in any entity that is actively in opposition to the objectives of Council in Southland.

The FPC monitor performance of the investment portfolio against expectations of Social Responsibility.

1.4 Capital Base

Council has an objective of ensuring that all Reserves and proceeds derived from any future sale of Strategic Assets are asset backed by Investment Assets.

Council has identified Reserves at 30 June 2023 of $27.2 million that should be asset backed (or matched) by Investment Assets. Total Funds on 30 June 2023 held with Investment Managers were $28.8 million.

1.5 Building a Portfolio

The Investment Portfolio is a collective pool of assets managed as one to ensure Council can achieve its future commitments, while protecting the obligations it has for the Reserves that the assets represent.

Every Council Reserve that is asset backed will be reviewed annually to determine the following:

Reserve Value:	Council annually adds to Reserves or spends Reserves in accordance with the operations of Council. The Reserves also grow by an inflation factor, being derived from the prior year's investment performance. The Reserve values will match the Council Annual Report.

Reserve Duration: The investment risk is partially determined by the expected duration of the reserve. Long term, or intergenerational reserves can tolerate higher investment risk than near term reserves. Duration is determined by the Reserve definitions in Council Plans or decisions.

Reserve Spend: The second determination of investment risk is the level of spend likelihood. Reserves that are forecast to grow may have greater capacity for higher risk volatility. Reserves that are forecast to be spent are focused on capital preservation. Council Finance team will have input into this based on Councils Annual Plan and or Long-term Plan.

Intergenerational Reserves or Funds, such as may be derived from the sale of a Strategic Asset would also apply the same test principles around duration and spend. By nature, these would likely permit greater investment risk for greater long term benefit.

It is the combination of Reserve Duration and Reserve Spend that determines the appropriate asset allocation for a specific Reserve. The following describe is the Reserve Risk profile.

Duration / Spend	Growing	Stable	Declining
Strategic / Intergenerational		80:20	
Long Term / Low Spend certainty	80:20	60:40	40:60
Mid Term / Medium Spend Certainty	60:40	40:60	20:80
Near Term / High Spend Certainty	0:100	0:100	0:100

The table above give indicative growth to defensive splits for each Reserve in establishing a Reserve Risk.

It is the weighted average of all Reserves Risk by Reserve Value that determines the Strategic Asset Allocation.

1.6 Required Rate of Return

The total return objective of the Investment Portfolio is to firstly provide income to Council, secondly inflation proofing to existing Reserves, and thirdly, grow resilience for the Council over time through returns more than the first two objectives.

Careful consideration of cash flow requirements is essential to determine the required rate of return. In order to achieve the desired level of contributions to cash flow, while maintaining the real value of Council's capital over time, the real (i.e. inflation adjusted) required return for the portfolio must be greater than the spending rate.

In the 2024 - 2033 Long-term Plan the Council has budgeted a cash withdrawal to Council equivalent to 3% of the opening annual balance of the Council Reserves. For the duration of the 2024 – 2033 Long Term Plan, a rate of 2.5% net has been applied as an annual inflation factor, to maintain the real value of underlying reserves.

Council recognises that the target rate of return (a minimum 5.5% nominal) is a long-term one and will not be achieved in every measurement period. Differences between the inflation-proofed value and the Investment Portfolio will be reflected in an Investment Volatility Reserve.

Council expects that the Investment Manager should be able to outperform the benchmark (after fees). Nominal over or under performance will be represented in movement in the Investment Volatility Reserve.

1.7 Strategic Asset Allocation

Based on Councils Reserves being asset backed and their respective Risk Factors required return, capacity and willingness to accept risk, a balanced 60% growth and 40% defensive portfolio (**balanced 60/40**) is suitable for a **medium** level of risk for the whole portfolio.

At a whole of portfolio level, tilting of plus or minus 10% is tolerated in the allocation to growth and defensive assets.

2 Risk Tolerance

The Council recognises and acknowledges that some risk must be assumed to achieve the long-term investment objectives.

Risk tolerance is affected by three factors:

- capacity to accept risk,
- willingness to accept risk, and
- required rate of return.

2.1 Capacity to Accept Risk

Council's capacity to accept risk is a function of its investment time horizon, prospective future contributions, current financial condition, level of funding requirements and reserve facilities.

Time Horizon

This document has been prepared on the basis that Council is expected to exist in perpetuity. The investment time horizon of Council is therefore long-term. This increases capacity to accept risk.

Financial Capacity

Councils current financial condition and level of funding requirements imply reasonable capacity to tolerate short to medium term volatility in the value of its investment portfolios. This increases capacity to accept risk.

Based on the combination of time horizon and financial circumstances, Councils overall capacity to accept risk is assessed as Medium to High.

2.2 Willingness to Accept Risk

Council is a prudent investor and seek to take measured risk that has adequate expected return compensation. The Council seeks, where possible, to manage volatility or risk. Notwithstanding this risk aversion, the Council and FPC, acknowledge that investing solely in capital stable investments exposes the portfolio to the risk of inflation and is willing to accept some risk to increase expected return, subject to Council's capacity to accept risk.

The required rate of return is defined in section 1.5.

The table below summarises the Council's level of risk tolerance as measured by the three risk factors:

RISK MEASURE	LEVEL OF RISK
Capacity to accept risk	Medium to High
Willingness to accept risk	Medium
Required rate of return	Medium to High

2.3 Management of Risk

The Council, the FPC, and Council executives have the responsibility to develop appropriate internal controls, accounting policies and risk management strategies. Identified risks include:

Credit Risk

Risk Description: Credit (or counterparty risk) is the risk of default by a counterparty to a particular transaction or an issuer of a security held in the portfolio.

Risk Managed By:

- Measuring and maintaining the credit quality of portfolios within prescribed guidelines, and
- Limiting exposure to individual issuers through issuer limits, and
- Maintaining appropriate policies and procedures relating counterparties, and
- Appointing Fund Managers with mandates consistent with prescribed risk limits

Currency Risk

Risk Description: Currency risk is the risk that foreign currency denominated assets will lose value because of an adverse exchange rate movement.

Risk Managed By:

- Maintaining a hedging policy for the portfolio and individual asset classes.

Liquidity Risk

Risk Description: Liquidity risk is the risk that a security cannot be sold when required or that the price achieved is significantly different from the quoted price.

Risk Managed By:

- Setting liquidity requirements by asset class in the SIPO, and
- Setting diversity targets by asset class in the SIPO, and
- Requiring Investment Managers to invest in accordance with the SIPO, and
- limiting the credit rating of the fixed interest and cash investments to approved levels.

Manager Risk

Risk Description: Council retains professional managers to implement its investment strategy. Managers' returns may vary from expected levels.

Risk Managed By:

- Robust selection process for Fund or Private Equity Managers, and
- Appointing Managers with mandates that prescribe acceptable risk limits, and
- regular assessment and review of performance against benchmark and peers.

Market Risk

Risk Description: Market risk is the risk of adverse movements in investment markets (including asset prices, volatility, changes in yield curves or other market related variables) that affect the value or income of the portfolio. The volatility of investment markets means that the return from the investment portfolio is inherently uncertain. Actual returns from each asset class may vary significantly each year from the returns assumed in determining the investment strategy appropriate for the long-term.

Risk Managed By:

- Diversifying portfolio investments, and
- Seeking professional advice, and
- Requiring Managers to manage their portfolios within prescribed mandates.

Operational Risk

Risk Description: Operational risk is the risk of financial loss due to mismanagement, error, fraud, or unauthorised transactions.

Risk Managed By:

- Having in place a robust system of internal controls at Council that regularly monitors investment portfolios, and
- requiring a custodian to hold assets as bare trustee, record transactions and report on performance, and
- having in place a specific mandate for each Investment Manager, and
- having clear separation of investment management, custodial and overall supervisory functions.

3 Duties and Responsibilities

This section sets out the duties and responsibilities of the Council, Finance and Performance Committee, Council's executives, Investment Managers, Fund Managers, and the Custodian.

3.1 Council

As fiduciaries the primary responsibilities of the Council are:

- To ensure that FPC and members are conversant with their fiduciary responsibilities when exercising their duties on behalf of Council.
- To ensure that the roles and responsibilities of all parties are documented and clearly defined.
- To consider and resolve on any change to the SIPO recommended by the FPC and independent experts.
- To consider and resolve on any change to in Investment Manager(s) recommended by the FPC.
- To consider and resolve on any transactions that breach the parameters delegated to the IC under this SIPO.

3.2 Finance and Performance Committee

The Council has established the Finance and Performance Committee (FPC). The FPC provides the first point of reference for matters pertaining to the management of Council's investment portfolio.

The Finance and Performance Committee Reporting to Council

Council has delegated, through this SIPO, operational responsibility for the Investment Portfolio.

Council approval is required for the following:

- Any recommendation of the FPC pertaining to a change to the SIPO,
- Any recommendation of the FPC pertaining to a change of Investment Manager(s),
- Any transaction resulting in a breach of SIPO, or breach of SIPO of over $1,000,000 or material to the reputation of Council.

Council will receive from the FPC:

- A copy of minutes of the Finance and Performance Committee meeting,
- A six-monthly report and presentation by the Committee and the Investment Managers on the performance of the Investment Portfolio,
- A paper on any recommendations that require Council approval.,

The FPC will meet at least quarterly to:

- Review the compliance and adherence of all parties to the terms of this SIPO,
- Review the quarterly report from and performance of the Investment Managers,
- Monitor the Investment portfolio performance and investment reports periodically throughout the year and at year end,
- Monitor and manage any conflicts of interest,
- Review all matters concerning the SIPO, considering any changes or amendments to the SIPO and making appropriate recommendations,
- Review and recommend any matters to Council that require Council consideration.

Statement of Investment Policy and Objectives (SIPO)

The FPC shall ensure that an appropriate SIPO is developed to:

- confirm the management of investments complies with all applicable laws, Council's policies and risk tolerance and other supporting documents.
- set out the duties and responsibilities of all parties involved with respect to decision making, planning, investment management, reporting, and review.
- ensure the inflation rate used in assessing the amount the portfolio needs to increase by to meet the preservation of capital target is appropriate.
- confirm, on an annual basis, the Strategic Asset Allocation reflects the movement in Council Reserves and any change in Reserve Risk.
- ensure that contracts for investment advisory/management, custodial and consultancy services are reviewed at least every three years.

Portfolio Management

Where appropriate FPC shall:

- recommend to Council the appointment and removal of Investment Managers in accordance with this SIPO (see Section 5: Investment Manager Selection).
- approve and monitor the appropriateness of fees paid to Investment and Fund Managers.
- Approving the most appropriate investment style and strategy to achieve the investment objectives.
- that each Investment Manager has its own Investment Policy Statement / Investment Mandate which meet the minimum standards outlined in the SIPO.
- that appropriate risk management standards and procedures are developed and maintained.
- the overall investment portfolio is prudently diversified to meet the agreed risk/return profile and achieve the distribution objectives of Council.
- approval of the asset classes and sub-asset classes to be included in the investment portfolio.
- all service agreements and contracts are in writing and are consistent with fiduciary standards of care.
- review the performance of the Investment Manager in accordance with this SIPO.

Review and Control

FPC shall ensure the following matters:

- that the practices and policies set out in the SIPO are adhered to.
- that formal criteria to monitor, evaluate and compare the investment performance results achieved against SIPO benchmarks and objectives on a regular basis are followed.
- confirmation on an annual basis that best practice with respect to execution, brokerage, money sweep facilities, foreign currency spreads, transaction costs and management fees is being applied.
- contracts and service agreements are reviewed at least every three years.

3.3 Council Executive

For the purposes of this SIPO, the Council executives involved in the investment management process are the Chief Executive, the General Manager Business Services and the Chief Financial Officer. It is recognised that the management of the day-to-day relationship with the Investment Managers and administration of the investment portfolio is the responsibility of the Chief Financial Officer. The General Manager Business Services will provide oversight and guidance where appropriate.

The Council executives have specific responsibilities in relation to the management of the investment portfolios include the following:

- administering and attending to the day-to-day financial matters associated with the management of investment portfolios, including serving as the primary point of contact for the Investment Manager(s).
- preparing forecast cash flows and budgets in association with the planning process.
- confirming that actual cash flow from investments aligns with projected cash flow.
- to control and account for all investment, recordkeeping and administrative expenses associated with management of the funds.
- to control and account for all movement Council Reserves, reflecting the movement of capital to and from the Investment Portfolio, to ensure Council Reserves are asset backed.
- recordkeeping and administrative expenses associated with management of the funds.
- to report at least annually to the FPC and Council the 'Total cost of Delivery' being the sum of:
  - Investment Advisory Fees,
  - Custodial Fees,
  - Administration Fees, and
  - Total Fund Fees – made up of; annual management fees (including annual management fees of underlying investments), performance-based fees (including performance-based fees of underlying investments), and any other fees and costs.

3.4 Investment Manager(s)

The Investment Manager(s) is/are responsible for preparing and maintaining a written Investment Policy Statement (IPS) or equivalent in a format consistent with, and adhering to, the SIPO. Specific responsibilities include the following:

Investment Strategy and Implementation

- Manage investments in accordance with the guidelines and objectives as outlined in the IPS and respective agreements.
- Ensure investment assets are appropriately diversified and conform with the time horizon and agreed risk/return profile.
- Ensure that "expected" and "modelled" returns for asset classes are based on sound return and risk premium assumptions.
- Provide advice on, and implementation of, the SAA and where appropriate the Fund Manager selection.
- Specify and advise on asset and sub-asset class allocation strategies.
- Outline expected returns and risk, or volatility, within the selected strategies.
- Define the procedure to be used for reporting, reviewing and possible modification of strategies from time to time.
- Recommend a Custodian to hold and report on investment assets.
- Use the care, skill, prudence, and due diligence that an experienced investment professional, acting in a like capacity, would use and comply with all applicable laws, rules and regulations.

Ongoing Portfolio Management and Reporting

- Manage the portfolio on a day-to-day basis.
- Provide instructions to each Fund Manager (or broker) to lodge or withdraw funds.
- Rebalance individual investments and asset class groups to within agreed benchmarks as described in the rebalancing policy contained in the IPS.
- To affect all transactions for the portfolio at the best price.

- To compile and account for all investment, record keeping, and administrative expenses associated with the management of the funds.
- Deliver quarterly reports including:
  - portfolio valuation,
  - portfolio duration,
  - compliance reporting, Portfolio Performance Summary for the portfolio and by asset class,
  - performance against benchmarks,
  - asset transactions summary, and
  - cash transactions.
- Make available appropriate personnel to attend meetings, as agreed.
- Periodically review custodial arrangements and make recommendations.
- Regularly report on compliance exceptions with the SIPO and IPS.
- Disclose any potential conflicts of interest and steps taken to mitigate such conflicts.
- Report on total fees paid by Council in accord with the IPS, in the quarterly period.

Financial Reporting

- Provide financial information, including income and/or returns projections, as required for forecast budgeting purposes.
- Communicate all significant changes pertaining to the Investment Managers and/or the form itself. Changes in ownership, organisational structure, financial condition, professional staff, and reputation are examples of changes to the firm that are material.

3.5 Fund Managers

- To manage an allocated part of the portfolio on terms and conditions consistent with their mandate.
- Where a Fund Manager offers a CIV, the manager must have, and demonstrate, appropriate policies and procedures and impose reasonable exposure limits.

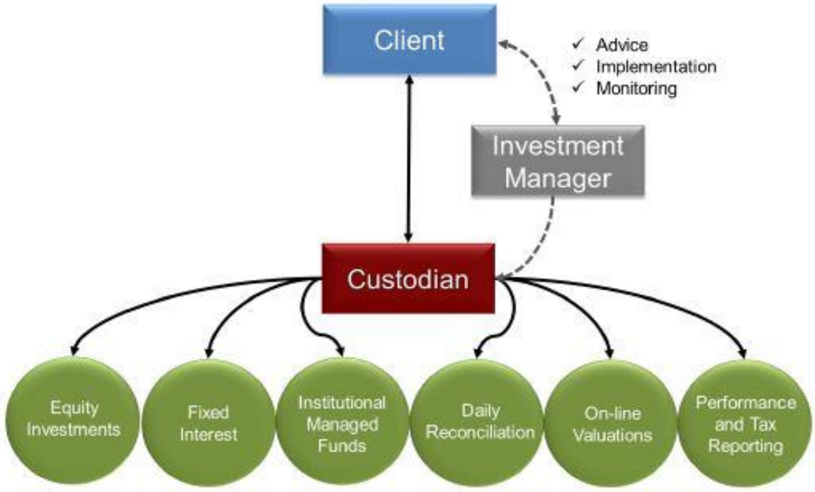
3.6 Custodian

The Custodian holds investments as bare trustee on behalf of Council and is responsible for the safe keeping of those investments. The specific duties and responsibilities of the Custodian are:

- maintaining separate accounts.
- valuation of all investment assets.
- collection of income.
- Settlement of transactions (buy/sell orders) initiated by the Investment Managers.
- Provision of regular reports detailing transactions, cash flows, securities held and their current values, changes in value and returns.

Where the Investment Manager and Custodian are owned by a single entity, the FPC must ensure that appropriate segregation occurs.

The Client, Custodian and Investment Manager relationships are depicted below:


Client
✓ Advice
✓ Implementation
✓ Monitoring
Investment Manager
Custodian
Equity Investments
Fixed Interest
Institutional Managed Funds
Daily Reconciliation
On-line Valuations
Performance and Tax Reporting

4 Asset Class Guidelines

The Council and FPC acknowledge that long-term investment performance is primarily a function of SAA and asset class mix.

Empirical evidence shows that while interest bearing investments, such as bonds and term deposits, have the advantage of nominal principal stability, but they provide negligible opportunity for capital growth and are susceptible to inflation. Equity investments have significantly higher expected returns, but much greater variability in year-to-year return.

From an investment decision making perspective, this year-to-year variability is worth accepting provided the time horizon for the equity portion of the portfolio is sufficiently long to smooth out short term aberrations.

4.1 Asset Allocation

Academic research offers considerable evidence that asset allocation far outweighs security selection and market timing in its impact on portfolio variability and performance. On this basis, the Council has adopted a SAA model.

The Investment Manager is responsible for ensuring that the portfolio is rebalanced to the targeted asset allocation (see rebalancing procedures below) and kept within the tolerance ranges set below.

The Investment Manager will assist the FPC in setting and annually reviewing (or sooner if circumstances require) the sector weighting for SAA and rebalancing limits appropriate for Council to manage its risk tolerance and income expectations are as follows:

Asset Class	Minimum Allowable Exposure %	Strategic Asset Allocation %	Maximum Allowable Exposure %
New Zealand Equities	5.0%	12.0%	20.0%
Australian Equities	5.0%	12.0%	20.0%
International Equities	25.0%	36.0%	45.0%
New Zealand Property	0.0%	0.0%	0.0%
Private Equity	0.0%	0.0%	0.0%
Growth	**50%**	**60%**	**70%**
New Zealand Fixed Interest	20.0%	28.0%	35.0%
International Fixed Interest	5.0%	10.0%	15.0%
New Zealand Cash	0.0%	2.0%	20.0%
Defensive	**30%**	**40%**	**50%**

4.2 Rebalancing Procedures

The percentage allocation to each asset class may vary depending upon market conditions.

The SAA has upper and lower limits for each asset class as set out in the table above. The range limits shown for aggregate exposures to growth and defensive assets are important for ensuring that the risk profile of the portfolio does not stray too far away from that of the agreed SAA over time. Range limits for individual asset classes are comparatively less impactful on the risk profile of the portfolio, given the higher correlations between asset classes grouped within income and growth.

The Investment Manager(s) will manage the portfolio to be within the asset allocation guidelines above. Any breach of these guidelines will be reported to the IC as soon as practicable, with an explanation of how it occurred and actions that will be taken for its remediation.

Rebalancing tends to involve buying underperforming assets at relatively lower prices and selling relatively higher priced assets. Cost effective rebalancing can be achieved by reinvesting cash accrued from distributions and maturities.

4.3 Authorised Investments Classes

The following investment classes, within New Zealand and internationally, are authorised by the Council:

- Cash: cash, cash equivalents, term deposits, and registered certificates of deposit.
- commercial paper.
- New Zealand dollar denominated bonds (domestic and foreign issuers), including sovereign and non-sovereign issuers, either directly or via Collective Investment Vehicles (“CIVs”).
- Offshore dollar denominated bonds (domestic and foreign issuers), including sovereign and non-sovereign issuers, either directly or via Collective Investment Vehicles (“CIVs”).
- shares in publicly listed companies, including listed property companies, domestic and foreign, either directly or via CIVs.
- private equity, direct, listed or via funds (for Strategic Intergenerational Reserves Only)
- derivatives for hedging non-New Zealand domiciled investments back to the New Zealand dollar and for risk management purposes. Derivatives cannot be used for speculative purposes or to introduce leverage into the portfolios.

Investment Classes not identified above are deemed to be excluded from the investment. The addition of a new investment class can only occur with a review of the SIPO and is not deemed an acceptable breach for approval by the IC.

4.4 Foreign Currency Management

The fluctuation in the value of the New Zealand dollar relative to other major currencies can result in additional volatility of offshore investment returns, but can also provide an important source of diversification, given the high proportion of New Zealand dollar denominated investments across the Council’s entire asset base. To strike a balance across these risks associated with having foreign currency exposure, the following policies apply:

- when investing in Australian and international growth assets, a neutral currency position of being unhedged back to the New Zealand dollar is the base position, with allowance for hedging to vary between 0% to 100% within the context of the SIPO.
- Investments in international defensive assets will be fully hedged back to the New Zealand dollar to prevent currency translation volatility from impacting the returns of this conservative (stable) asset class.

4.5 Cash Investments

Asset Type: Defensive Asset
Benchmark: S&P/NZX 90 Day Bank Bill Index

The asset class benchmarks for Cash Investments, whether direct or via funds, collectively referred to as the 'Cash Portfolio' is focused on management of NZD exposure.

Foreign currency balances are permitted to support trading and to receive income. Council does not speculate on foreign currency, with material cash balances to be exchanged to NZD on a timely basis.

For the Cash portfolio, the following rules apply:

- New Zealand Government Treasury Bills and short term (less than 12 months to maturity) New Zealand Government Bonds.
- call and term deposits with New Zealand Registered Banks with a Standard and Poor's (or the Moody's or Fitch equivalents) short term credit rating of 'A-1' or better.
- commercial paper with a Standard and Poor's (or the Moody's or Fitch equivalents) short term credit rating of 'A-1' or better.

4.6 New Zealand Fixed Interest Investments

Asset Type: Defensive Asset
Benchmark: S&P/NZX A-Grade Corporate Bond Index

For New Zealand Fixed Interest and Money Market investments, whether direct or via funds, collectively referred to as the 'NZFI Portfolio', the following rules apply:

- The NZFI Portfolio must be appropriately diversified, with no more than 20% of the NZFI Portfolio (by value) in a single issuer (issue of NZ Government Bonds are no subject to the 20% limit), and
- The NZFI Portfolio investments are in widely held issues where sufficient liquidity exists to enable exit from the investment at any time, and
- investment can only be into Investment Grade or higher, and
- the duration of the fixed interest portfolio must be that of the benchmark, +/- 25%.

4.7 New Zealand Equity Investments

Asset Type: Growth Asset
Benchmark: S&P/NZX 50 Index (Gross)

For New Zealand equity investments, including NZ listed property, whether direct or via funds, collectively referred to as the 'NZE Portfolio', the following rules apply:

- investment in companies that are listed on the New Zealand Stock Exchange, and
- The NZE Portfolio must be appropriately diversified, with no more than 20% of the NZE Portfolio (by value) in a single company, and
- The NZE Portfolio assets must be appropriately liquidity, with no more than 20% of the NZE Portfolio (by value) being outside the constituents of the benchmark index.

4.8 Australian Equity Investments

Asset Type: Growth Asset
Benchmark: S&P/ASX200 Accumulation Index

For Australian equity investments, whether direct or via funds, collectively referred to as the 'AE Portfolio', the following rules apply:

- investment in companies that are listed on the Australian Stock Exchange, and
- The AE Portfolio must be appropriately diversified, with no more than 20% of the AE Portfolio (by value in NZD) in a single company, and
- The AE Portfolio assets must be appropriately liquidity, with no more than 20% of the AE Portfolio (by value in NZD) being outside the constituents of the benchmark index, and
- The AE Portfolio must be hedged in accordance with Section 4.5.

4.9 International Equity Investments

Asset Type: Growth Asset
Benchmark: MSCI All Country World Index

For International equity investments, whether direct or via funds, collectively referred to as the 'IE Portfolio', the following rules apply:

- investment in companies that are listed on the reputable international exchanges or a CIV, and
- The IE Portfolio must be appropriately diversified, with no more than 10% of the IE Portfolio (by value in NZD) in a single company (on a look through basis), and
- The IE Portfolio assets must be appropriately liquid, and
- The IE Portfolio must be hedged in accordance with Section 4.5.

4.10 Private Equity Investments

Asset allocation to Private Equity as an asset class will only be applied to intergenerational Reserves. This recognises that Private Equity investments are by nature longer term and illiquid.

For Private Equity the following rules shall apply:

- Managers will be picked on their track record and value alignment with the SIPO, and
- Allocation to a Private Equity Fund will be calculated against expected called capital, and
- Diversification of risk, currency exposure, and vintage will be considered at a Private Equity Portfolio level, and
- Selection of a new Manager or Fund must have both the written approval of the Investment Manager and the FPC.

4.11 International Fixed Interest Investments

Asset Type: Defensive Asset
Benchmark: Bloomberg Barclays Global Aggregate Bond Index (NZD Hedged)

For International Fixed Interest investments, whether direct or via funds, collectively referred to as the 'IFI Portfolio', the following rules apply:

- The IFI Portfolio must be appropriately diversified, hold fixed interest securities across sectors and regions globally, be benchmark aware, and

- The IFI Portfolio assets must be sufficiently liquid to enable exit from the investment at any time, and
- The IFI Portfolio must be hedged in accordance with Section 4.5.

4.12 Selection of Fund or Private Equity Managers

Selection of Fund Managers or Private Equity Managers by Investment Managers must consider, among other criteria specific to the role:

- the skills and experience the Manager brings to the role,
- the substance and viability of the Manager,
- the costs that can be expected to be incurred,
- the existence of appropriate risk management structures, and
- whether there are any organisational or reputational issues.

Investment mandates shall include rules setting out authorised investments, performance measurements, constraints and exposure limits, use of derivatives, and reporting requirements.

Managers are regularly reviewed against the preceding criteria to determine their ongoing suitability for their role.

Where a Manager is selected and the Investment Portfolio incurs an additional fee, the annual impact of this fee must be disclosed annually in writing to the FPC.

5 Investment Manager Selection

The FPC is responsible and will recommend to Council the appointment of Investment Manager(s) to assist with the management of Council's investment portfolio. The F P C is responsible for applying the following due diligence criteria in selecting Investment Manager(s). The FPC may chose to use independent experts to support this objective.

5.1 Request for Proposal Process

Investment management roles should be tendered through a Request for Proposal (RFP) process. The FPC should seek tenders. Relevant considerations for tenderers include:

- Track record: each investment advisory firm should have a minimum track record of at least five years. Firms should have at least $100 million under advice.
- Service: each investment advisory firm must confirm that it will report quarterly and make relevant staff available to attend meetings.
- Compliance: investment advisory firms who are, or have been within the last five years, the subject of adverse regulatory or professional association findings will be excluded from consideration.
- Governance: investment advisory firms must submit and manage to an IPS which conforms with the SIPO.
- Fee only: investment management firms should offer a fee only service.
- Conflicts of Interest: must be adequately disclosed and avoided where possible.
- Investment Philosophy and Process: each investment management firm should have an investment philosophy which it can articulate to the Council (if required). Each investment advisory firm should follow modern portfolio theory.
- Expense ratios/fees: total cost of delivery
- Stability of the organisation: there should be no perceived organisational problems, most of the advisory team should have been in place for more than two years.

5.2 Portfolio Expenses

Total portfolio costs should be fair and reasonable. The Investment Manager(s) should offer a fee only service with all commissions returned to the portfolio and reported to Council.

The Investment Manager(s) is to report to FPC quarterly the breakdown of the total cost of delivery including:

- investment management fees,
- custodial fees,
- weighted average funds management fees, and
- brokerage and other transaction costs.

Council acknowledges that cost reductions can be achieved through scale.

Appendix 1: Glossary

S&P/NZX A Grade Corporate Bond Index	The S&P/NZX A Grade Corporate Bond Index measures the total return from corporate bonds where the underlying credit rating of the issuer, or security issued, must be A- (Standard and Poor's) or A3 (Moody's) or better.
Asset Allocation	An investment strategy that aims to balance risk and reward by apportioning portfolio assets according to required return, risk tolerance and time horizon. The three main asset classes - equities, fixed-income, and cash - have different levels of risk and return, so each will behave differently over time. Also, the process of allocating assets to minimise risk for a targeted level of return.
Asset Class	A group of securities that exhibit similar characteristics, behave similarly, and are subject to the same laws and regulations. The three main asset classes are equities (shares), fixed-income (bonds) and cash.
Benchmark	A standard against which the performance of a fund or investment manager can be measured. Generally, broad market indices are used for this purpose.
Call option	A contract that gives the holder the right to buy a certain quantity of an underlying security from the writer of the option, at a specified price (the strike price) up to a specified date (the expiration date).
Collective Investment Vehicle (CIV)	An entity that pools investor funds and invests the pooled funds, rather than individuals buying the securities directly, usually managed by a fund manager. By pooling with other investors, investors in CIVs can access a greater number of underlying investments than they could on their own account, achieving greater diversification and economies of scale.
Custodian	A financial institution that holds investments on behalf of the underlying investor for safekeeping to minimise the risk of their theft or loss and provide reporting on those investments. A custodian holds securities and other assets in electronic or physical form.
Defensive asset	An investment asset that has low risk of losing capital. These types of assets (typically cash and highly rated bonds) tend to deliver the bulk of their returns through regular income distributions as opposed to capital gains.
Derivative contracts	Contracts based on (derived from), but independent of, another security and involving a party not associated with the original (underlying) contract. Derivatives are financial products, such as futures contracts, options, and mortgage-backed securities. Most of derivatives' value is based on the value of an underlying security, commodity, or other financial instrument.

Diversification	Blending of a variety of investments within a portfolio. The rationale behind this risk management technique is that a portfolio of different kinds of investments will, on average, yield higher returns and pose a lower overall risk than any individual investment held on its own.
Duration	A weighted average of the time to maturity of a portfolio of bonds. A measure of the sensitivity of the price (the value of principal) of a bond investment to a change in interest rates. Duration is expressed in years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.
Equity	Equity (a share) is one of the principal asset classes. A share represents an ownership interest (i.e. a share of equity) in the underlying company.
Fixed Interest	Money invested in bonds, certificates of deposit, preferred stock, etc. which regularly generates a fixed amount of income.
Fund Manager	An investment professional who is appointed to manage a pool of investment funds.
Funds Management Fee	The fee charged by a fund manager to manage a pool of investments in a Collective Investment Vehicle, usually expressed as a percentage.
Growth asset	An investment which is expected to increase in value over time (i.e. generate capital gain). These types of investments (principally shares) tend to deliver the bulk of their returns through changes in value. These fluctuations can be negative leading to temporary investment losses.
Hedging	Implementing a strategy to protect against adverse foreign currency movements eroding the New Zealand dollar value of returns from foreign-denominated assets.
Illiquid	Cannot be quickly converted into cash without significantly depressing the price, such as direct property, collectibles, and thinly traded securities.
Index	A statistical measure of value in an economy or a securities market. In the case of share markets, an index is a defined portfolio of securities that represents that market or a portion of it. Each index has its own calculation methodology and is usually expressed in terms of a change from a base value. Thus, the percentage change is more important than the actual numeric value. Share and bond market indices are used to construct exchange-traded funds (ETFs) whose portfolios mirror the index.
Investment Grade	Investment Grade refers to the group of credit ratings that imply a low default risk (from AAA to BBB-). Issues with higher credit rating (with AAA being highest) are deemed to have a lower risk of default.
Investment Manager	An Investment Manager is the professional responsible for the management of various investments (shares, bonds, and cash) in order to meet specified investment goals for the benefit of the investors.
Investment Policy Statement (IPS) / Investment Mandate (IM)	An IPS / IM is a document, between an investor and an investment manager, recording how the investor's money is to be managed. Specific information on matters such as asset allocation, risk tolerance, investment securities and liquidity requirements are included in an IPS/ IM.
Investments	Money not required to meet working capital requirements and invested for longer term period.

Liquidity	Liquidity is the ability to sell an investment when you want to, at or close to the prevailing market price. There is, however, a perceived price to pay for liquidity, which is price volatility. Investments traded on a recognised exchange have their prices quoted regularly. These prices fluctuate due to several factors, for example, positive or negative news, overall economic conditions etc. It is preferable for price variations to be visible and to have the option to transact, rather than having no price transparency or flexibility to transact.
Money weighted return	A measure of the rate of return for an asset or portfolio of assets. The money-weighted return is equivalent to the internal rate of return (IRR).
MSCI All Countries World Index	The MSCI All Countries Index is a market capitalisation weighted index comprising 23 developed and 24 emerging markets globally. It measures the return of these Share markets with dividends reinvested.
NZX	New Zealand Stock Exchange
S&P/NZX 90 Day Bank Bill Index	The S&P/NZX 90 Day Bank Bills Index measures the return from New Zealand 90-day bank bills. This is a Cash equivalent index.
Overweight	An excess amount relative to the weight in the underlying benchmark portfolio. The size of the overweight position is the absolute different between portfolio and benchmark weight.
Over the Counter (OTC)	A security which is not traded on a recognised stock exchange, usually due to an inability to meet listing requirements. OTC equities are usually very risky since they are the stocks not considered large or stable enough to trade on a major exchange.
Perpetual	Fixed income security with no maturity date that is not redeemable; also called annuity bond.
Portfolio	A collection of investments.
Preference shares	Shares that pay a specified dividend that is paid before any dividends paid to common shareholders and takes preference over common shares in the event of liquidation.
Private equity	Equity securities in companies that are not publicly traded. Investments in private equity most often involve either an investment of capital into an operating company or the acquisition of an operating company.
Put Option	A contract that gives the holder the right to sell a certain quantity of an underlying security to the writer of the option, at a specified price (the strike price) up to a specified date (the expiration date).
Reserves	Portion of earnings set aside to account for possible future losses or for specified purposes. Funds not required for day-to-day operations and working capital requirement.
Risk Preference	Willingness to assume volatility and to what extent.
Risk Profile	The type and level of risk the investment portfolio is able and willing to take. Made up of risk tolerance and preference.
Risk Tolerance	The ability to tolerate volatility in investment returns.
Statement of Investment Policy and Objectives (SIPO)	Statement of Investment Policy and Objectives. The SIPO defines the objectives, performance expectations, asset diversification and risk parameters the investment portfolio will operate within.

Standard and Poor's ('S&P')	A credit ratings agency that publishes financial research and analysis on stocks and bonds.
Strategic Asset Allocation	A strategic asset allocation is both a portfolio strategy that involves setting target allocations for various asset classes, then periodically rebalancing the portfolio back to the original allocations, and the target allocation for underlying asset classes.
Subordinated debt	Debt that is either unsecured or has lower priority than that of another claim on the same asset or property.
S&P/ASX 200 Accumulation Index	The S&P/ASX 200 Accumulation Index measures the total return from the top 200 companies by market capitalisation listed on the Australian Stock Exchange. The accumulation index shows the total return with dividends reinvested.
S&P/NZX 50 Index (Gross)	The S&P/NZX 50 Gross Index measures the total return from the top 50 companies by market capitalisation listed on the New Zealand Stock Exchange. The index shows the total return with dividends reinvested.
Total Cost of Delivery	Total Cost of Delivery is the total overall annual cost of investment management including investment advisory fees, custodial fees, weighted funds management fees, brokerages and transaction costs and any other costs of investment or portfolio management. Usually expressed as a percentage.
Underweight	A deficient amount relative to the weight in the underlying benchmark portfolio. The size of the underweight is the absolute different between the benchmark weight and the portfolio weight.
Unrated securities	Investments that have not been rated by a company such as Standard and Poor's.
Volatility	The rate at which the price of a security moves up and down. If the price of a share moves up and down rapidly over short time periods, it has high volatility. If the price almost never changes, it has low volatility.

Appendix 2: Responsible Investment Policy

Council is committed to incorporating Responsible Investment into its investment decision-making processes. Our approach to Responsible Investment is to seek close alignment of the following Responsible Investment Framework with our values. The ability to implement this policy is a factor in the appointment of our investment adviser/manager.

Council has resolved to use reasonable endeavours to avoid investment in entities that meet the following criteria of prohibited activities at or above the threshold level where relevant.

Exclusion	Nature of involvement	Threshold
Cannabis - Recreational	Companies that produce and/or retails cannabis for recreational use.	0%
Civilian Firearms	**Producer** **Automatic:** Companies that manufacture firearms which automatically eject the cartridge case of a fired shot and load the next cartridge from the magazine allowing the gun user to fire more than one round of ammunition for every pull of the trigger. **Semi-Automatic:** Companies that manufacture firearms which automatically eject the cartridge case of a fired shot and load the next cartridge from the magazine allowing the gun user to fire one round of ammunition for every pull of the trigger. **Ammunition:** Companies that only manufacture small arms ammunition for the civilian market, including powder propelled, cartridge-based ammunition up to 20mm, which can be fired from weapons, such as revolvers and self-loading pistols, rifles and carbines, assault rifles, submachine guns, and light/general purpose machine guns	0%
Controversial Weapons	**Any tie** Companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments	0%
Nuclear Weapons	**Any tie** Companies that have an industry tie to nuclear weapons	0%
Tobacco	**Producer** Companies that manufacture tobacco products, such as cigars, blunts, cigarettes, e-cigarettes, inhalers, beedis, kreteks, smokeless tobacco, snuff, snus, dissolvable and chewing tobacco. This also includes companies that grow or process raw tobacco leaves	0%

The % threshold figures relate to the maximum percentage of total revenue derived from the activity that is tolerated.

Implementation for Direct Security Investments

Investment Manager(s) will use reasonable endeavours to screen out directly held security investments in the Discretionary Portfolio involved in the prohibited activities as described in the Ethical exclusion tables above. Investment Manager(s) may rely on data from third party agencies when screening these directly held security investments, which according to the investment guidelines agreed upon in the investment mandate, will apply to the asset classes of Cash (NZ registered banks), NZ Fixed Interest, NZ Equities and Australian Equities and Global Equities.

Implementation for Indirect Pooled investments

In relation to indirect pooled investments (i.e. via investment in collective investment vehicles), Investment Manager(s) will from time to time use reasonable endeavours to screen for and avoid indirect exposure to entities involved in the prohibited activities as described in the Ethical exclusion tables above. Where identified and measurable, exposure to entities involved with these prohibited activities will be limited to a materiality representation threshold of 10% of the total value of each of these pooled investment products.