Notice of Meeting:

I hereby give notice that an ordinary meeting of the Finance and Performance Committee will be held on:

Date:	**Thursday 27 August 2026**
Time:	**9:00 a.m.**
Venue:	**Council Chamber, Level 2, Dunedin Public Art Gallery, The Octagon, Dunedin**
YouTube Link:	**https://youtube.com/live/-Gnd9wyHjus?feature=share**

Sandy Graham
Chief Executive Officer

Finance and Performance Committee
PUBLIC AGENDA

MEMBERSHIP

Co - Chairs	Cr Lee Vandervis	Cr Cherry Lucas
Members	Mayor Sophie Barker	Mr Jeffrey Broughton
	Cr John Chambers	Cr Jo Galer
	Cr Christine Garey	Cr Doug Hall
	Mr Hoani Langsbury	Cr Marie Laufiso
	Cr Russell Lund	Cr Mandy Mayhem
	Cr Andrew Simms	Cr Mickey Treadwell
	Cr Steve Walker	Cr Brent Weatherall

Senior Officer Carolyn Allan, Chief Financial Officer

Governance Support Officer Lauren Riddle

Lauren Riddle
Governance Support Officer

Telephone: 03 477 4000
governance.support@dcc.govt.nz
www.dunedin.govt.nz

***Note:** Reports and recommendations contained in this agenda are not to be considered as Council policy until adopted.*

WAIPORI FUND SIPO REVIEW

Department: Finance

EXECUTIVE SUMMARY

1 The Waipori Fund (the Fund) has a Statement of Investment Policy and Objectives (SIPO) that sets out the framework for governing the investment of the Fund.

2 Dunedin City Holdings Ltd (DCHL) has undertaken a review of the SIPO, and a report on the review along with a proposed revised SIPO and proposed Governance Agreement for the Fund, is at Attachment A.

3 This report proposes that the Committee make a decision on the proposed SIPO and Governance Agreement.

4 The most significant change proposed in the SIPO relates to strategic asset allocation. DCHL recommends that this is changed from the current balanced income approach comprising circa 45% growth assets and 55% income assets to a growth-oriented portfolio comprising 80% growth assets and 20% income assets. DCHL considers that this allocation represents the best balance between return and risk.

5 This change requires Council to accept that the return objective is a long term one that may not be achieved in every measurement period. Short-term volatility must be expected and managed. Evidence suggests that growth-oriented portfolios spend more years ahead than behind, but they require investors to tolerate larger fluctuations in value along the way.

6 Other proposed changes to the SIPO include an asset-based distribution model incorporating a smoothing mechanism and a transition period, to create a buffer. It provides clearer governance arrangements and clarifies the socially responsible investment provisions.

7 In the medium to long term, these changes could result in consistently higher distributions.

8 The purpose of the proposed Governance Agreement is to formalise the relationship that Council has with DCHL in its management of the Waipori Fund. It sets out the terms under which DCHL is to manage the fund, documenting what is primarily current practice.

RECOMMENDATIONS

That the Committee:

a) **Notes** the Waipori Fund SIPO Review.

b) **Approves** an option for updating the Waipori Fund Statement of Investment Policy Objectives.

c) **Approves** the draft Governance Agreement between DCC and DCHL.

BACKGROUND

9 The Waipori Fund (the Fund) was established in 1998 following the sale of the Waipori Power Generation Limited and its holding in United Electricity Limited. The value of the Fund when established was $56 million. At 30 June 2026, the value of the Fund is $117.7 million.

10 A Statement of Investment Policy and Objectives (SIPO) provides all parties involved in the investment management of the Fund with clear guidance on how the assets of the Fund are to be managed.

11 The SIPO was last updated, with minor changes for clarification, in January 2025. The current SIPO is provided at Attachment B. At that time, Council was in the process of developing an Investment Plan. In its December 2024 Letter of Expectation to DCHL, Council requested that DCHL undertake a review of the draft Investment Plan. The DCHL Board was asked to present options to the DCC on how its investments, including the DCHL trading companies, the Waipori Fund and the Council's investment property portfolio are managed and reported on.

12 At the time, it was agreed by Council that until the Investment Plan is completed and approved by Council, it is recommended that the current asset allocation included in the SIPO be unchanged.

13 It was also noted that there is currently no specific management agreement in place for the Waipori Fund. It was recommended that a formal agreement be developed between DCC and DCHL, the Fund Manager. This work has been undertaken, and the proposed Governance Agreement is at Attachment A.

14 Work by DCHL to develop an Investment Framework for the DCC in ongoing. An update on this process is provided in a separate report on this agenda. However, in the December 2025 Letter of Expectation to DCHL, Council requested that DCHL:

"Review the Waipori Fund Statement of Investment Policy and Objectives (SIPO), and present options to Council for consideration, with different risk appetites along with expected returns, with a view to maximising return on investment."

DISCUSSION

15 DCHL has completed its review of the Waipori Fund SIPO. DCHL's report is at Attachment A. Appended to its report are:

a) A proposed SIPO, and

b) A draft Governance Agreement between DCC and DCHL.

SIPO review

16 In response to Councils request, DCHL has completed a comprehensive review of the current SIPO. It has undertaken its review in the context of:

a) Council's expectation to seek increased returns from investments to mitigate pressure on ratepayers, and

b) DCHL's broader Investment Framework work. A central principle of this work is the 'one portfolio' approach, which recognises that the Fund should not be considered in isolation to the wider investment portfolio of Council.

17 DHCL concluded that:

a) the Fund remains fundamentally sound and has achieved its core objectives with the real value of the original capital based being maintained, while the fund has distributed more than $80 million to Council, and

b) the current asset allocation of the Fund is relatively conservative for a perpetual, intergenerational investment fund, and this limits the Fund's ability to generate stronger long-term returns and distributions.

18 DCHL recommends that Council retain but clarify the Fund's core purpose by adopting four investment objectives to balance the interests of current and future ratepayers and guide investment decisions. The objectives are:

i) Provide a strong, consistent and sustainable distribution to Council;

ii) Maintain the capital base of the Fund in real terms;

iii) Maximise the real rate of return subject to the selected asset allocation; and

iv) Maintain sufficient liquidity to meet the Fund's distribution requirements.

19 DCHL proposes a revised SIPO that it believes provides a modern and fit-for-purpose framework for the Fund. The key changes are:

a) Strategic Asset Allocation – this is the most significant change from the current balanced income approach comprising circa 45% growth assets and 55% income assets to a growth-oriented portfolio comprising 80% growth assets and 20% income assets. DCHL considers that this allocation represents the best balance between return and risk.

b) Distribution Model - the current model, where the annual distribution is heavily influenced by the market value of the Fund at a single point in time, is replaced with an asset-based distribution model that incorporates a smoothing mechanism. It sets a multi-year average of the Fund values which reduces sensitivity to short-term market movements and supports a more predictable and sustainable distribution. Based on current assumptions, expected annual distributions would increase by approximately $0.8 million in today's terms.

i) DCHL recommends a transition period before the full distribution methodology is applied. This would enable the establishment of a buffer to support higher returns during periods of short-term volatility. It will take three to seven years, during which time, DCHL will apply professional judgement when recommending the annual distribution rate.

c) Governance Model – clearer governance arrangements with no change to ownership or legal structure. Council will continue to own the Fund, approve the SIPO and annual distributions. DCHL will have responsibility for oversight of the investment strategy, appointing and monitoring investment managers, reviewing the SIPO and recommending distributions.

d) Socially Responsible Investment – the proposed SIPO retains the exclusion-based approach to socially responsible investment, with refinements to improve clarity and consistency.

Risk

20 At a recent risk workshop including elected members and management, an indicative risk appetite for financial sustainability, using the table below, was identified as **conservative** to **balanced**.

Risk Appetite Level	Level 1 Protective	Level 2 Conservative	Level 3 Balanced	Level 4 Receptive
Philosophy	**Protect & Comply** Prioritises stability and security. Aims to safeguard and maintain rather than to create or innovate.	**Safe & Proven** Prefers established options. Risks are only taken after comprehensive analysis and if essential.	**Evaluate & Optimise** Prefer considering different options and choosing the one that balance risk and reward to find the most efficient path forward.	**Transform & Lead** Willing to take risks for meaningful opportunities. Willing to be innovative and pursue opportunities for potential high benefits, despite greater risk.
Uncertainty	**Avoid** Low tolerance for "unknowns." Prefers certainty even if it comes at a higher financial cost.	**Minimal** Uncomfortable with uncertainty. Requires evidence and mitigation before proceeding.	**Managed** Comfortable with calculated uncertainty. Focuses on resilience and the ability to pivot.	**Anticipated** Uncertainty is expected. Focuses on agility and the potential for high-value breakthroughs.
Internal controls	**Comprehensive** Prioritises the elimination of risk. Expects controls to be robust, redundant, and highly effective.	**Reliable** Applies measures to minimise risk. Expects controls to be well-designed and generally effective.	**Proportional** Applies adequate measures to manage risk. Accepts that some controls may be partially effective due to cost/benefit.	**Adaptive** Measures are applied where possible but accepts that controls may be in development or partially effective during innovation.
Trade-offs	**Non-negotiable** Unwilling to compromise.	**Reluctant** Rarely makes trade-offs. Will only compromise secondary objectives with extreme reluctance.	**Pragmatic** Willing to trade off under the right conditions so that the primary strategic objective remains achievable.	**Strategic** Proactively accepts calculated risks and deliberate trade-offs to maximise high-value outcomes and long-term advantages.

21 Council's current SIPO adopts a relatively low risk/return profile, with a maximum allocation of 60% to equities. This is considered consistent with the **conservative** financial sustainability risk appetite.

22 The proposed increase to a maximum of 80% equities would result in a higher risk/return profile. While this would move beyond a conservative investment approach, it remains consistent with a **balanced** risk appetite, reflecting a greater willingness to accept investment market volatility in return for higher long-term returns.

23 DCHL also assessed the Council's risk profile by determining risk need, risk taking ability and behavioural risk tolerance. DCHL concluded that a growth-orientated risk profile is deemed to be appropriate for the Fund.

24 Higher returns require a higher exposure to assets that can grow in value over time. The trade-off is that a growth-oriented portfolio will experience greater volatility.

25 The DCHL report states that evidence suggests growth-oriented portfolios spend more years ahead than behind, but they require investors to tolerate larger fluctuations in value along the way.

Mitigations and controls

26 The proposed SIPO provides that the return objective is a long term one that may not be achieved in every measurement period. Short-term volatility must be expected and managed. Decisions would be made with a long-term perspective.

27 The proposed SIPO provides a summary table of risks and mitigation measures that will be taken by the Board of DCHL and Investment Managers. Along with these, there are additional measures, some of which are highlighted in the paragraphs below.

28 The proposed transition period, which creates a buffer, lets the Fund grow to build in the buffer.

29 The proposed distribution model uses a rolling three year average period which provides a smoothing effect against the increased volatility in the Fund.

30 Appropriate diversifications across sectors of the portfolio are clearly identified in the proposed SIPO. This includes alignment with the United Nations Global Compact, which provides a widely recognised and objective framework for assessing environmental, social and governance issues.

31 Holding limit percentages and exposure limits would apply across the total portfolio.

32 Performance is measured and reviewed. The DCHL Board will monitor performance on a regular basis, and Council would continue to receive regular reporting on Fund performance and how the Fund is being managed to achieve its objectives.

33 The fixed interest portfolio will have a laddered maturity profile, i.e., a spread of maturity dates.

Governance Agreement

34 DCHL has drafted a proposed Governance Agreement. This agreement formalises the relationship that Council has with DCHL in its management of the Waipori Fund. It includes the following:

a) Roles, duties, and powers of DCHL – ensure the fund is managed in a prudent, commercial manner.

b) Delegations – ability to appoint, engage, replace, or remove one or more Investment Managers, and any other advisors and consultants etc.

c) Remuneration and reimbursement – a management fee would be payable at the rate of 0.2% per annum of the Net Asset Value of the Fund.

d) Limitation of liability – DCHL will have no liability for investment losses in value of the Fund for any act or omission in connection with the Fund, unless attributable to fraud, wilful misconduct or wilful breach of the agreement, or gross negligence.

e) Conflicts of interest – DCHL to maintain policies and procedures for identification, disclosure, and management of conflicts of interest.

f) Reporting – to provide quarterly reports to Council, and any additional reporting as agreed.

Other matters

35 Section 29.1 of Standing Orders provides that the DCC may only divest all or any part of the Waipori Fund by a three-quarters majority of the members present and voting.

36 Divest means converting, in any way whatsoever, the Waipori Fund for a use other than as set out in the SIPO.

37 Any recommendations made by DCHL for a distribution of the Fund will also be assessed under this Standing Order.

38 Further to a Councillor request regarding the use of the anglicised spelling of Waipori, we will engage with Mana Whenua to seek their views on the potential use of Waipōuri as an alternative spelling for the Waipori Fund.

OPTIONS

39 The Committee is asked to consider three options relating to the Fund SIPO discussed below.

Option One – Approve the proposed SIPO

40 This option would approve the proposed SIPO prepared by DCHL and provided in Attachment A.

Advantages

- Supports the Council's desire for higher and more reliable distributions over the medium to long-term.
- Larger exposure to equities should deliver higher growth over the long term. This should translate into the ability to pay out more in distributions over the long run.
- In the medium to long term, consistently higher distributions. Based on current assumptions, an increase in annual distributions of approximately $0.8 million in today's terms is expected.
- A larger exposure to equities (growth assets) is a better hedge against inflation. The higher the risk the higher the return.
- The revised distribution policy, including a smoothing mechanism, provides more certainty, transparency, and consistency.
- A transition period of three to seven years will maintain the current level of distribution, with the aim of developing a "buffer" over the inflation-adjusted capital base. This will result in the Fund being better placed to withstand variation in market returns and inflation and consistently provide higher distributions.
- Environmental, social and governance settings are clarified.

Disadvantages

- The principal effect of adopting a higher-growth asset allocation is an increase in the variability of returns from year to year. More volatility and, in some years, the return on the Fund may be negative. Growth-oriented portfolios show higher short-term volatility, but the amount of variation diminishes over longer-term horizons.
- Despite a larger exposure to equities (more risk), and increased volatility in the Fund, the amount of distribution won't increase in the near term. This means that returns would favour future ratepayers over todays.

Option Two – Approve the proposed SIPO in principle, but with further matters to be considered

41 Under this option, the Committee would approve the SIPO as proposed in principle, but Councillors may identify further matters that they would like to be considered for inclusion or removal from the proposed SIPO.

Advantages

- As per Option One.
- Provides an avenue for amending the proposed SIPO for any identified matters for consideration.

Disadvantages

- As per Option One.
- Further work would be required, and there would be a delay in approving a new SIPO for the Waipori Fund.

Option Three – Do not approve the proposed SIPO

42 Under this option, the Committee would not approve the proposed SIPO, but ask DCHL to start the process again using different parameters, as directed by the Committee.

Advantages

- A SIPO would be developed that incorporates the requirements of the Committee.

Disadvantages

- Further work would be required, and there would be a delay in approving a new SIPO for the Waipori Fund.

NEXT STEPS

43 DCHL will be notified of the decision made by Council with respect to the proposed SIPO and Governance Agreement.

44 If required, any amendments made to the SIPO will be presented to this Committee and/or Council at a later date for approval.

45 If approved, the Governance Agreement, subject to a legal review, will be entered into.

Signatories

Authoriser:	Carolyn Allan - Chief Financial Officer

Attachments

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This decision enables democratic local decision making and action by, and on behalf of communities.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	☐	☐	✓
Economic Development Strategy	☐	☐	✓
Environment Strategy	☐	☐	✓
Arts and Culture Strategy	☐	☐	✓
3 Waters Strategy	☐	☐	✓
Future Development Strategy	☐	☐	✓
Integrated Transport Strategy	☐	☐	✓
Parks and Recreation Strategy	☐	☐	✓
Other strategic projects/policies/plans	☐	☐	✓

There are no direct contributions to the Strategic Framework.

Māori Impact Statement

Council budgets and how they are funded impact broadly across all Dunedin communities including Māori. The adoption of Te Taki Haruru – Māori Strategic Framework signals Council's commitment to mana whenua and to its obligations under the Treaty of Waitangi.

Sustainability

Sustainability is an underlying principle of the DCC's strategic framework. The proposed SIPO addresses financial sustainability in terms of sustainable long term distributions and socially responsible investment.

Zero carbon

The proposed SIPO for the Waipori Fund have no expected implications for city and DCC emissions. The Waipori Fund SIPO notes that the fund seeks to avoid direct investment in companies that have a significant involvement in a range of activities deemed to be inconsistent with the Council's ethical position, including fossil fuel extraction. This aligns with the Zero Carbon Policy, by minimising the emissions impact of DCC's activities.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

Summary information on the Waipori Fund is included within the Financial Strategy. The development of the Financial Strategy for the 2027-37 Long Term Plan will incorporate the revised assumptions that would result from the proposed SIPO.

Financial considerations

The proposed SIPO sets out how the assets of the Waipori Fund are to be managed. The financial impacts of the proposed SIPO, including the increased variability in financial results are discussed in detail in the report.

Significance

The decision to move from a conservative to balanced management Fund is considered to be of low significance in terms of the Council's Significance and Engagement Policy.

SUMMARY OF CONSIDERATIONS
Engagement – external The proposed SIPO and draft governance agreement have been prepared by DCHL.
Engagement - internal The proposed SIPO and draft governance agreement have been discussed with management.
Risks: Legal / Health and Safety etc. Risks are considered in the body of the report.
Conflict of Interest There are no known conflicts of interest.
Community Boards There are no known implications for the Community Boards.

Review of the Waipori Fund Statement of Investment Policies and Objectives (SIPO)

Final Report - August 2026

DUNEDIN CITY HOLDINGS LIMITED


dunedin

1. Executive summary

DUNEDIN CITY HOLDINGS LIMITED

1. Executive summary

The proposed SIPO modernises the Fund's objectives and investment strategy to support higher long-term returns while maintaining its inter-generational purpose

Dunedin City Holdings Limited (DCHL) has undertaken a comprehensive review of the Waipori Fund Statement of Investment Policies and Objectives (SIPO), responding to Council's specific request and broader expectations to seek increased returns from Council's investments to mitigate pressure on ratepayers.

The review has also been undertaken within the context of DCHL's broader Investment Framework review and the principle that the Waipori Fund should be considered as part of Council's wider investment portfolio rather than in isolation.

The review concludes that the Fund remains fundamentally sound and has achieved its core objectives since inception. The real value of the original capital has been maintained, while the Fund has distributed more than $80 million to Council and grown from an initial investment of $56 million to approximately $118 million. However, the current asset allocation is relatively conservative for a perpetual, inter-generational investment fund, especially when considered as part of a broader portfolio, and limits the Fund's ability to generate stronger long-term returns and distributions.

Investment objectives

DCHL recommends retaining and clarifying the Fund's core purpose by adopting four investment objectives:

- Providing a strong, consistent and sustainable distribution to Council;
- Maintaining the capital base of the Fund in real terms;
- Maximising the real rate of return subject to the selected asset allocation; and
- Maintaining sufficient liquidity to meet distribution requirements.

These objectives balance the interests of current and future ratepayers and guide investment decisions.

Strategic asset allocation

The most significant recommendation is a change in strategic asset allocation from the current balanced income approach to a growth-oriented portfolio comprising 80% growth assets and 20% income assets.

DCHL considers that this allocation represents the best balance between return and risk. It is consistent with comparable long-term local authority investment funds, including the Auckland Future Fund and New Plymouth's Perpetual Investment Fund, and is expected to materially improve long-term returns and distribution capacity while maintaining a level of volatility that can be appropriately managed.

1. Executive summary

The proposed SIPO combines a modernised distribution model, clearer governance arrangements and a refined responsible investment policy to support stronger long-term outcomes

Distribution model

Recognising that a higher-growth portfolio will experience greater short-term fluctuations in value, DCHL recommends replacing the current distribution methodology with a modern asset-based distribution model that incorporates a smoothing mechanism. This approach uses a multi-year average of Fund values, reducing sensitivity to short-term market movements and supporting more predictable and sustainable distributions, while continuing to protect the inflation-adjusted capital value of the Fund over the long term. Based on current assumptions, the recommended approach is expected to increase sustainable annual distributions by approximately $0.9 million in today's terms compared with the current strategy.

Governance model

The review also recommends clarifying roles and responsibilities but no changes to ownership or legal structure are proposed. Council would continue to own the Fund, approve the SIPO and annual distributions, appoint DCHL directors and retain ultimate oversight.

DCHL would be formally responsible for overseeing investment strategy, appointing and monitoring investment managers, reviewing the SIPO and recommending distributions. This reflects widely adopted practice amongst long-term investment funds and strengthens the alignment between governance responsibilities and investment expertise.

Socially responsible investment

Finally, DCHL recommends retaining Council's exclusion-based approach to socially responsible investment, while refining the policy to improve clarity and consistency. The proposed changes align the policy with the United Nations Global Compact, provide clearer definitions around fossil fuel activities and permit investment in mining and mineral extraction companies that do not fall within the specified fossil fuel exclusions. This approach remains consistent with Council's ethical objectives while improving diversification opportunities and reducing ambiguity for investment managers.

Conclusion

Overall, DCHL considers that the proposed SIPO provides a modern and fit-for-purpose framework for the Waipori Fund. It preserves the Fund's inter-generational purpose, strengthens governance, and positions the Fund to deliver higher and more sustainable benefits to the people of Dunedin over the long term.

The proposed SIPO and draft Governance Agreement are appended to this report.

2. Background

DUNEDIN CITY HOLDINGS LIMITED

2.1 History

The Waipori Fund was created in 1999 from the sale of the Council's electricity generation assets – the SIPO has evolved over time

History

In 1998, Dunedin City Council (DCC) sold its 100% holding in Waipori Power Generation Limited and its 42% holding in United Electricity Limited. After repaying associated debt, the Council was left with cash amounting to just over $56 million. This fund became known as the Waipori Fund (the Fund).

At 30 June 2026, the Fund had grown to a value of $117.7 million. Since inception, the Fund has delivered total distributions to Council of $80.1 million.

Statement of Investment Policies and Objectives (SIPO)

A Statement of Investment Policies and Objectives (SIPO) is a formal document that sets out how an investment fund or portfolio must be managed. It includes:

- Investment objectives – what the fund is trying to achieve;
- Risk parameters – how much risk is acceptable;
- Asset allocation rules – what types of assets the fund can invest in and in what proportions; and
- Governance and monitoring requirements – how decisions are made and how performance is reviewed.

In short, a SIPO provides the framework and boundaries that guide investment decisions to ensure they align with the fund's purpose.

The current Waipori Fund SIPO has undergone numerous changes since the inception of the fund and approval by Council on 15 February 1999.

There was a reasonably extensive review of the document in 2014/2015. At this time, the Socially Responsible Investment (SRI) framework was adopted. The SRI framework resulted in the Fund avoiding direct investment in companies that have a significant involvement in a range of activities deemed inconsistent with the Council's ethical values.

In recent times, updates to the SIPO have been limited and largely editorial in nature. The document was last reviewed and approved by the DCC on 28 January 2025.

2.2 Context for the review

The Waipori Fund is part of DCC's wider investment portfolio and this review is undertaken in the context of the broader Investment Framework

Investment Framework review

Council needs to extract higher and more reliable distributions from its investment portfolio in order to mitigate pressure on rates.

The Council asked the board of Dunedin City Holdings (DCHL) to review its Investment Framework – the review encompasses the DCHL group of companies, the Waipori Fund and the Council's investment property portfolio.

As reported to Council on 28 March 2026, DCHL's Investment Framework review observed that DCC's investments are not currently governed or reported as a combined portfolio. Investment objectives, asset allocation, risk appetite and target returns are considered in isolation for each of Council's investments in companies, investment properties and the Waipori Fund. DCHL considers that this is not optimal and has made recommendations accordingly. Further to Council's resolution, DCHL is developing a steps plan to develop the appropriate governance structure.

SIPO review

Separately, and irrespective of the outcomes of the Investment Framework review, DCC's Letter of Expectation for the year ending 30 June 2027 included this request:

Review the Waipori Fund Statement of Investment Policies and Objectives (SIPO), and present options to Council for consideration, with different risk appetites along with expected returns, with a view to maximising return on investment.

The SIPO review has also been undertaken within the context of DCHL's broader Investment Framework work. A central principle of that framework is the 'one portfolio' approach, recognising that the Waipori Fund should not be considered in isolation from Council's wider investment portfolio, which exceeds $1.1 billion in equity value. Investment objectives, risk appetite, asset allocation and distributions should therefore be considered in the context of Council's total investment position.

2.3. Scope of the review

DCHL has undertaken a comprehensive review and a full rewrite of the SIPO to ensure that the document remains fit for purpose

As noted by Council at their meeting of 25 March 2026, DCHL's view was that the time was right for a comprehensive review of the Waipori Fund SIPO and a complete rewrite of the document.

DCC's context as an investor has changed since the Fund was created. Facing more acute financial and operational pressures, the Council has been clear in its desire for increased cash returns from its investments – changes are required to achieve this.

A full rewrite allows for a clean, logical, modern framework. This avoids any ambiguity, duplication or outdated language that have accumulated through incremental editing.

The key elements of the SIPO review are summarised opposite.

- The strategic asset allocation is central to achieving higher returns.
- The distribution policy is important, noting DCC's requirements for predictable, sustainable distributions.
- Governance arrangements are set out in the SIPO. While democratic oversight is essential, elected bodies are not typically best placed to manage detailed investment strategy. Prudent delegation of certain SIPO responsibilities to a qualified governance body preserves democratic accountability while strengthening the quality, consistency, agility and performance of fund governance.

- Investment objectives
- Strategic asset allocation (SAA), with long-term return and risk expectations
- Distribution policy
- Socially Responsible Investment (SRI) settings
- Governance framework

3. Current state

DUNEDIN CITY HOLDINGS LIMITED

3.1. Current asset allocation and performance

The Waipori Fund has performed well but the asset allocation is relatively conservative for a long-term fund

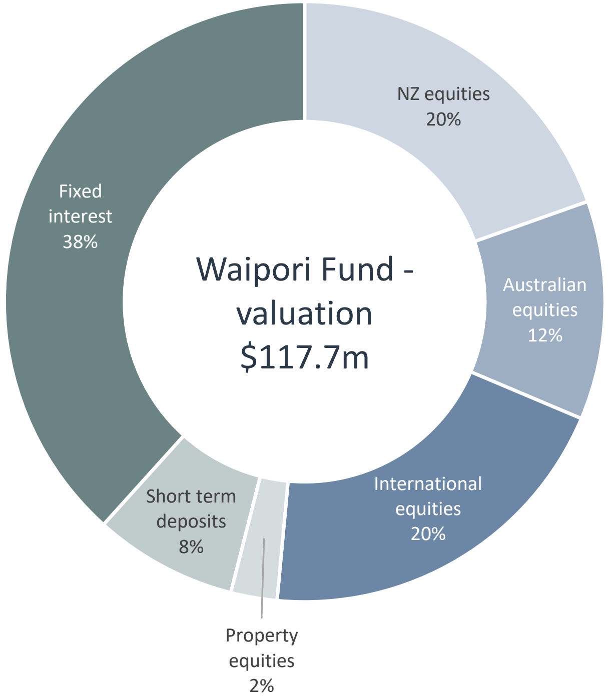
The current asset allocation can be characterised as a 'balanced income' fund:

- Circa 45% growth assets – a mix of international, Australian and New Zealand equities; and
- Circa 55% income assets – comprising various fixed interest securities, including bonds, and deposits.

This asset allocation is relatively conservative for a long-term, inter-generational fund. The high weighting towards income assets reduces volatility and is intended to make cash distributions to Council more predictable but foregoes growth and therefore delivers modest total returns.

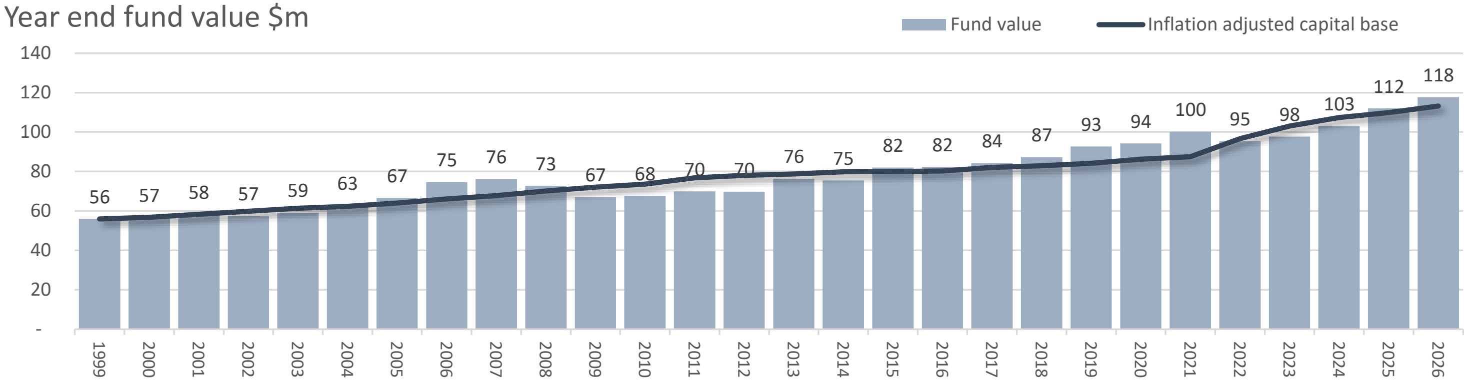
Since 2014, the fund has delivered an annualised total return of 6.7%. During this period, the equities component of the fund has delivered an annualised total return of 9.7%. Over the same period, cash distributions to Council have averaged $2.8m per annum, a yield of 3.5%.

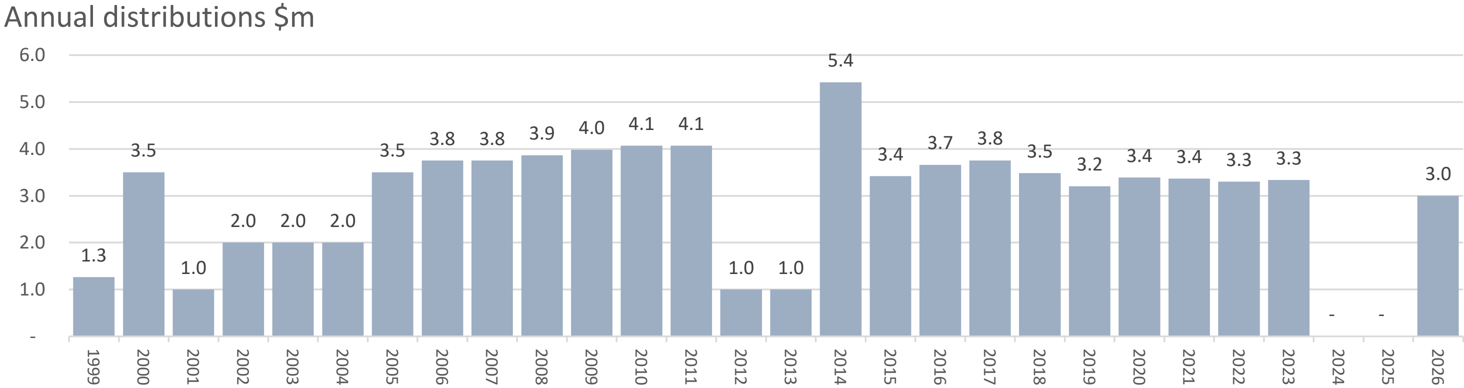
Waipori Fund valuation June 2026 ($m)



3.2. Historical fund value and distributions

The real value of the Fund has been protected over time and distributions have been maximised, with some variation due to market volatility





4. Investment objectives

DUNEDIN CITY HOLDINGS LIMITED

4. Investment objectives

Investment objectives have been redrafted to reflect the inter-generational nature of the Fund and the priorities that Council has articulated

A primary purpose of the SIPO is to clearly articulate the long-term objectives of the Waipori Fund. These objectives provide the foundation for investment decisions and inform the Fund's asset allocation, distribution policy and performance monitoring. Our review concluded that the Fund's objectives should be expressed more clearly and aligned with the broader Investment Framework being developed for Council's overall investment portfolio.

The proposed objectives recognise that the Waipori Fund is a perpetual, inter-generational fund that must balance the needs of current and future ratepayers.

The objective of maintaining the capital base is particularly important. It recognises the inter-generational nature of the Fund and seeks to preserve the purchasing power of the original capital over time, after allowing for inflation. This approach ensures that future ratepayers are able to derive benefits from the Fund in a manner broadly comparable to current generations. The phrase ‘in real terms’ means protecting the value of the fund against inflation.

At the same time, our review recognises Council's desire for higher and more reliable distributions to support its activities and reduce pressure on rates. These objectives underpin the recommended changes to the Fund's strategic asset allocation and distribution model discussed in the following sections.

Maximising distributions, once the real value of the Fund has been protected, also represents a continuation of historical practice, as illustrated in the historical graphs on page 12.

1. Provide a strong, consistent and sustainable distribution to Council
2. Maintain the capital base of the Fund in real terms
3. Maximise the real rate of return subject to the selected asset allocation
4. Maintain sufficient liquidity to meet the Fund’s distribution requirements

However:

- A higher weighting to growth enables stronger returns; and
- An appropriate distribution model enables distributions to be more consistent and sustainable.

To be clear, a policy to grow the Fund beyond the inflation-adjusted capital base might be attractive, due to the effect of compounding growth, but:

- Implicitly, returns would favour future ratepayers over today’s; and
- This is contrary to the priorities communicated in Council’s expectations of DCHL, and reflected in the development of Council’s Investment Framework.

5. Strategic asset allocation

DUNEDIN CITY HOLDINGS LIMITED

5.1. Strategic asset allocation overview

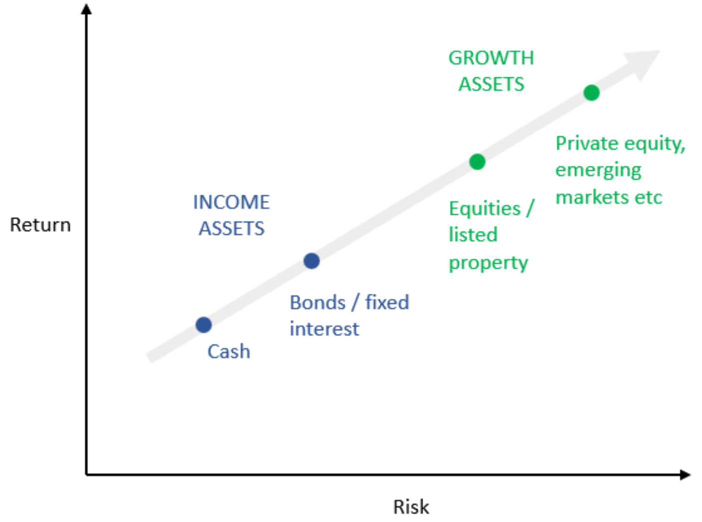
The biggest driver of long-term performance is usually the allocation between asset classes – the Waipori Fund requires a higher allocation to growth assets to deliver required returns

Strategic asset allocation is the process of deciding how a fund's investments are divided across different types of assets, such as shares, bonds, property and cash. Each asset class has a different risk and return profile.

- Growth assets, such as shares and property, have historically generated higher long-term returns but can fluctuate significantly in value from year to year.
- Income or defensive assets, such as bonds and cash, are generally more stable but typically deliver lower returns over time.

While investment managers apply sophisticated research and portfolio construction techniques when selecting individual investments, the biggest driver of long-term performance is usually the allocation between these broad asset classes.

The current Waipori Fund is structured as a "balanced income" portfolio, with approximately 45% allocated to growth assets and 55% allocated to income or defensive assets. This approach has produced a relatively stable pattern of returns and helped protect capital during market downturns. However, it also limits the Fund's ability to generate higher long-term returns. If Council wishes to achieve stronger distributions from the Fund in future years, a greater allocation to growth assets is required. Put simply, higher returns require a higher exposure to assets that can grow in value over time.



The trade-off is that a growth-oriented portfolio will experience greater volatility. Fund values will move around more from year to year and periods of negative returns should be expected from time to time. For a perpetual fund such as Waipori, this volatility is manageable provided decisions are made with a long-term perspective. Short-term market movements become less significant when measured against the Fund's inter-generational purpose and investment horizon.

5.2. Asset allocation of comparable funds

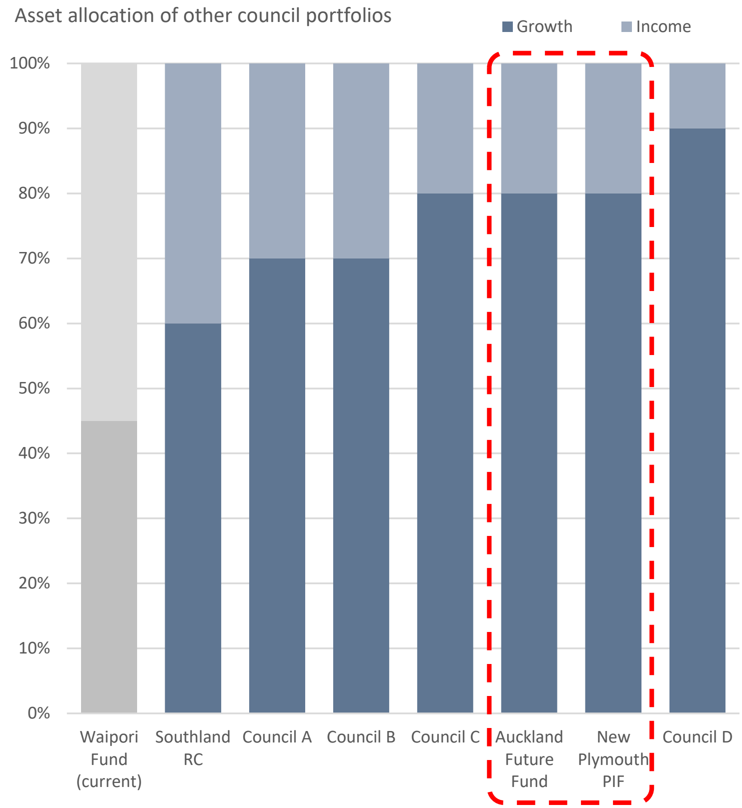
The current Waipori Fund asset allocation is very conservative for a perpetual investor – other Council-owned funds typically have a higher growth orientation

Our review concludes that a higher-growth asset allocation can be supported because it sits alongside two other important changes.

- First, a revised distribution model reduces the need to react to short-term fluctuations in market values.
- Second, the Fund should be viewed in the context of Council's wider investment portfolio. Applying a 'one portfolio' approach, there is greater flexibility to maintain consistent total cash returns across all of Council's investments.

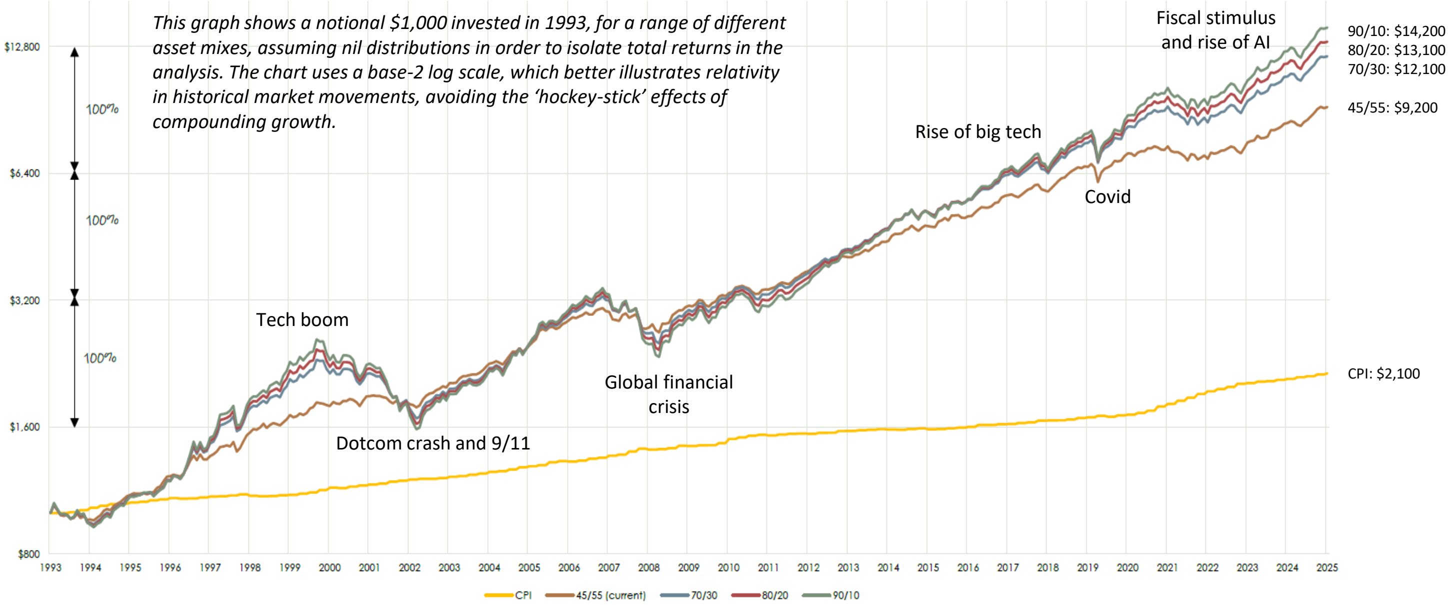
The chart opposite confirms that the Waipori Fund's current asset allocation sits at the conservative end of the spectrum when compared with other council-owned perpetual investment portfolios. It is notably more defensive than most comparable funds, several of which maintain growth asset allocations of between 70% and 90%.

Two particularly relevant comparators are the Auckland Future Fund (AFF) and New Plymouth's Perpetual Investment Fund (PIF). AFF, with assets of approximately $1.3 billion, operates under a trust structure, while PIF, with assets of approximately $400 million, is held directly on the council balance sheet in a manner more comparable to the Waipori Fund. Both funds have adopted an 80% growth and 20% income asset allocation (referred to as 80/20), reflecting their long-term investment horizons and very similar objectives of delivering sustainable distributions while preserving capital in real terms.



5.3. Asset allocation – historical returns

Asset mixes have performed as expected – higher growth allocations have resulted in increased wealth, but with greater exposure to market cycles



Historical analysis confirms that higher growth portfolios have delivered greater wealth in the long-term. However, these funds exhibited greater volatility in fund values in the short-term – showing higher gains during favourable market conditions but higher exposure to historical market shocks.

The initial Waipori proceeds were invested in 1999, shortly before two of the biggest shocks to financial markets in modern history – the dotcom crash (2002) and the global financial crisis (2008). Although this would not have been known in 1999, a conservative asset mix protected wealth for an extended period. However, in the longer term, higher growth allocations would have resulted in increased wealth.

5.5. Asset allocation - volatility

Higher risk in the portfolio shows up as more volatile annual returns – short-term volatility must be expected and managed

As the earlier analysis demonstrated, portfolios with a higher allocation to growth assets experience greater volatility in annual returns. This volatility goes hand in hand with higher expected long-term returns.

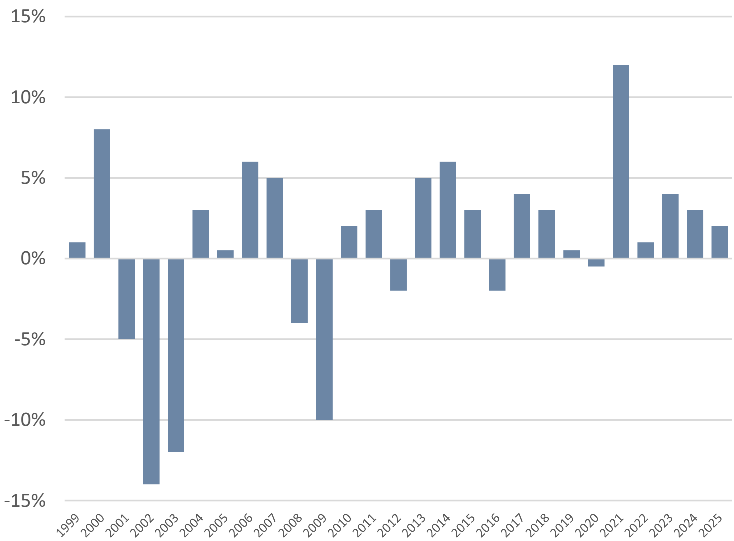
The graph opposite illustrates this concept by comparing the annual return difference between the current Waipori asset allocation (45% growth / 55% income) and a higher-growth portfolio (80% growth / 20% income). The pattern is clear - an 80/20 portfolio tends to outperform the current allocation in most years, but the magnitude of gains and losses is greater.

Since 1999, the higher-growth portfolio would have outperformed the current asset allocation in 19 years and underperformed in eight years.

The most significant periods of underperformance occurred during major market corrections, particularly following the dotcom crash in the early 2000s and the Global Financial Crisis in 2008-09. In contrast, periods of stronger market performance have generally seen the higher-growth portfolio produce materially better returns.

The graph highlights an important distinction between risk and loss. The principal effect of adopting a higher-growth asset allocation is not a reduction in long-term expected returns, but an increase in the variability of returns from year to year.

Difference in returns between 45/55 and 80/20 asset allocations



The evidence suggests that growth-oriented portfolios spend more years ahead than behind, but they require investors to tolerate larger fluctuations in value along the way.

For a perpetual fund, this short-term volatility must be expected and managed.

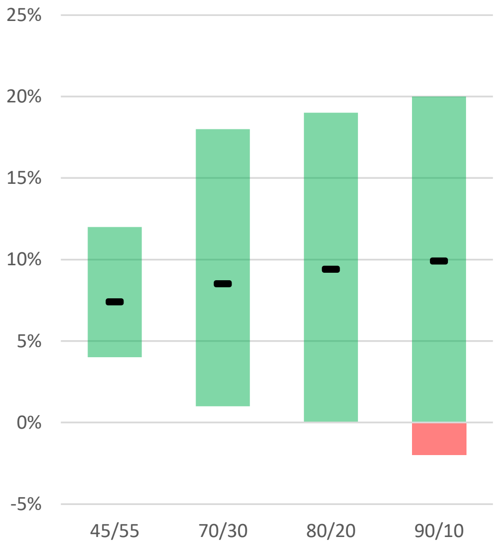
5.6. Asset allocation - volatility

Growth-oriented portfolios show higher short-term volatility but the amount of variation diminishes over longer time horizons

Historical 1 year return range

These graphs show the range between best and the worst return outcomes over each time horizon since 1993. We see volatility under current settings - the 45/55 asset mix can show a negative return in any single year.

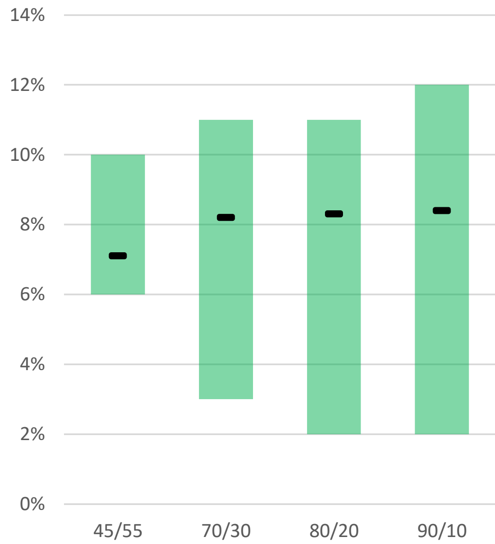
Historical 5 year return range



Upside and downside outcomes increase with the amount of growth assets included in the asset allocation.

For an 80/20 asset mix, no 5-year period has shown a negative return.

Historical 10 year return range



In the long-term, increasing the portfolio's risk profile has only a modest impact on the range of outcomes. No 10-year period has shown a negative return for any of the modelled asset mixes.

Note: the black bars in the second and third graphs above represent the median annual return across each time horizon

DUNEDIN CITY HOLDINGS LIMITED

5.7. Asset allocation - recommendation

DCHL recommends an 80/20 growth-oriented portfolio as the best balance between return and risk to achieve Council's investment objectives

DCHL recommends adopting a growth-oriented strategic asset allocation, comprising 80% growth assets and 20% income assets. Under the draft SIPO, the portfolio would be diversified across New Zealand, Australian and international equities, alternative growth assets, fixed income and cash.

The proposed allocation:

- Recognises that the Waipori Fund is a perpetual investment fund with an inter-generational purpose and no expectation of significant capital withdrawals beyond ongoing distributions;
- Meets Council's investment objectives and is consistent with the expectations articulated by Council; and
- Is consistent with other similar funds.

Whilst we have assessed 70/30 and 90/10 asset allocations, we consider that 80/20 represents a balanced position, achieving a substantial increase in total returns, but with an expected level of variation that can be appropriately managed. It aligns with comparable long-term local authority investment funds such as the Auckland Future Fund and New Plymouth's Perpetual Investment Fund.

Scenario	Historical annual return (1)	Historical annual gross return NZD (2)	Expected long term annual return	Expected annual gross return NZD (2)
CPI adjusted base	2.4%	$2.8m	2.2%	$2.6m
45/55	7.2%	$8.5m	5.8%	$6.8m
70/30	8.1%	$9.5m	6.3%	$7.4m
80/20	8.4%	$9.9m	6.5%	$7.7m
90/10	8.6%	$10.1m	6.6%	$7.8m

(1) Historical compounded annual return, based on Craigs' long-run dataset commencing 1993
(2) Nominal return rate applied to Fund balance of $117.7m at 30 June 2026

We note that expected (future) long-term returns (sourced from Craigs) are relatively conservative compared with historical returns. Investment managers are typically motivated to set benchmarks that are achievable in a shorter timeframe than that of a perpetual investor.

6. Distribution model

DUNEDIN CITY HOLDINGS LIMITED

6.1. Current SIPO distribution policy

The current distribution model protects capital value effectively but the methodology can be rigid and subjectively applied

The current distribution approach is set out in the existing SIPO and is centred on a sound principle: distributions should be made in a manner that preserves the inflation-adjusted capital value of the Fund over time. In effect, the intent is to ensure that today's distributions do not come at the expense of future generations of ratepayers by maintaining the real value of the original capital after allowing for inflation and investment costs.

While the underlying principle remains appropriate, the methodology used to apply it has some limitations. In practice, the annual distribution decision is heavily influenced by the market value of the Fund at a single point in time, immediately prior to the distribution being made. This can produce outcomes that are sensitive to short-term market movements and requires a degree of judgement in assessing whether a distribution is consistent with preserving the inflation-adjusted capital base. The result is a framework that can be both rigid in operation and subjective in application.

More recently, higher inflation has created an additional challenge. As the inflation-adjusted capital base has increased more rapidly, a larger proportion of investment returns has effectively been required to maintain the Fund's real value, reducing the amount available for distribution. This has constrained the Fund's ability to provide consistent and predictable distributions to Council, despite periods of otherwise satisfactory investment performance.

Current SIPO policy on distributions:

Distributions

The Fund will make distributions each year as requested by the Council. In general, the Council on advice from the Fund Manager, will agree a level of distribution from the Fund that, over time, maintains the indexed capital value of the Fund after taking account of applicable fees and charges and likely future market movements. In a situation where a distribution from the Fund is made when the capital base of the Fund is less than the CPI-adjusted capital base figure, such a distribution requires direction from Council and requires a three-quarters majority of Council members present and voting.

For these reasons, DCHL considers that, while the principle of preserving the Fund's real capital should be retained, the distribution methodology should be modernised to provide greater certainty, transparency and consistency, particularly in a higher-volatility, growth-oriented investment portfolio.

6.2. Revised distribution model

A revised distribution model enables strong, consistent distributions while taking a longer-term view to protecting the real value of capital

Moving to a higher-growth investment strategy strengthens the Fund's ability to generate returns over the long term and therefore provides greater protection against inflation. However, it also means that the value of the Fund will fluctuate more from year to year. Under a growth-oriented portfolio, short-term movements in equity markets can have a more significant effect on the Fund's valuation at any given point in time, making the current approach of assessing distribution capacity immediately before an annual distribution challenging.

Any revised distribution model therefore needs to support the Fund's primary investment objectives: providing a strong, consistent and sustainable distribution to Council while maintaining the capital base of the Fund in real terms. DCHL's view is that these objectives are best achieved through a framework that focuses on long-term outcomes rather than short-term market fluctuations.

To inform this work, relevant examples have been reviewed, including New Zealand based community foundations, endowment funds, consumer trusts and local authority investment funds.

We believe the most appropriate model is similar to those of the Auckland Future Fund and New Plymouth's Perpetual Investment Fund, both of which have objectives closely aligned to those of the Waipori Fund. Both apply **an asset-based distribution formula, supported by a smoothing mechanism**.

Distribution amount =

distribution rate x capital value of the fund

Expected long-term gross return
- Less: inflation retention
- Less: operating/transaction costs

Average monthly fund value last 3 years
- Smooths market volatility
- Focus on long-term compliance
- Not year by year precision

The key characteristics of this approach are:

- A transparent, rules-based methodology that is separated from annual budget pressures;
- By using a multi-year average of Fund values, rather than relying on a point-in-time assessment, the impact of short-term market volatility is reduced and distributions become more stable and predictable over time;
- Greater certainty for annual and longer-term financial planning; and
- Remaining consistent with the objective of preserving the Fund's real value for future generations.

6.3. Long-term return and distribution rate analysis

A sustainable long-term distribution rate is a function of the long-term expected return and inflation assumptions

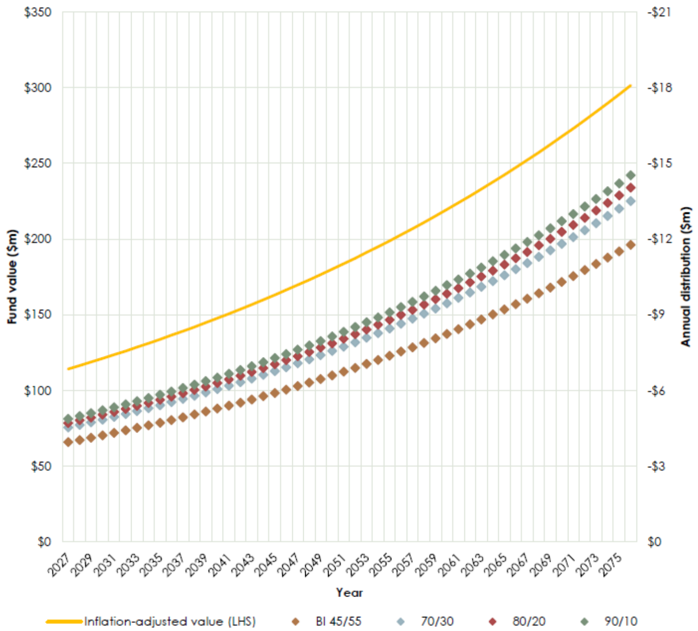
The table below shows expected long-term returns for each risk profile, and cash available to distribute, applying the distribution model in the last section.

As noted above, expected long-term returns (sourced from Craigs) are relatively conservative compared with historical returns. Investment managers are typically motivated to set benchmarks that are achievable in a shorter timeframe than that of a perpetual investor.

Noting that these are conservative assumptions, in current terms, a 80/20 growth-oriented fund could deliver a $5m per annum distribution, $0.9m higher than a balanced income 45/55 fund.

	45/55 current	70/30	80/20	90/10
Expected long term annualised return [(1)]	5.80%	6.30%	6.50%	6.60%
Less: Inflation	2.20%	2.20%	2.20%	2.20%
Less: Assumed costs	0.25%	0.25%	0.25%	0.25%
Net real return available to distribute	3.35%	3.85%	4.05%	4.15%
$ available to distribute (based on $117.7m 2026 fund value)	$3.9m	$4.5m	$4.8m	$4.9m

(1) Expected returns sourced from Craigs. Returns are calculated on a compounded, gross income basis. DCC is tax exempt in New Zealand.



The graph above shows expected distributions over time (dotted lines), assuming that, after allowing for inflation and costs, distributions are maximised. The yellow line shows the Fund value growing in line with inflation in all scenarios.

6.4. Transitional arrangements

A transitional approach defers some of the benefits of higher returns in the near term to establish a buffer that supports higher and more reliable distributions in the future

The modelling in the previous section is based on long-term expected returns and models a constant rate of growth over time. In practice, investment returns will not occur in a straight line. The proposed shift to an 80/20 asset allocation will increase the Fund's exposure to growth assets and therefore increase short-term volatility.

Historically, distributions from the Waipori Fund have largely been maximised within the constraints of preserving the inflation-adjusted capital base. More recently, higher inflation has also restricted the margin between the Fund's market value and its inflation-adjusted capital base.

While the current Fund balance remains above the inflation-adjusted capital base, the available headroom is relatively modest. This means that a significant market downturn in the early years following a move to a higher-growth strategy could result in the Fund value falling below the inflation-adjusted capital base, potentially constraining the ability to deliver the consistent, predictable distributions that Council seeks.

For this reason, DCHL recommends a transitional period before the full distribution methodology is applied. During this period, distributions would remain relatively conservative and broadly aligned with current levels (circa $3m per annum), allowing the higher expected returns from the new asset allocation to be retained within the Fund.

The objective is to establish a meaningful buffer between the Fund's market value and its inflation-adjusted capital base. This buffer provides protection against market downturns, reducing the likelihood that normal fluctuations in investment markets will impair the Fund's ability to distribute sustainably over time.

The proposed SIPO therefore provides for a transitional period of approximately three to seven years, during which the Board may apply professional judgement when recommending the annual distribution rate. In doing so, the Board would consider the amount of headroom between the Fund's market value and its inflation-adjusted capital base, and whether it is likely to be maintained over a sustained period. Once a sufficient buffer has been established, the Fund will be better placed to withstand normal market volatility and the full distribution formula can be applied with greater confidence and consistency.

In practical terms, this approach captures the benefits of the higher-growth asset allocation immediately, but defers some of the additional cash distributions until the Fund is in a stronger position to support them on an enduring basis. DCHL considers this to be a prudent approach that balances Council's objective of increasing returns with the equally important objective of preserving the Fund's real value for future generations.

6.4. Transitional arrangements

Building a buffer over the inflation-adjusted capital base will ensure that future distributions are less affected by short-term market volatility

The graphs opposite show a worked example of how the buffer might work (in $million):

- The top graph models the Fund value over time; and
- The lower graph models distributions over time.

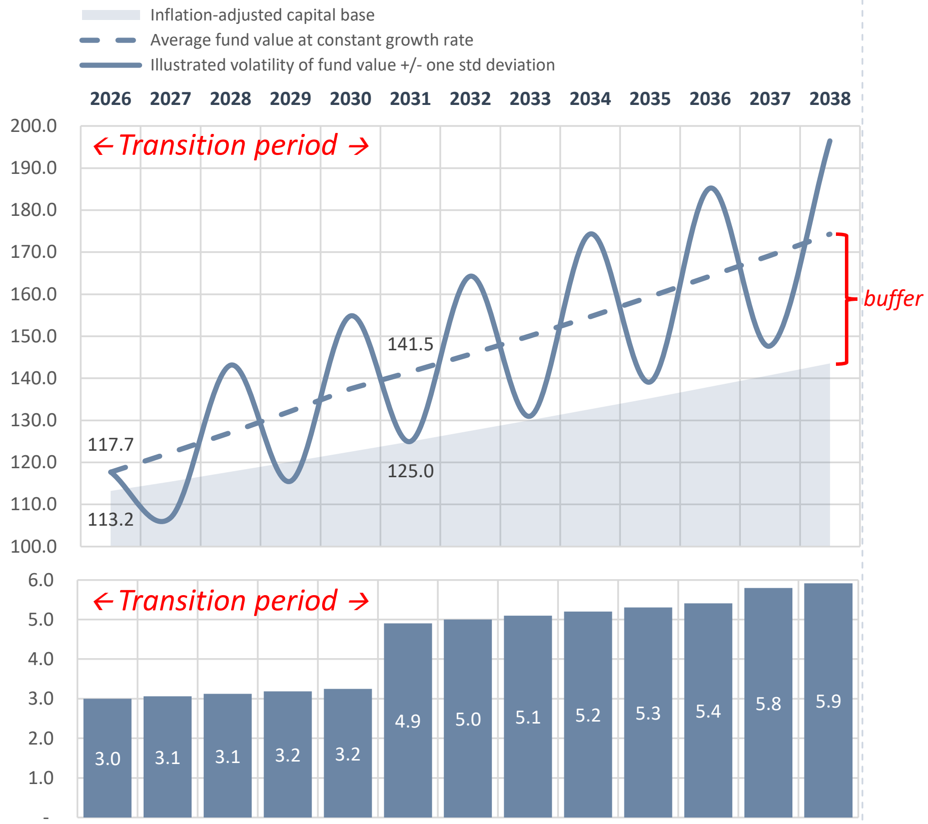
The Fund value at 30 June 2026 was $117.7 million, only $4.5 million higher than the inflation adjusted capital base of $113.2 million. Due to volatility in markets, there is risk that the Fund value will fall below the inflation-adjusted capital base (the shaded area), inhibiting the ability to distribute.

In the example, we accept distributions at the current level of circa $3m (rising with inflation) for five years, until 2030. In principle, this allows the Fund value to benefit from higher growth for a period of time:

- The dashed line shows the Fund growing at a constant growth rate; however
- We expect volatility – this is illustrated in the solid blue line – of course, how markets actually perform in the future is unknown.

After five years, in 2031, the gap between the Fund value ($141m) and the inflation-adjusted capital base ($125m) is modelled to have grown to approximately $16m, which is equal to one standard deviation (a statistical measure of volatility) of expected future Fund value.

At this point, the Fund would have a 'buffer' over the inflation-adjusted capital base, and the Fund value is therefore less likely to fall below the capital base, even when markets show normal volatility. This will support consistently higher distributions.



7. Governance model

DUNEDIN CITY HOLDINGS LIMITED

7.1. Governance principles

Democratic oversight is essential, but elected bodies are not typically best placed to manage detailed investment strategy

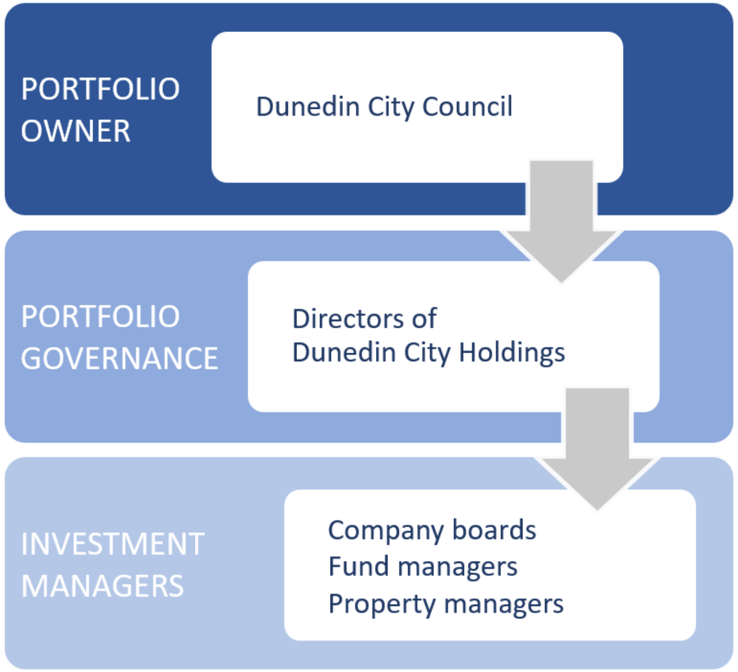
The proposed governance model reflects continued direct Council ownership of the Waipori Fund while clarifying accountability and decision-making responsibilities. Council remains the portfolio owner, responsible for determining the Fund's purpose, approving its investment objectives and maintaining democratic oversight.

The recommended model is for the DCHL board to act as independent governors of the portfolio, setting and monitoring investment strategy and appointing appropriately qualified external investment managers to manage the Fund on a day-to-day basis.

This type of governance arrangement is commonly used by long-term investment funds. Comparable examples include:

- Auckland Future Fund, where governance is exercised through a trustee structure;
- New Plymouth's Perpetual Investment Fund, where governance is undertaken by the directors of a council-controlled organisation (New Plymouth PIF Guardians Limited) under a Governance Deed; and
- The Acorn Foundation, which operates through delegated authority arrangements.

While the legal structures differ, each model applies similar principles, with separation between asset ownership, governance oversight and investment management.



The proposed model is also consistent with the broader Investment Framework and the 'one portfolio' approach, illustrated above.

7.2. Roles and responsibilities

The proposed model ensures an appropriate balance between democratic ownership and professional, skilled investment governance

The proposed governance model is documented in the 'Roles and responsibilities' section of the draft SIPO and the attached draft Governance Agreement.

Importantly, we are proposing no changes to ownership or the legal framework. Instead, we are recommending that roles and responsibilities are clarified, moving DCHL/DCTL from a transactional execution role to a portfolio governance role, consistent with the principles set out in our review of the Council's Investment Framework.

The Fund assets remain owned directly by the Council, with democratic control maintained by:

- Setting the Fund's purpose and investment objectives;
- Approving the SIPO;
- Approving annual distributions; and
- Appointing the directors of DCHL.

Council would also continue to receive regular reporting on Fund performance and how the Fund is being managed to achieve its objectives.

Within these parameters, DCHL would be appropriately mandated to oversee the investment strategy and management of the Fund on Council's behalf. This includes

- Appointing and overseeing external investment managers;
- Monitoring investment performance;
- Reviewing and recommending updates to the SIPO as circumstances change; and
- Recommending annual distributions.

DCHL's role is therefore not to determine the purpose of the Fund, but to ensure that the investment strategy and management arrangements remain aligned with the objectives established by Council.

8. Socially Responsible Investment (SRI) settings

DUNEDIN CITY HOLDINGS LIMITED

8.1. Current SRI settings

The current Waipori SIPO has a bespoke SRI policy, based on excluding certain activities – this is a common approach but clarity could be improved

The existing policy, outlined in the current SIPO, reflects Council's desire to ensure the Fund is invested in a manner consistent with community expectations and broadly accepted ethical standards. In common with many similar funds, the current SIPO adopts an exclusion-based approach.

As summarised in the table opposite, the Fund seeks to avoid direct investment in a range of specified activities, applying defined materiality thresholds where companies have multiple business activities. In addition to these specific exclusions, the policy also seeks to avoid investments in activities that would be illegal in New Zealand, are inconsistent with United Nations policies relating to health and safety, child rights or human rights, or are expected to result in long-term, permanent detrimental environmental impacts.

Our review identified some practical challenges with the current framework. In particular, there is limited guidance on how the exclusions should be applied to pooled investment vehicles such as exchange traded funds and managed funds. This can make consistent application and monitoring of the policy difficult.

The review also found that some aspects of the environmental exclusions are open to interpretation. For example, the current references to fossil fuel extraction and activities that result in long-term environmental harm can lead to differing conclusions and uncertainty for investment managers.

Industry/activity	Materiality threshold	Explanatory notes
Tobacco	0% manufacture 10% distribution	Distribution includes packaging, transporting and sale
Armaments - controversial	0% manufacture	Includes cluster bombs, landmines, depleted uranium, chemical and biological weapons
Armaments - other	10% manufacture	
Fossil fuel extraction	Exclusion of top 200 companies by proven reserves	As identified at fossilfreeindexes.com
Gambling	0% manufacture 10% distribution	Distribution includes deployment and operation of gaming outlets and equipment
Pornography	0% manufacture 5% distribution	Distribution includes internet distribution and advertising revenue

We also observe that the exclusion of mining or resource extraction stocks has contributed significantly to recent underperformance of the Fund against general market indices.

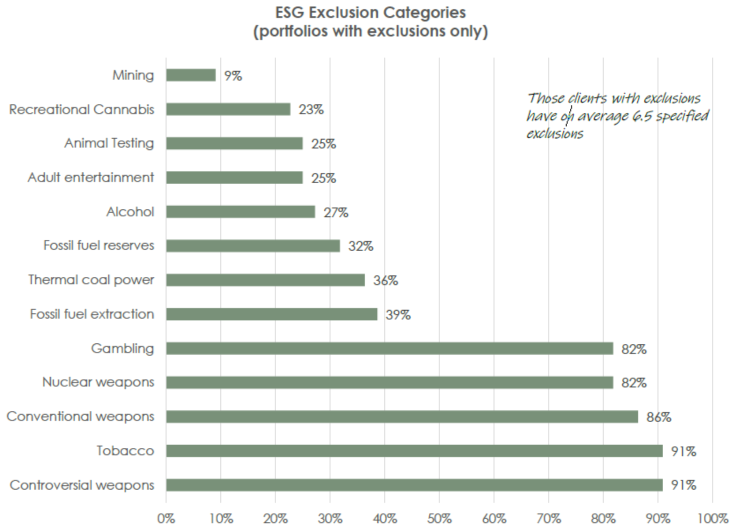
8.2. Other funds – policies and performance

Analysis of large 'for purpose' funds shows several common exclusions but mining exclusions are unusual, and that in the long-run, ethical investing does not lead to underperformance

Craigs' analysis of a broad range of 'for purpose' investors, including charities, community organisations, councils and iwi, found that exclusion-based investment policies are common, particularly in relation to activities such as armaments, tobacco and gambling. However, exclusions relating to fossil fuel extraction, and especially mining generally, are less common. This is summarised opposite.

As well as applying exclusions, many investment managers offer dedicated ESG investment strategies (broadly similar to the Council's SRI policy), which offer insights into the relative performance of socially responsible investing. Such funds have delivered periods of both outperformance and underperformance relative to broader market indices. Over the long term, ESG portfolios have generally performed in line with, and in some cases ahead of, wider market benchmarks, although they have lagged in more recent years. The evidence suggests that these differences are primarily a function of investment risk, sector exposure and portfolio construction rather than ESG settings themselves.

Accordingly, DCHL does not expect the application of ESG or SRI policies to result in systematic long-term underperformance, provided the portfolio remains appropriately diversified and aligned with the Fund's investment objectives.



8.3. Proposed approach

We propose a refinement to the current exclusionary-focused strategy, to give clarity to investment managers and enable investment in Australian resource extraction stocks

DCHL recommends retaining Council's exclusion-based responsible investment policy, while refining it to provide greater clarity, consistency and practicality for investment managers.

The proposed approach continues to recognise that certain exclusions are widely supported by a broad community and are relatively uncontroversial for an ethical investor, including tobacco, gambling, adult entertainment and armaments. We also recommend aligning the policy with the United Nations Global Compact, which provides a widely recognised and objective framework for assessing environmental, social and governance issues.

Our review found that the greatest uncertainty in the current policy relates to mining and fossil fuel exclusions. To address this, DCHL recommends adopting more specific definitions that clearly exclude activities associated with

- Oil and gas production, generation and related products and services;
- Thermal coal extraction and power generation; and
- Oil sands extraction.

These exclusions are commonly used in responsible investment frameworks and provide clearer guidance for investment managers than the current policy wording.

At the same time, we propose removing the effective exclusion on mining and mineral extraction activities more broadly. Research undertaken by Craigs indicates that mining exclusions are uncommon among comparable responsible investment policies and can prevent investment in significant Australian-listed companies such as BHP and Rio Tinto.

Allowing investment in mineral and resource extraction companies, while maintaining explicit exclusions on fossil fuel activities, provides a clearer and more targeted approach that better reflects contemporary responsible investment practice.

8.3. Proposed approach

The proposed approach maintains an ethical position while improving diversification opportunities and the practical application of the policy

Overall, the recommendation is to continue the existing exclusionary-focused strategy, but refine it to:

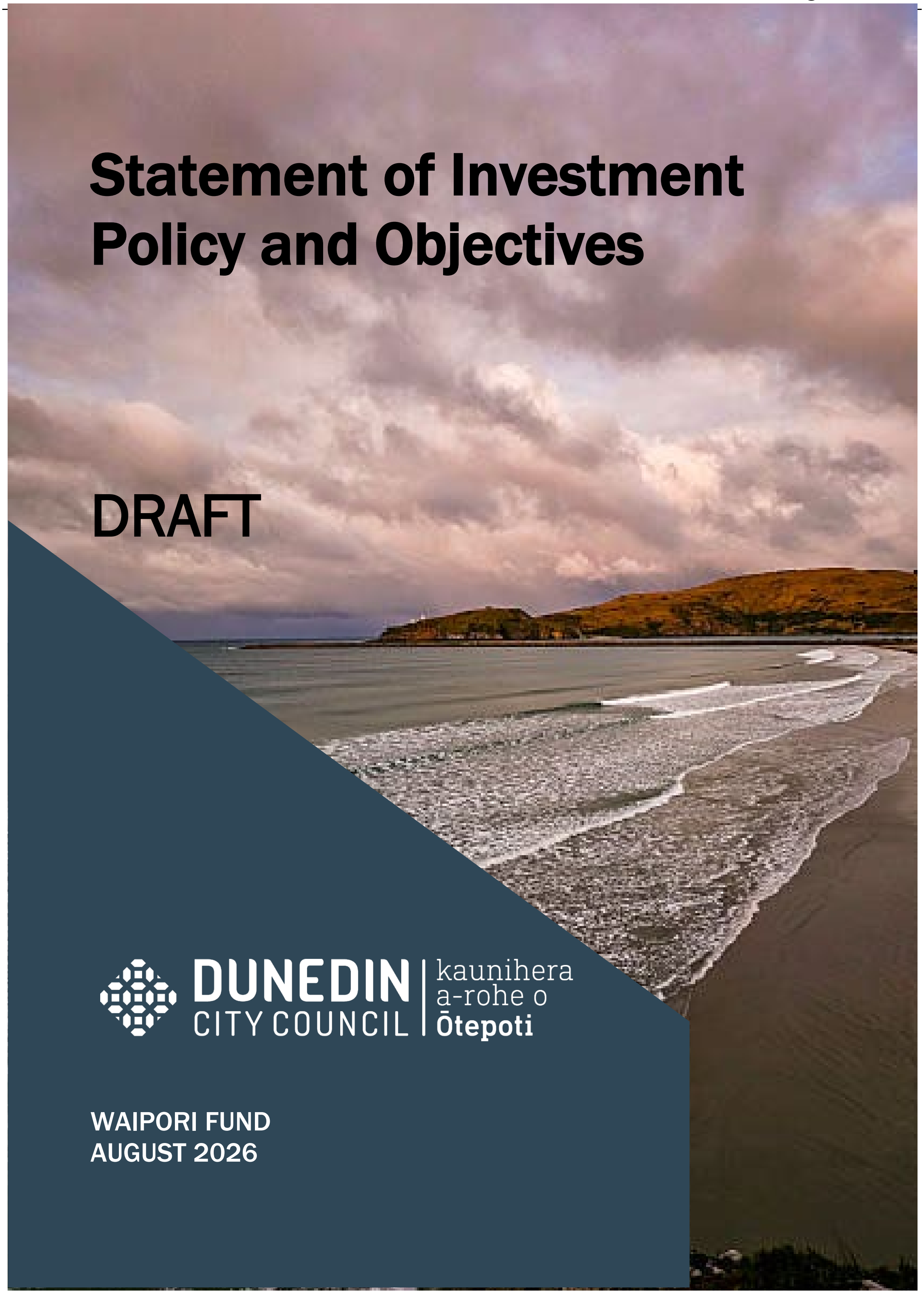
- Align with the United Nations Global Compact (summarised in the graphic opposite);
- Remove ambiguity for investment managers; and
- Allow investment in major resource extraction stocks that do not fall within the specified fossil fuel exclusions.

DCHL considers this approach remains consistent with Council's values while improving diversification opportunities and the practical application of the policy. However, we recognise that, amongst elected members and the broader community they represent, there might be a range of ethical and political positions on these matters.

Appendices

- Proposed Statement of Investment Policies and Objectives (SIPO)
- Draft Governance Agreement DCC/DCHL

DUNEDIN CITY HOLDINGS LIMITED



Statement of Investment Policy and Objectives

DRAFT

DUNEDIN CITY COUNCIL | kaunihera a-rohe o Ōtepoti

WAIPORI FUND
AUGUST 2026

Contents

Summary

Entity type	Local authority
Tax status	Tax-exempt in New Zealand
Fund size	$117.7 million at 30 June 2026
Investment time horizon	Perpetual
Strategic asset allocation	Growth portfolio: 80% growth assets / 20% income assets
Estimated 12-month return	7.2% p.a. (arithmetic i.e. the average return in any 12-month period)
Estimated long-run portfolio return	6.5% p.a. (compounding i.e. compound return over a 20-year period)
Estimated portfolio risk	12.3% standard deviation
Next comprehensive SIPO review due	2029

Note:
Return assumptions, forecasts and related analysis contained in this SIPO have been sourced from Craigs Investment Partners and are based on a combination of historical market data, capital market assumptions and professional judgement. They represent estimates only and are not guarantees of future performance. Actual returns, inflation, investment costs and distribution outcomes may differ materially from those assumed.

1. Introduction

Background

In 1998 Dunedin City Council (the "**Council**") sold its 100% holding in Waipori Power Generation Limited and its 42% holding in United Electricity Limited. After repaying associated debt, the Council was left with cash amounting to just over $56 million. This fund became known as the Waipori Fund (the "**Fund**"). The assets of the Fund are invested to provide financial support for the activities of the Council, now and in the future.

Purpose of the SIPO

This Statement of Investment Policy and Objectives ("**SIPO**"), prepared by the Board ("the **Board"**) of Council-owned company Dunedin City Holdings Limited ("**DCHL**") and approved by Council, sets out the framework for governing investment of the Fund.

The assets of the Fund are considered to be part of one combined portfolio with Council's other investments. This SIPO is informed by the Council's broader investment framework.

This SIPO takes effect on [date] and replaces all previous versions.

The Board will review this SIPO annually and undertake a comprehensive review at least three-yearly (or sooner if there is a material change in circumstances) to ensure it remains appropriate for the risk profile and objectives of the Council.

Capital Base

The market value of the Fund as at 30 June 2026 was $117.7 million.

Over the long-term the Council monitors the inflation adjusted value of the Capital Base of the Fund. The first inflation adjustment to the Fund's capital based was made in respect of the quarter ended 31 March 1999 and the real value of the Capital Base of the Fund at 30 June 2026 was $113.2 million.

Taxation

The Council is a local authority and exempt from New Zealand tax. The Fund shall take all commercially reasonable actions available to minimise, mitigate or eliminate any overseas taxation, including structuring investments and transactions in a tax-efficient manner and claiming all available relief under applicable laws and tax treaties. For the avoidance of doubt, the Fund shall not take any action that is unlawful, materially burdensome, or inconsistent with its investment objectives.

2. Roles and responsibilities

The Council

The Council has ultimate authority over and responsibility for the Fund. However, the Council has decided to delegate decision-making and implementation of the SIPO to the Board of DCHL as set out below.

The key responsibilities of Council are to:

1. Set the long-term, high-level objectives of the Fund;
2. Consider and approve the adoption of the SIPO;
3. Review annually the investment performance of the Fund; and
4. Consider and approve the annual distribution recommended by the Board of DCHL.

The key responsibilities of the Board are to:

1. Establish and maintain the appropriateness of this SIPO for approval by Council, taking into account the investment objectives and risk profile of the Council and Council's long-term plan;
2. Appoint appropriately qualified investment Manager(s) ("**Investment Manager(s)**") to manage the investment assets of the Fund in accordance with this SIPO;
3. Monitor the performance of the Fund and the Investment Manager(s);
4. Monitor compliance with this SIPO;
5. Report to Council on a quarterly basis the progress of the Fund against its objectives;
6. Consider and approve (if appropriate) investment recommendations made by the Investment Manager(s) that are outside any discretionary investment management services ("**DIMS**") mandate; and
7. Recommend the annual distribution amount.

Discretionary Investment Mandate

The Board may determine to appoint the Investment Manager(s) under a DIMS mandate whereby the Investment Manager(s) have authority to make investment decisions in accordance with this SIPO without seeking prior approval for individual transactions or investments.

Investment Manager(s)

The responsibilities of the Investment Manager(s) are to:

1. Manage the relevant assets of the Fund in accordance with the parameters set within this SIPO;
2. Provide the Board with advice on appropriate asset allocation (both long-term and tactical positions), investment strategy and investment policies;
3. Manage any corporate actions for the underlying assets of the Fund;
4. Provide regular reporting on the Fund in accordance with section 8 of this SIPO;
5. Monitor compliance with this SIPO and report any breaches to the Board in accordance with sections 6 and 8 of this SIPO; and
6. Attend meetings with the Board as reasonably required.

3. Investment philosophy and beliefs

Investment Beliefs

The Council's approach to investment of the Fund is framed by a set of clearly defined beliefs:

1. Risk and return are related. Higher returns are associated with greater risk;
2. Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing characteristics of the varying asset classes provide risk-reducing benefits when they are aggregated into a total portfolio;
3. Asset allocation has a greater impact on investment returns than decisions concerning which specific securities to invest in;
4. Negative investment return years should be expected from time to time and will not invalidate the maintenance of the longer-term investment objectives;
5. Periodic rebalancing back to the long-term strategic asset allocation is a necessary discipline for maintaining an appropriate risk-return profile;
6. Active management may return a premium over time but requires skill, good knowledge, and sound research;
7. Environmental, social and governance ("**ESG**") factors have an important role to play in investment management and should be integrated into the selection and monitoring of investments; and
8. Net returns rather than gross returns is the focus.

Management of Investment Risks

All investment involves risk. Where possible, the Board and Investment Manager(s) will take mitigation measures.

Risk	Definition	Mitigation Measures
Market risk	Investments are subject to general market movements that may not have any relationship to the fundamental value of the investments.	The Fund will be diversified across asset classes, industries and geographies. Investments with lower correlation or negative correlation to other assets in the portfolio may be included in the asset allocation. The potential allocation to alternative assets is an increasingly important component of this risk mitigation.
Manager Risk	Risk of a manager having a strategy that is out-of-sync with the market or suffers operational issues.	Robust due diligence processes and potentially maintaining a spread of managers to reduce operational and manager risk, as well as to provide style diversification.
Credit risk	The risk of a default or insolvency event leading to a loss of value in the Fund.	The Fund will be diversified across a range of investments (and potentially managers), with thorough diligence undertaken prior to investment.
Sovereign / Political Risk	Investments are subject to changes in government policies / regulation.	The Fund will be diversified across multiple countries, with the majority of the equity investments in offshore markets.
Inflation risk	Risk of inflation eroding the real value of the Capital Base or increasing the distribution needs from the Fund.	Growth assets are included in the Fund's strategic asset allocation. This SIPO will be reviewed regularly, and the investment strategy will be adapted if there are structural changes in return and inflation expectations.

Risk	Definition	Mitigation Measures
Liquidity risk	Inability to fund withdrawals or make investment changes when required. Some investments e.g. alternative assets, have limited or no liquidity, making it difficult to change or exit positions if circumstances change.	Outside of a potential investment in alternatives, the Fund will comprise investments that can be liquidated on a T+1 to T+4 basis. Liquidity is a major influence on alternative asset investment decisions.
Currency risk	Risk of fluctuations in exchange rates increasing volatility and/or reducing value of the investments in New Zealand Dollars.	The Fund's currency policy provides for partial hedging of currency risk.
Interest rate risk	Risk of changes in the market value of a bond and reinvestment opportunities as a result of changes in market interest rates.	The New Zealand fixed interest portfolio will have a laddered maturity profile to reduce the portfolio's exposure to interest rate movements.

4. Objectives

Investment Objectives

The primary investment objectives underlying the investment policy for the Fund are:

1. Provide a strong, consistent and sustainable distribution to Council;
2. Maintain the Capital Base of the Fund in real terms;
3. Maximise the real rate of return subject to the selected asset allocation; and
4. Maintain sufficient liquidity to meet the Fund's distribution requirements.

Return Objectives

Based on the benchmark Strategic Asset Allocation set out in Section 5 below, the Fund is expected to generate a gross return of 7.2% in any 12 month period, exhibit a long-run standard deviation of 12.3% and achieve a long-run compounded return of 6.5% per annum before inflation, tax and investment expenses. This risk-return profile is based on long-term (20 year) capital market expectations as at December 2025 and will be reviewed as part of the periodic SIPO reviews.

Based on a long-run inflation assumption of 2.2% p.a. this translates to an indicative long-term real compounding return of 4.3% before tax and investment expenses. Capital market expectations change over time meaning the expected risk-return profile of the Fund might also vary over time, and the actual investment outcomes will differ from these expectations. The expected return compares to a hypothetical historical gross annual total compounded return of 8.6% per annum over the last 20 years with an annual standard deviation of 9.8%.

The Fund's performance versus the long-term return expectations will be measured over rolling five-year periods. The Council recognises that the return objective 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 Fund will provide distributions to Council in a manner that supports the Investment Objectives.

The annual Distribution Amount shall be determined as follows:

Distribution Amount = Distribution Rate (%) × Average Capital Value

Where:

- **Distribution Rate** is determined by the Board, having regard to:
  - the long-term expected return of the Fund;
  - expected inflation, assumed to be the midpoint of the Reserve Bank of New Zealand's target range;
  - investment management and operating costs; and
  - the requirement to maintain the Capital Base of the Fund in real terms.
- **Average Capital Value** is the average monthly market value of the Fund over the three consecutive calendar years immediately preceding the financial year of distribution (for example, the years ending 31 December 2024, 2025, and 2026 for a distribution in the financial year ending 30 June 2028).

The calculation methodology incorporates a timing lag between the end of the measurement period and the payment of the distribution. This provides certainty for Council's planning and budgeting processes.

The Board will advise Council as follows:

- An estimated Distribution Amount by 28 February, prior to the financial year of distribution (for budgeting purposes); and
- A final recommended Distribution Amount by 30 April, in the financial year the distribution is due to be paid.

When recommending the final Distribution Amount, the Board shall apply professional judgement, having regard to the difference between the market value of the Fund and its inflation-adjusted Capital Base, and the likelihood of that difference continuing over a sustained period.

All distributions remain subject to Council approval. Distributions will be paid in June of each financial year.

Distributions may be paid from both income and realised or unrealised capital gains (together, **Investment Earnings**).

The Board will adopt a transitional approach for a period of approximately three to seven years following adoption of this SIPO. During the transitional period, the Board shall recommend distributions similar to current levels but below the amount produced by the Distribution Rate calculation, with the objective of establishing an appropriate buffer between the market value of the Fund and its inflation-adjusted Capital Base.

The Board shall determine when a sufficient buffer has been established and when the Distribution Amount should be determined solely in accordance with the calculation set out above.

5. Strategic asset allocation

Risk Profile

Risk means different things to different people. In the context of the Fund, risk is defined as:

1. Volatility (measured by standard deviation of returns);
2. A decrease in the real-value of the Fund (inflation-linked); and/or
3. Underperformance versus objectives or versus benchmark indices.

Three factors determine an investor's risk profile:

1. Risk need;
2. Risk-taking ability / risk capacity; and
3. Behavioural risk tolerance.

The Board has assessed the Council's risk profile as follows:

Risk factor	Considerations	Application to the Council
Risk need	Investor's goal Future value need Present value of investments Time horizon to achieve goal Future contributions or distributions from the fund Estimated required return to meet the stated goals	Council's objective is to provide a strong and sustainable distribution to Council whilst maintaining the Capital Base of the Fund. There is no current expectation of any future capital contributions to or material withdrawals from the Fund. The Fund therefore has a moderately high risk need.
Risk-taking ability	Investment time horizon Ongoing liquidity needs External funding/income sources	The Fund has a perpetual time horizon. While Council requires consistent distributions from the Fund, it also has a range of materially larger funding sources. Historically there have been periods when distributions from the Fund have not been paid. DCHL manages a range of other commercial assets on behalf of Council including energy infrastructure, electricity distribution networks, forestry and Dunedin airport (50%). The stable, more defensive nature of these assets provides the ability to adopt a higher risk profile for the Fund. The Fund therefore has a higher risk-taking ability.
Behavioural risk tolerance	Willingness to take risk Understanding of investment markets Investment experience Perception of risk Behaviour in a crisis	The Board has a high degree of financial literacy and an understanding of volatility, and has been appointed for their experience in managing the Council's subsidiary and associated companies. The Board is supported by an experienced General Manager and Treasury team. Council comprises councillors with varied backgrounds and experience. As a Council-owned Fund, there are a wide range of stakeholders and interested parties with varying degrees of financial literacy. Financial statements for DCC are publicly accessible so there is the potential for scrutiny during periods of negative or poor performance of the Fund. The Fund therefore has a moderate behavioural risk tolerance.

Based on the above assessment, the Board has determined that a growth-orientated risk profile is appropriate for the Fund. This translates to a "growth" benchmark asset allocation as set out below.

Benchmark Asset Allocation

The investments of the Fund will be diversified across different asset classes. The Board recognises that asset allocation is the primary driver of long-term returns and has established the following strategic asset allocation, taking into account Council's risk profile and investment objectives.

The asset allocation below is indicative. The actual asset allocation will be determined in consultation with the appointed Investment Manager(s) and will remain within the overall 80/20 strategic asset allocation framework.

Indicative asset allocation

Asset class	Indicative allocation
Australasian equities	20%
International equities	50%
Alternative growth assets	10%
Total growth assets	**80%**
New Zealand fixed income	10%
International fixed income	5%
Cash	5%
Total income assets	**20%**

6. Investment policies

Responsible Investment Policy

The Council and Board wish to ensure the Fund's investments meet generally accepted ethical and ESG standards, including the ten principles of the United Nations Global Compact (see Appendix 2). As such the Board and the Investment Manager(s) will incorporate ESG considerations into investment analysis, recommendations and decision making.

Direct investment in businesses involved in the following activities is not permitted:

Industry/Activity	Materiality threshold (% of revenue)	Explanatory notes
Tobacco	0% manufacture 10% distribution	Distribution includes packaging, transporting and sale
Armaments - controversial	0% manufacture	Includes cluster bombs, landmines, depleted uranium, chemical and biological weapons
Armaments - other	10% manufacture	Includes civilian firearms and conventional weapons
Fossil fuel extraction	5% production and/or extraction 10% power generation	Includes oil and gas; thermal coal and oil sands
Gambling	0% manufacture 10% distribution	Distribution includes deployment and operation of gaming outlets and equipment
Pornography	0% manufacture 5% distribution	Distribution includes internet distribution and advertising revenue

The Investment Manager(s) will also exclude investment in businesses or industries that breach the United Nations Global Compact (see Appendix 2).

The Board recognises that it may not be practical or feasible to give full effect to the exclusions when investing in ETFs or investment funds. In this case, the ETF or investment fund should be aligned so as not to have significant exposure to the listed exclusions.

The Board acknowledges that the Responsible Investment Policy introduces potential for departures from the benchmark indices and therefore the Fund may perform differently to the benchmark indices irrespective of the decisions made by the Investment Manager(s).

Rebalancing Policy

The Board recognises that an asset allocation that is materially different to the Benchmark Allocation represents a departure from the agreed risk-return profile for the Fund.

The actual asset allocation of the Fund is permitted to vary from the Benchmark Allocation, within the permitted minimum-maximum range. The Investment Manager(s) are responsible for managing the Fund within the permitted ranges (in aggregate and by asset class) and any breach:

1. must be notified to DCHL as soon as practicable after discovery of the breach; and
2. must be remedied within five business days of discovery.

The Investment Manager(s) will periodically rebalance the portfolio towards the Benchmark Allocation, taking into account any tactical over- or under-weight positions.

Currency Policy

The currency policy for the Fund is as follows:

1. International Fixed Income will be 95-105% hedged to NZD.
2. The extent of hedging of International Equities will be reviewed from time to time, based on recommendation(s) by the external Investment Manager(s).
3. Hedging of Alternative Assets denominated in foreign currency will be considered by the Investment Manager(s) on a case by case basis.

Liquidity Policy

DCHL will maintain an appropriate level of liquidity to meet its obligations by:

1. Holding sufficient working capital outside the Fund to meet foreseeable short-term liabilities;
2. Informing the Investment Manager(s) when they become aware of any possible large withdrawals from the Fund outside the normal distribution profile; and

The Investment Manager(s) shall ensure that liquidity of the Fund is managed so as:

1. To allow distributions to be made to the Council at the expected level on the agreed dates; and
2. To permit a prompt response to changes in investment conditions.

Other

Derivative securities are permitted where required to give effect to the Currency Policy and other risk management purposes albeit under the current investment approach derivatives are not expected to form part of the direct investment portfolio. Derivatives are permitted within investment products held by the Fund if they are related to an underlying exposure within the portfolio.

Borrowing and short selling within the Fund is not permitted.

7. Investment guidelines

Permitted Investments

The Fund can be invested in:

1. Cash and cash equivalents, in NZD and foreign currencies.
2. Term deposits.
3. Fixed income securities, both domestic and global, including central government, non-government bonds, asset backed securities, either directly or via investment funds.
4. Equities, i.e. shares in publicly listed companies on recognised stock exchanges, directly or via exchange traded funds ("**ETF**") or investment funds.
5. Property, via listed property vehicles or investment funds.
6. Alternative assets (including but not limited to, private equity, venture capital, infrastructure, agriculture, horticulture, water, commodities, private credit, hedge funds), via investment funds.

Cash

Cash and cash equivalents will comprise deposits with, or securities issued by, New Zealand registered banks or their wholly owned subsidiaries, subject to a minimum credit rating of A or equivalent from one of the major credit rating agencies. Cash may be held in multiple currencies.

Term deposits up to 90 days are classified as cash.

New Zealand Fixed Income

The New Zealand Fixed Income component of the Fund shall hold a diversified range of securities, via direct investment or investment funds. These may include (but are not limited to) New Zealand Government bonds, corporate bonds, asset backed securities, term deposits greater than 90 days, inflation-linked bonds, floating rate notes and capital bonds.

The New Zealand Fixed Income portfolio's average credit quality must be at least Standard & Poor's BBB+ equivalent.

Investment in non-government securities must meet the following guidelines:

1. At least 80% of the New Zealand Fixed Income portfolio should be invested in investment grade (BBB- or above) securities;
2. No holding of a single issue should exceed 10% of the market value of the NZ Fixed Income portfolio; and
3. No non-government issuer should exceed 15% of the market value of the NZ Fixed Income portfolio, with the exception of the major New Zealand trading banks for which the maximum permitted issuer exposure is 40%.

International Fixed Income

It is expected that investment in International Fixed Income will be via funds rather than direct investment. Investments in International Fixed Income must be consistent with the Council's risk profile.

New Zealand and Australian Equities

The portfolio will be diversified across industry sectors via direct investments, ETFs or investment funds.

No direct equity holding should exceed 20% of the market value of the New Zealand Equities portfolio or 15% of the market value of the Australian Equities portfolio, as applicable.

International Equities

The portfolio will be diversified across industry sectors and geographies via direct investments, ETFs or investment funds.

No direct equity holding should exceed 7.5% of the market value of the International Equities portfolio.

No investment in any one ETF or investment fund shall exceed 30% of the market value of the International Equities portfolio, unless such product passively replicates a benchmark index (which the Investment Manager(s) believe is an appropriate proxy for the Fund's applicable benchmark indices in Section 8), or is otherwise authorised by the Board.

Listed Property

The property allocation is for listed property in New Zealand, Australia and international markets, either directly or via funds that invest in listed property.

Funds that invest in unlisted property exposures are treated as an Alternative Asset, see below.

Alternative Assets

Alternative Assets can provide investment returns that are less correlated to financial market returns. In this regard, they can offer diversification benefits to the Fund. Investment in Alternative Assets is expected to be via funds or other pooled investment vehicles.

Each Alternative Asset investment must be assessed on its merits with regard to:

1. Transparency of process and purpose.
2. Experience of the management team and track record of success.
3. Appropriate governance.
4. Investment mandate.
5. Access to liquidity.
6. Pricing and valuation methodology.
7. Duration of the fund.
8. Investment and reinvestment period.
9. Distribution policy.
10. Contribution to diversification of risk and return of the total portfolio.
11. Fees and tax efficiency.

Aggregate Portfolio Exposure Limits

The following exposure limits apply across the total portfolio:

1. Exposure to a single issuer (excluding funds) across all asset classes shall not exceed 20% of the market value of the Fund.
2. Exposure to a single industry (across all equities) shall not exceed 25% of the market value of the total equities portfolio.

8. Reporting and monitoring

Measuring Performance

Actual investment returns and volatility will be assessed against the Investment Objectives and benchmark returns (weighted to the Benchmark Allocation).

A portfolio performance benchmark is constructed by applying the benchmark returns for each asset class to the Strategic Asset Allocation weights, i.e. the weighted average of the different parts of the asset allocation. This is a measure of how the Fund would have performed if it was invested in line with the Strategic Asset Allocation and also invested in the benchmark indices. This can be compared to the actual performance of the Fund to assist in assessing the performance of the Investment Manager(s). The following benchmark indices will be used for measuring performance:

Asset class	Benchmark
New Zealand equities	S&P/NZX 50 Gross Index (without Imputation Credits)
Australian equities	S&P/ASX200 Accumulation Index
International equities	50% MSCI All Country World Gross Index 50% MSCI All Country World Gross Index (100% Hedged to NZD)
Listed property	70% S&P/NZX All Equity Real Estate Investment Trusts Gross Index 30% S&P/ASX 200 Real Estate Index
Alternative assets	As agreed with Investment Manager(s)
New Zealand fixed income	S&P/NZX Investment Grade Corporate Bond Index
International fixed income	Bloomberg Global Aggregate Total Return Index (100% hedged)
Cash	S&P/NZX Bank Bills 90 Day Index

Reporting

The Investment Manager(s) will provide quarterly reports including, at a minimum:

1. Market value of the portfolio (on a monthly basis to enable calculation of the Distribution Amount);
2. Actual asset allocation versus the Benchmark Allocation, by asset class;
3. Actual portfolio returns versus benchmark, by asset class, for the preceding quarter, twelve months, three years, five years and since inception;
4. Review/confirmation of compliance with the investment guidelines in the SIPO;
5. Statements of portfolio holdings, income, transactions and contributions/withdrawals.

The Investment Manager(s) will also report quarterly to the Board the CPI-adjusted Capital Base of the Fund and provide an annual tax report.

Monitoring

The Board will monitor the investment performance of the Fund and the Investment Manager(s).

The Investment Manager(s) will at least annually report to the Board the actual management expense ratio ("**MER**") for the Fund (sum of all fees charged by the Investment Manager(s), including management fees on ETFs and investment funds, divided by the market value of the portfolio at the end of the Entity's financial year. The Board will monitor the MER for reasonableness.

Appendix 1: SIPO revision history

The SIPO dated 15 February 1999 was replaced on 28 April 2015 and again on [•] 2026. A version control has been maintained since 2015.

Version	Date	Comment
1	15/02/1999	New SIPO approved.
2	28/04/2015	
3	01/08/2016	
4	25/06/2019	
5	28/01/2025	
6	[•] 2026	New SIPO approved.

Appendix 2: Ten Principles of the United Nations Global Compact

Human Rights	
1	Businesses should support and respect the protection of internationally proclaimed human rights; and
2	make sure that they are not complicit in human rights abuses.
Labour	
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4	the elimination of all forms of forced and compulsory labour;
5	the effective abolition of child labour; and
6	the elimination of discrimination in respect of employment and occupation.
Environment	
7	Businesses should support a precautionary approach to environmental challenges;
8	undertake initiatives to promote greater environmental responsibility; and
9	encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	
10	Businesses should work against corruption in all its forms, including extortion and bribery.

Source: https://www.unglobalcompact.org/what-is-gc/mission/principles

Appendix 3: Risk and return assumptions

The following risk and return assumptions have been used in calculating the expected long-term risk and return parameters. These capital market expectations ("CMEs") are current as at December 2025.

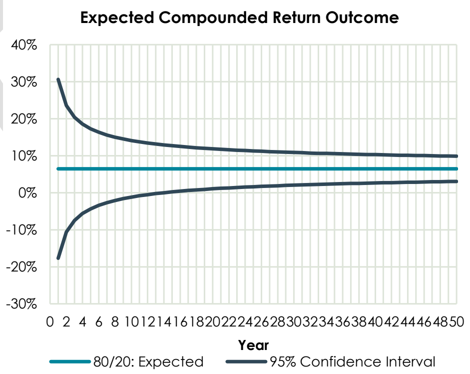
Asset class	20-year expected arithmetic* return (% p.a.)	20-year expected standard deviation (% p.a.)
New Zealand equities (excl. imputation)	6.6%	17.5%
Australian equities	7.8%	18.3%
International equities – hedged	7.1%	16.5%
International equities – unhedged	7.7%	18.1%
New Zealand listed property (excl. imputation)	7.1%	18.2%
Alternative growth assets	10.8%	19.2%
New Zealand Fixed Income	4.6%	5.2%
International Fixed Income - hedged	4.4%	5.6%
Alternative income assets	6.1%	6.8%
Cash	3.1%	2.4%

Source: Craigs Investment Partners.
**The return that is compounded to determine the expected value of the portfolio after an extended period*

Portfolio risk and return summary *To be updated based on Asset Allocation (when confirmed)*

Based on the above CMEs, applied to the strategic asset allocation set out in Section 5 of this SIPO, the portfolio is expected to have the following characteristics:

Expected return – arithmetic	7.2%
Expected return – compounding*	6.5%
Volatility	12.3%
Probability of a return < -5%	16%
1 year in:	6.2
Years in 20	3.2
Probability of a negative return	
1 year in:	3.6
Years in 20	5.6
Historical 12 month return range	-25% to 39%
Largest peak to trough return	-26.8%



**The return that is compounded to determine the expected value of the portfolio after an extended period*

Draft
14 August 2026

GOVERNANCE AGREEMENT

DUNEDIN CITY COUNCIL

DUNEDIN CITY HOLDINGS LIMITED

SIMPSON GRIERSON

CONTENTS

44441948_5

AGREEMENT DATED **2026**

PARTIES

1. **DUNEDIN CITY COUNCIL** a local authority under the Local Government Act 2002 (**Council**)

2. **DUNEDIN CITY HOLDINGS LIMITED** (company number 559098), a company having its registered office in Dunedin (**DCHL**)

BACKGROUND

A. The Council is the legal and beneficial owner of the investment assets that comprise the Waipori Fund (**Fund**). The Fund is intended to be a perpetual, inter-generational commercial investment fund. It was set up in 1999 by the Council containing the sale proceeds of the Council's former electricity generation assets. The assets of the Waipori Fund are invested in accordance with its SIPO.

B. The Council wishes to appoint DCHL to manage the Fund in accordance with the terms of this Agreement and the SIPO.

THE PARTIES AGREE THAT:

1. DEFINITIONS AND INTERPRETATION

1.1 **Definitions:** In this Agreement, unless the context indicates otherwise:

Board means the board of directors of DCHL, as appointed, removed and/or replaced by the Council from time to time in accordance with the constitution of DCHL;

Fund has the meaning given in Background A;

Fund Bank Account means a bank account held in the name of Council and operated by DCHL on behalf of Council for the purposes of the Fund, including the receipt, holding and disbursement of monies relating to the Fund and its investments;

Investment Manager means any person appointed or engaged by DCHL from time to time to provide investment management, portfolio management, investment advisory or asset allocation services in respect of the Fund or any part of the Fund, including any replacement Investment Manager;

SIPO means the Statement of Policy and Objectives for the Fund approved by Council, as amended from time to time; and

Net Asset Value means, at any time, the aggregate value of all assets comprising the Fund, less all liabilities, expenses, accrued fees and other amounts properly attributable to the Fund, as determined by DCHL in accordance with the valuation methodology approved by the Board of DCHL from time to time.

1.2 **Interpretation:** In this Agreement, unless the context indicates otherwise:

(a) **Headings:** clause and other headings are for ease of reference only and will not affect this Agreement's interpretation;

(b) **Persons:** references to a **person** include an individual, company, corporation, partnership, firm, joint venture, association, trust, unincorporated body of persons, governmental or other regulatory body, authority or entity, in each case whether or not having a separate legal identity;

(c) **Plural and singular:** references to the singular include the plural and vice versa;

(d) **Clauses/Schedules/Attachments:** references to clauses, schedules and attachments are to clauses in, and the schedules and attachments to, this Agreement. Each such schedule and attachment forms part of this Agreement;

(e) **Statutory provisions:** references to any statutory provision are to statutory provisions in force in New Zealand and include any statutory provision which amends or replaces it, and any by-law, regulation, order, statutory instrument, determination or subordinate legislation made under it;

(f) **Inclusive expressions:** the term **includes** or **including** (or any similar expression) is deemed to be followed by the words **without limitation**; and

(g) **Priority:** to the extent of any inconsistency between this Agreement and the SIPO, this Agreement prevails.

2. APPOINTMENT

2.1 **Appointment:** The Council wishes to appoint DCHL (and DCHL accepts appointment) to manage the Fund in accordance with this Agreement and the SIPO.

2.2 **Term:** DCHL is appointed to manage the Fund from the date of this Agreement until this Agreement is terminated in accordance with its terms.

2.3 **SIPO:** The parties agree and acknowledge that the SIPO is a key governance document for the Fund and forms an integral part of the governance framework applicable to the Fund. The SIPO sets out, among other matters, the respective responsibilities of Council and DCHL (including its directors), the responsibilities and expectations of investment managers, the Fund's investment objectives, and the Fund's distribution policy.

3. ROLE, DUTIES, AND POWERS OF DCHL

3.1 **Role and duties of DCHL:** The overarching role of DCHL is to ensure that the Fund is managed in a prudent, commercial manner in accordance with this Agreement and the

SIPO. In performing its obligations, and exercising its powers, under this Agreement, DCHL must:

(a) **Due care:** use all reasonable efforts and judgement and exercise due care in exercising the rights, powers, and authorities granted to it, and in performing its obligations, under this Agreement;

(b) **Best interests:** act in good faith and in the best interests of Council (having regard to the terms of this Agreement and the SIPO), and in a proper, efficient and business-like manner;

(c) **Sufficient resources:** ensure it has sufficient resources, experience and expertise to effectively perform its obligations under this Agreement;

(d) **Records:** keep and maintain records (and to procure that any person appointed or engaged pursuant to clause 4.1 keeps and maintains records) of investment decisions and the process relating to those investment decisions; and

(e) **Comply with law:** comply with all applicable legal and regulatory requirements.

3.2 **DCHL's powers:** Subject to clause 3.3, Council delegates and grants to DCHL the power to do all things necessary to fully and effectively perform its obligations under this Agreement and the SIPO (including full capacity to undertake any activities and to do any act or enter into any transaction).

3.3 **Reserved matters:** Notwithstanding any other provision of this Agreement, the following matters are reserved to Council, and DCHL must not take any of the following actions without Council's prior approval:

(a) **SIPO:** the adoption of, or any variation to, the SIPO;

(b) **Distributions:** the approval of any distributions from the Fund to Council;

(c) **Liquidation of investments:** the liquidation of the whole or any material part of the Fund's investments other than in the ordinary course of managing the Fund in accordance with the SIPO and any distribution approved under this clause 3.3(b); and

(d) **Delegation of the whole:** the delegation or outsourcing by DCHL of all, or substantially all, of its obligations under this Agreement to a third party.

3.4 **Board Composition:** When appointing directors to the Board of DCHL, Council will have regard to the skills, experience and expertise required for DCHL to perform its functions and discharge its responsibilities under this Agreement.

3.5 **Distributions:** DCHL will determine, recommend and implement distributions from the Fund to Council in accordance with the distribution policy set out in the SIPO and any distribution approved by Council.

3.6 **Fund Bank Account:** The Fund Bank Account is held in the name of, and administered and controlled by, Council. DCHL will operate the Fund Bank Account on behalf of Council for the purposes of the Fund, including the receipt, holding and disbursement of monies relating to the Fund and its investments, in accordance with Council's banking arrangements and financial controls as in place from time to time. DCHL will ensure that the Fund Bank Account is not used for any purpose unrelated to the Fund. DCHL will keep appropriate records in relation to the Fund Bank Account and will provide Council with reasonable access to such records, together with account statements and other relevant information, upon request.

4. DELEGATION

4.1 **Delegation and Appointments:** DCHL may, through its Board acting as independent governors of the Fund, appoint, engage, replace or remove one or more Investment Managers and any other advisers, consultants, custodians, administrators or service providers in connection with the management and administration of the Fund, and will oversee the performance of those persons (to the extent reasonable in the circumstances), in each case in accordance with this Agreement and the SIPO. For the avoidance of doubt, where DCHL appoints an Investment Manager under this clause, DCHL may authorise the Investment Manager to make investment decisions on a discretionary basis within the parameters of the SIPO, without requiring prior approval from DCHL for individual investments or transactions.

4.2 **Compliance with SIPO:** DCHL will ensure that any person engaged to perform functions in relation to the Fund is engaged on terms requiring that person to comply with the SIPO (to the extent applicable to the services being provided) and to perform any responsibilities assigned to that person under the SIPO.

4.3 **Review of Delegations:** DCHL will keep all appointments, engagements and delegations relating to the Fund under regular review. No appointment, engagement or delegation by DCHL will relieve DCHL of its obligations or responsibilities under this Agreement.

5. REMUNERATION AND REIMBURSEMENT

5.1 **Management fee:** As consideration for the services provided by DCHL under this Agreement, DCHL will be entitled to a management fee at the rate of 0.2% per annum of the Net Asset Value of the Fund (**Management Fee**). The Management Fee will accrue daily and be calculated and payable quarterly in arrears.

5.2 **Review of Management Fee:** The parties will review the rate of the Management Fee every three years from the date of this Agreement to ensure it remains appropriate, having regard to the nature and scale of the Fund and market rates for comparable services. Any change to the rate of the Management Fee must be agreed in writing by both parties.

5.3 **Net Asset Value:** DCHL will determine the Net Asset Value of the Fund at least quarterly in accordance with the valuation methodology approved by the Board of DCHL from time to time.

5.4 **Reimbursement:** DCHL is entitled to be reimbursed out of the assets of the Fund for all costs and expenses properly incurred by or on behalf of DCHL in connection with the performance of its obligations under this Agreement and the SIPO (including the fees, costs and expenses of any person appointed or engaged pursuant to clause 4.1). [***Note to Council: It is proposed that DCHL pays the fees of Investment Managers and then seeks reimbursement of those fees from the assets of the Fund (given the Investment Manager's engagement will be with DCHL). Council will still retain full visibility through DCHL providing the relevant invoices to seek reimbursement (see clause 5.5).***]

5.5 **Processing of fees and reimbursements:** Subject to DCHL having provided Council with an invoice for the relevant fee and/or reimbursements, DCHL will be entitled to deduct the relevant fee and reimbursements from the Fund Bank Account.

6. LIMITATION OF LIABILITY

6.1 **No liability for investment losses:** DCHL and its directors, officers, and employees will not be liable for any loss or diminution in value of the Fund arising from any act or omission in connection with the Fund, except to the extent that such loss is attributable to fraud, wilful misconduct, wilful breach of this Agreement, or gross negligence by that person.

6.2 **Indemnity:** DCHL and its directors, officers, and employees are entitled to be indemnified out of the assets of the Fund for all costs, expenses, liabilities and losses reasonably incurred in connection with the performance of their functions in relation to the Fund, except to the extent that such costs, expenses, liabilities or losses are attributable to fraud, wilful misconduct, wilful breach of this Agreement, or gross negligence.

6.3 **Delegates and service providers:** DCHL will not be liable for any act, omission, default or insolvency of any Investment Manager, delegate, adviser, custodian, administrator or other service provider appointed in relation to the Fund, provided that DCHL has acted in good faith and with reasonable care in the appointment of, and monitoring (to the extent reasonable in the circumstances) of the exercise of the delegated power by, that person in accordance with this Agreement and the SIPO.

7. CONFLICTS OF INTEREST

7.1 **Conflicts management:** DCHL will maintain appropriate policies and procedures for the identification, disclosure and management of conflicts of interests arising in connection with the performance of its obligations under this Agreement.

7.2 **Disclosure and management of conflicts:** DCHL will ensure that any actual, potential, or perceived conflict of interest is disclosed to the Board of DCHL and managed in accordance with DCHL's governance policies and applicable law.

8. REPORTING

8.1 **Regular Reporting:** DCHL will provide quarterly reports to Council (and such other reports as Council may reasonably request) regarding the Fund. Such reports will include, at a minimum:

(a) **Fund performance:** the performance of the Fund against the investment objectives set out in the SIPO;

(b) **SIPO compliance:** asset allocation and the Fund's compliance with the SIPO;

(c) **Investment manager performance:** the performance of any Investment Manager;

(d) **Valuation:** the Net Asset Value of the Fund; and

(e) **Other matters:** any other matters reasonably required by Council to monitor the governance and performance of the Fund.

8.2 **Additional Reporting:** DCHL will provide such additional reports and information relating to the Fund as may be agreed with Council from time to time or as Council may reasonably request, having regard to the scale and nature of the Fund.

8.3 **Reporting by Investment Managers:** DCHL will ensure each Investment Manager (or any other person appointed or engaged pursuant to clause 4.1) provides such reports and information as are required under the SIPO and as DCHL reasonably requires in order to discharge its obligations under this Agreement.

9. GENERAL

9.1 **Counterparts:** This Agreement may be executed in any number of counterparts, each of which is deemed an original and all of which together constitute one and the same agreement.

9.2 **Amendment and Termination:** No amendment to, or termination of, this Agreement is effective unless made in writing and signed by both parties.

9.3 **Governing Law and Jurisdiction:** This Agreement is governed by the laws of New Zealand. The parties submit to the exclusive jurisdiction of the New Zealand courts in respect of all matters relating to this Agreement.

9.4 **Agency:** DCHL acts only as expressly authorised under this Agreement and has no authority to bind Council except to the extent expressly contemplated by this Agreement or authorised by Council from time to time.

9.5 **No Fetter on Statutory Powers:** Nothing in this Agreement restricts, limits or fetters the exercise by Council of any statutory power, duty or discretion conferred on it by law.

9.6 **Notices:** Any notice under this Agreement must be in writing and may be delivered by hand, post or email to the contact details notified by the relevant party from time to time. A notice will be deemed received in accordance with the Contract and Commercial Law Act 2017.

SIGNATURES

SIGNED on behalf of **DUNEDIN CITY COUNCIL** by affixing its common seal:

____
Mayor / Councillor

____
Councillor

SIGNED on behalf of **DUNEDIN CITY HOLDINGS LIMITED** by:

Signature of director/authorised signatory	Signature of director/authorised signatory
Name of director/authorised signatory	Name of director/authorised signatory

Waipori Fund

Statement of Investment Policy and Objectives

Approved by the Council on 28 January 2025

Contents

1. Introduction

Background

During 1998 Dunedin City Council (the Council) sold its 100% holding in Waipori Power Generation Limited and its 42% holding in United Electricity Limited. After repaying associated debt, the Council was left with cash amounting to just over $56 million. This fund became known as the Waipori Fund (the Fund).

Purpose of the SIPO

The purpose of the Statement of Investment Policy and Objectives (the SIPO) is to provide all parties involved in the investment management of the Fund with clear guidance on how the assets of the Fund are to be managed. The SIPO covers the following areas:

- governance,
- investment objectives,
- investment policies,
- investment strategy,
- review procedures.

The original SIPO was approved by the Council at its meeting of 15 February 1999.

Effective Date

This version of the SIPO takes effect from 25 June 2019 and replaces all previous versions.

2. Governance

Various parties have responsibilities for the management of the Fund's assets. These are outlined below.

The Council

The Council has ultimate responsibility for investing the Fund's assets. They may, from time to time, delegate decision-making and implementation to other parties (such as those listed below) as they see fit.

The Council will:

- Ensure that the Fund's assets are invested in a manner consistent with the key tenets of the Trust Act 2019 (as detailed in Appendix A of this document) andany other relevant legislation.
- Establish the Fund's investment objectives, taking due account of the priorities, from time to time, of its long term plan.
- Establish benchmarks against which the performance of the Fund Manager will be monitored.
- Undertake a strategic review of the way in which Fund's assets are invested at least every three years.
- Review the SIPO at least every three years.
- Review the minimum net cash return target annually.
- Appoint the Fund Manager and review them regularly as appropriate.
- Determine the mandate provided to the Fund Manager, which will include, but is not necessarily restricted to:
    - the allowable allocation to various categories of investment (such as equities or fixed interest), and
    - the broad parameters to apply to each category of investment (such as minimum credit ratings).

Dunedin City Treasury Limited/The Fund Manager

Dunedin City Treasury Limited (DCTL), a wholly owned subsidiary of the Council, will, in its role of Fund Manager:

- Seek to achieve the Fund's investment objectives as set out in Section 3 of this document.
- Account for and record the effect of inflation on the value of the Fund as prescribed in Section 4 of this document.
- In order to align with Council's financial planning programme:
    - By 31 December each year make an initial estimate of the cash flow of the Fund and the amount available for distribution to the Council for the next financial year beginning 1 July.
    - By 30 April of the following year, confirm the estimate, or otherwise, as the case may be. The estimate will be set at a level that provides the Council with a high level of confidence in its achievement.
- Manage that portion of the Fund's assets allocated to them:
    - In a manner consistent with key tenets of the Trust Act 2019 and any other relevant legislation,
    - In accordance with both the investment policies set out in Section 4 of this document, and the investment strategy specified in Section 5 of this document.
- Facilitate annual cash distribution to the Council.
- Provide regular reporting to the Council as detailed in Appendix B of this document.

3. Investment Objectives

The Council has an expectation of receiving cash distributions from the Fund each year. The Fund should be sufficiently liquid to meet expected cash distributions. While the market value of the Fund will vary from month to month and year to year, its cash flow will not fluctuate to the same extent. In some circumstances the Fund could have a negative operating result (arising from the requirement to "mark to market" the Fund's investments even though there is no intention to sell them) but a positive cash flow. A long term perspective should be taken to ensure assets are preserved for future ratepayer generations, after taking into account inflation.

Income and Capital Growth

The primary objectives of the Fund will be to:

- maximise income, subject to a proper consideration of investment risk; and
- grow the Fund's capital base, subject to the income distribution needs of the Council and the provisions for capital protection, as described in Section 4.

Total Return

The Council envisages a minimum return over the medium to long-term, net of all fees and charges attributable to the Fund, equivalent to the weighted average Official Cash Rate plus the movement in the 'all groups' consumer price index (CPI).

4. Investment Policies

Capital Protection

A key tenet of the Fund is to protect the capital base from being eroded by the effects of price inflation. Each calendar quarter, the Fund's capital base is to be adjusted by the movement in the CPI, as follows:

- Revised capital base = (previous) capital base x (1 + quarterly CPI movement)

The first inflation adjustment to the Fund's capital base was made in respect of the quarter ended 31 March 1999.

Risk

Decisions about investments must be accompanied by an assessment of their risk. It will be the duty of the Fund Manager to provide this risk assessment, whether carried out themselves or by a third party with expertise in the proposed investment.

In some cases, the risk may have been determined by a specialist risk assessment agency (such as Standard & Poor's or Moody's). In other cases a detailed written assessment by one or more parties having expertise in the proposed Investment may be required. In any case it will be mandatory for a risk assessment to be undertaken for each investment. The Fund Manager will be ultimately responsible for ensuring that adequate risk assessments are carried out and that investment decisions are based on those assessments.

The Fund Manager will take whatever steps are available to them to minimise investment risks. These steps may include, but are not limited to:

- The use of derivative instruments (which, for the purposes of this document, refers to risk management instruments provided by New Zealand trading banks).
- Seeking professional advice from authoritative sources including legal, taxation, property, investment and other advisers.

Risk and Return

In its pursuit of the objectives of the Fund, the Council has a preference for a lower risk/return profile as opposed to a higher risk/return investment profile. Given a choice between risk and return, the Council prefers to forego some return in favour of reduced risk.

For each investment there will be a risk/return profile. Each assessment should consider particular attributes of the investment as well as general factors such as interest rate expectations, level of economic activity and political conditions.

From this risk assessment, a set of risk return profiles will emerge for a diverse range of investments. These profiles will be used to construct the portfolio of investments to meet the objectives of the Fund.

Diversification

To reduce risk of concentrated exposures and minimise volatility of the Fund's assets the investment of the Fund should be strategically diversified across a mix of assets as detailed in Section 5 of this document.

The Fund Manager is free to invest wherever they think fit provided that the investment:

- Has been subject to a formal risk assessment process.
- Involves activities that are legal/would be legal in New Zealand.
- Complies with the Fund's socially responsible investment objectives.
- Contributes to the Fund's primary objective.

It is the obligation of the Fund Manager to examine a diverse range of investment opportunities if they are to carry out properly their fiduciary duty.

Asset Allocation

It is deemed neither possible nor desirable to set rigid limits on the proportion of the Fund allocated to each category of investment. Investment conditions are affected by interest rates, levels of inflation, levels of economic activity, exchange rates, political conditions, the investor's appetite for risk, the income needs of the investor and any number of other factors.

Distributions

The Fund will make distributions each year as requested by the Council. In general, the Council on advice from the Fund Manager, will agree a level of distribution from the Fund that, over time, maintains the indexed capital value of the Fund after taking account of applicable fees and charges and likely future market movements. In a situation where a distribution from the Fund is made when the capital base of the Fund is less than the CPI-adjusted capital base figure, such a distribution requires direction from Council and requires a three-quarters majority of Council members present and voting.

Liquidity

It will be incumbent upon the Fund Manager to ensure that liquidity is managed so as:

- To allow distributions to be made to the Council at the expected level on the agreed dates, and
- To permit a prompt response to changes in investment conditions.

Power to Borrow

The Fund may not borrow other than in respect of investment in real property, for which the Council's prior approval would be required.

Socially Responsible Investment

The Fund seeks to avoid direct investment in companies that have a significant involvement in range of activities deemed to be inconsistent with the Council's ethical position. The following industries/activities and materiality thresholds (as a percentage of the company's revenue) for exclusion apply.

Industry/Activity	Materiality threshold	Explanatory notes
Tobacco	0% manufacture 10% distribution	Distribution includes packaging, transporting and sale
Armaments - controversial	0% manufacture	Includes cluster bombs, landmines, depleted uranium, chemical and biological weapons
Armaments - other	10% manufacture	
Fossil fuel extraction	Exclusion of top 200 companies by proven reserves	As identified at fossilfreeindexes.com
Gambling	0% manufacture 10% distribution	Distribution includes deployment and operation of gaming outlets and equipment
Pornography	0% manufacture 5% distribution	Distribution includes internet distribution and advertising revenue

Companies that are not otherwise excluded that have activities across multiple areas of concern will be excluded where the aggregate share of revenue from these activities exceeds 15%.

In addition, as guiding principles to the Fund Manager, the Council also advocates the exclusion of investments where the underlying activities:

- Would be illegal in New Zealand,
- Are inconsistent with the United Nations' policies on health and safety, child rights or human rights, or
- Are expected to result in long-term, permanent, detrimental change to the environment.

5. Investment Strategy

Asset Allocation

The Fund's investments may include:

Equities

- Public and private.
- Publicly listed trusts, exchange tradable funds and investment funds.

Fixed interest

- Call deposits with banks.
- Term deposits with banks.
- Debentures, capital notes, promissory notes, local authority stock, government stock etc (short, medium and long term; low, medium and high risk; low, medium and high return).
- Loans and advances (low, medium and high risk; short, medium and long term; convertible, redeemable, preferential, etc. and which, for clarity, can include dealings with Dunedin City Council and its Group Companies)
- Debt (investment in or repayment of the Council's debt).

Property

- Trusts, partnerships, outright ownership, property equities and Real Estate Investment Trusts.

Notwithstanding the Council's flexible approach to asset allocation, it is not unreasonable to suggest that, subject to the investment conditions prevailing at the time, a portfolio of the size of the Fund might be subject to the following constraints:

Investment Category	Exposure Range
Equities	20% - 60%
Fixed interest	40% - 70%
Property	0% - 10%

The allocation to domestic investments must not exceed the following limits by investment category:

- Equities – 25% (as percentage of total portfolio).
- Fixed interest – 100%.
- Property – 25%.

Investment Restrictions

- Listed equities are restricted to constituents of widely recognised benchmark indices (such as the NZX 50 and the S&P 500).
- Fixed interest securities are restricted to issuers rated BBB- (Investment Grade) or above by Standard & Poor's (or equivalent).
- Derivative instruments may be used only for risk management purposes.

6. Review Procedures

SIPO

The SIPO will next be reviewed in 2026, or sooner if market conditions or other factors so warrant.

Appendix A: Trust Act 2019

Section 13E of the Trust Act 2019 sets out the matters to which fiduciaries may have regard in exercising powers of investment as follows:

Section 59 of the Trust Act 2019

Matters which trustee may consider in exercising power to invest

(1) A trustee exercising any power to invest may have regard to the following matters, so far as they are appropriate to the circumstances of the trust:

(a) the objectives of the trust or the permitted purpose of the trust:
(b) the desirability of diversifying trust investments:
(c) the nature of existing trust investments and other trust property:
(d) the need to maintain the real value of the capital or income of the trust:
(e) the risk of capital loss or depreciation:
(f) the potential for capital appreciation:
(g) the likely income return:
(h) the length of the term of the proposed investment:
(i) the probable duration of the trust:
(j) the marketability of the proposed investment during, and on the expiry of, the term of the proposed investment:
(k) the aggregate value of the trust property:
(l) the effect of the proposed investment in relation to the tax liability of the trust:
(m) the likelihood of inflation affecting the value of the proposed investment or other trust property:
(n) the trustee's overall investment strategy.

(2) This section does not limit the matters that a trustee may take into account.

Appendix B: Reporting by the Fund Manager

Within 30 calendar days of the end of each calendar quarter, the Fund Manager will provide the Council with the following reports:

- Statement of financial performance comparing this quarter's performance with budget and the performance for the year to date with the budget and previous year.
- Statement of financial position.
- Statement of cash flow.
- Comparison of actual percentage return:

  a) for the quarter with the budget for the same period; and
  b) for the year to date the actual return compared to budget and the previous year.
- Table of investments agreeing to the total on the statement of financial position.
- A narrative discussion of significant variances against budget and a discussion of investment expectations for the next quarter and next year.

Within 30 days of each year ending 30 June the Fund Manager will provide the Council with:

- The final quarterly reports.
- A narrative review of the year just completed.
- A preview of the year to come and the next three years.

Following their receipt, reports on the Fund are to be placed on the agenda for the next meeting of the relevant committee of the Council.

Appendix C: Version Control

The SIPO dated 15 February 1999 was replaced on 28 April 2015. A version control has been maintained since that time.

Version	Dated	Changes from previous version
1	15/02/1999	
2	28/04/2015	
3	01/08/2016	
4	25/06/2019	
5	28/01/2025	

WAIPORI FUND - QUARTER ENDING 30 JUNE 2026

Department: Finance

EXECUTIVE SUMMARY

1 The attached report from Dunedin City Treasury Limited provides information on the results of the Waipori Fund for the quarter ended 30 June 2026.

RECOMMENDATIONS

That the Committee:

a) **Notes** the report from Dunedin City Treasury Limited on the Waipori Fund for the quarter ended 30 June 2026.

DISCUSSION

2 The Waipori Fund Statement of Investment Policy and Objectives (SIPO) requires quarterly reporting on the performance and financial position of the fund.

3 Dunedin City Treasury Limited has provided the Waipori Fund report for the June 2026 quarter. The report is provided as Attachment A.

OPTIONS

4 As this is a noting report, no options are provided.

NEXT STEPS

5 Quarterly reporting on the performance and financial position of the fund will be provided to future meetings of either the Finance and Performance Committee or Council.

Signatories

Authoriser:	Carolyn Allan - Chief Financial Officer

Attachments

	Title	Page
⇩A	Waipori Fund Quarterly Report - 30 June 2026	141

SUMMARY OF CONSIDERATIONS

Fit with purpose of Local Government

This decision enables democratic local decision making and action by, and on behalf of, communities.

Fit with strategic framework

	Contributes	Detracts	Not applicable
Social Wellbeing Strategy	☐	☐	✓
Economic Development Strategy	☐	☐	✓
Environment Strategy	☐	☐	✓
Arts and Culture Strategy	☐	☐	✓
3 Waters Strategy	☐	☐	✓
Future Development Strategy	☐	☐	✓
Integrated Transport Strategy	☐	☐	✓
Parks and Recreation Strategy	☐	☐	✓
Other strategic projects/policies/plans	☐	☐	✓

Reporting on the performance of the Waipori Fund does not contribute directly to the Strategic Framework.

Māori Impact Statement

Investment returns from the Waipori Fund impact on the level of rates payable and therefore impact across all Dunedin communities including Māori.

Sustainability

There are no impacts for sustainability.

Zero carbon

There are no impacts for zero carbon.

LTP/Annual Plan / Financial Strategy /Infrastructure Strategy

There are no implications for LTP / Annual Plan / Financial Strategy / Infrastructure Strategy.

Financial considerations

Financial considerations are presented in the Waipori Fund report for the June 2026 quarter.

Significance

This report is considered to be of low significance in terms of the Council's Significance and Engagement Policy.

Engagement – external

There has been no external engagement.

Engagement - internal

There has been no internal engagement.

Risks: Legal / Health and Safety etc.

There are no identified risks.

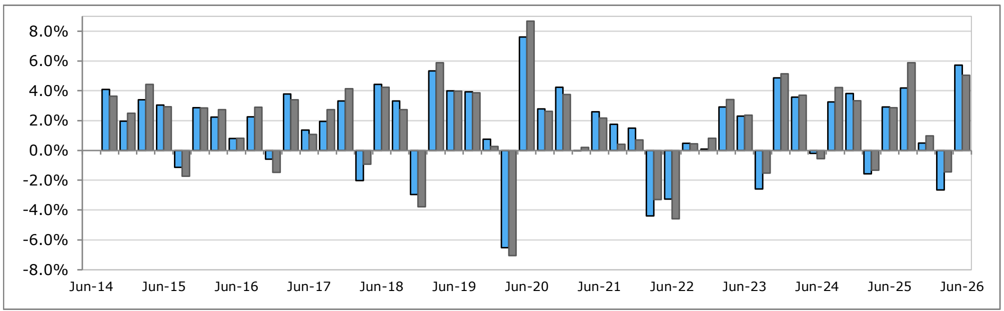
SUMMARY OF CONSIDERATIONS
Conflict of Interest   There are no known conflicts of interest.
Community Boards   There are no implications for Community Boards.

Dunedin City Treasury Ltd

50 The Octagon
PO Box 5045
Dunedin 9058
New Zealand
Telephone (03) 474 3696
Facsimile (03) 474 3594
Email dunedincitytreasury@dcc.govt.nz

TO:	Chief Executive, Dunedin City Council
FROM:	Dunedin City Treasury Limited
DATE:	20 July 2026
SUBJECT:	**WAIPORI FUND - June 2026 Quarter**

Quarterly Returns vs Benchmark



June 2026 Quarter

The Fund benefited from a positive quarter for financial markets, with global equities supported by resilient economic conditions, strong corporate earnings and continued investor confidence. Growth-oriented sectors were a significant contributor to returns, particularly in the United States, where share markets reached record highs. Despite periods of volatility arising from geopolitical tensions and inflation concerns, market conditions remained broadly supportive during the quarter. Strong corporate earnings and confidence in the global economic outlook helped drive positive equity market returns across most major markets, contributing to the Fund's overall performance.

The Fund’s fixed interest portfolio also delivered a positive return during the June 2026 quarter. Returns were supported by a decline in bond yields from the elevated levels reached earlier in the year, which contributed to higher bond prices. In addition, the level of interest income generated by the portfolio continued to provide a solid foundation for returns despite ongoing uncertainty regarding inflation and future interest rate movements.

The value of the Fund was **$117.7 million** at the end of June 2026 - this is after the $3 million distribution to the DCC toward the end of the quarter. Even after this distribution, the Fund's value remained well above its March 2026 balance of $114.2 million.

Fund Returns

	Waipori		Benchmark	
Period ended 30 June 2026	**Quarter %**	**FY %**	**Quarter %**	**FY %**
NZ Equities (NZ50 Gross)	9.3	8.9	5.5	8.1
Australian Equities (Australian All Acc)	-1.3	1.6	5.5	19.3
Int'l Equities (MSCI World Gross)	18.3	22.1	15.4	32.7
Property Equities (NZ Real Estate)	7.0	2.2	4.9	4.7
Short Term Interest (NZ 90 day bb)	0.8	4.0	0.6	2.8
Fixed Interest (NZ Corp Bond index)	2.1	4.9	2.4	5.1
TOTAL	**5.7**	**7.8**	**5.0**	**10.7**

Note: The Benchmarks used are based on broad market indices and therefore their returns are not directly comparable with Waipori's returns. DCTL continues to review the appropriateness of the benchmark indices used and are comfortable that they are the best available at this time.

P 1

Investment Profile

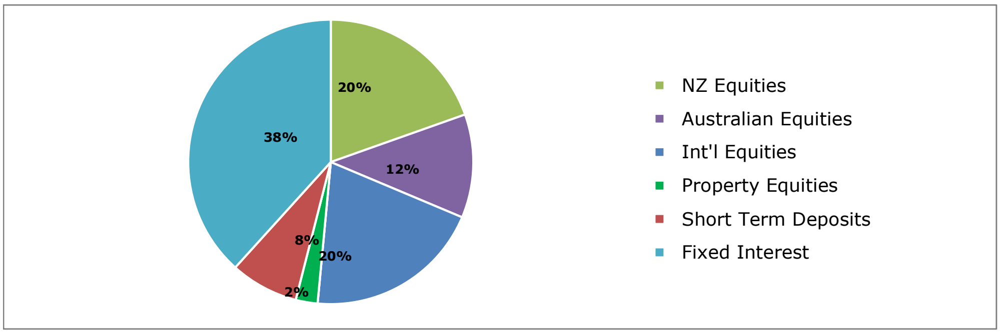
Waipori is diversified across asset classes with 54% invested in growth assets (equities and property) and 46% invested in income assets (fixed interest investments and short term deposits /cash).

The market value of the investment portfolio (i.e. the total value of all financial assets held) as at 30 June 2026 was $117.2 million.

Summary of Investments

As at 30 June 2026		Market Value	Percentage of Portfolio	Benchmark/ Exposure Range*
NZ Equities		22,955,858	19.6	16.0
Australian Equities		13,816,740	11.8	11.0
Int'l Equities		23,567,599	20.1	15.0
	Equities	**60,340,196**	**51.5**	**20.0 - 60.0**
Property Equities		2,921,488	2.5	3.0
	Property	**2,921,488**	**2.5**	**0.0 - 10.0**
Short Term Deposits (incl. bank account balance)		9,052,107	7.7	10.0
Fixed Interest		44,926,375	38.3	45.0
	Fixed Interest	**53,978,483**	**46.0**	**40.0 - 70.0**
TOTAL		**117,240,167**	**100.0**	**100.0**

Asset Allocation



Market Outlook

At the time of writing (20/7/2026), ANZ forecasts the RBNZ will continue to gradually increase the Official Cash Rate from the current 2.50% to approximately 3.6% by late 2027, reflecting expectations of a strengthening domestic economy and persistent medium-term inflation pressures. Higher short-term interest rates are expected to support returns from cash and term deposits held by the Fund. However, rising interest rates and bond yields may create short-term valuation headwinds for the Fund's bond portfolio, as bond prices typically move inversely to yields. Over time, the bond portfolio should benefit from the reinvestment of maturing securities at higher market rates, which may enhance future income returns.

As we move into the second half of 2026, investment markets continue to face a mix of opportunities and challenges. Geopolitical tensions, inflation concerns and uncertainty around the path of interest rates are likely to contribute to ongoing market volatility. Despite these headwinds, the global economy has remained resilient, supported by strong labour markets, consumer spending and solid corporate earnings. While further market gains are possible if earnings growth continues, inflation and central bank policy are expected to remain the key drivers of market performance over the remainder of the year, with interest rates likely to stay higher for longer than previously anticipated.

The Fund continues to take a long-term investment approach, diversifying across regions and sectors with 54% in growth assets (equities) and 46% in income-generating assets (fixed interest). It focuses on equities from stable, dividend-paying companies that consistently deliver dividends, even during periods of market uncertainty.

Tim Loan	Gerhard Riepl	Richard Davey
CHAIR	**Treasury Analyst**	**TREASURER**

WAIPORI FUND

30 June 2026

PERFORMANCE VERSUS INVESTMENT OBJECTIVES

1. INCOME

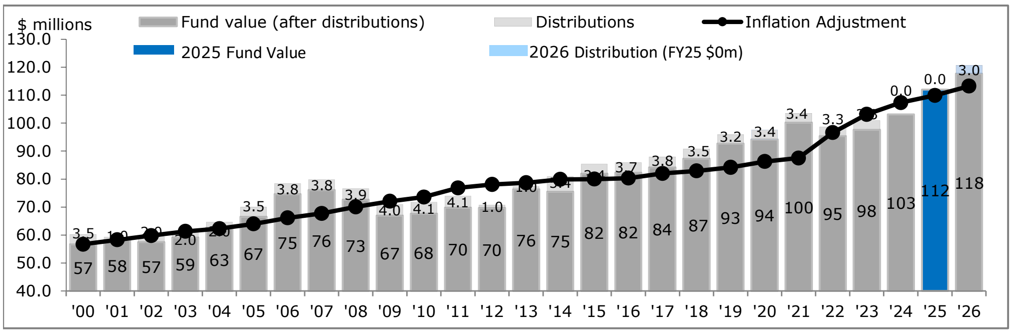
Objective	2026 Est. Income	2026 Est. Yield	Average Yield	Period Years
The primary objective of the Fund will be to maximise its income, subject always to a proper consideration of investment risk.	$3,980,197	**3.6%**	4.3%	27

2. CAPITAL GROWTH - Values rounded to nearest $100,000

Objective	Total Fund Value 30 Jun 2026	Revised Capital Base	Achieved
Subject to the income distribution needs of the Council and the provisions for capital protection, a key objective will be to grow the Fund's capital. Each calendar quarter, the Fund's capital base is to be adjusted by the movement in the CPI as follows: Revised capital base = previous capital base x (1 + quarterly CPI movement)	**$117,700,000**	$113,200,000	✓

 # Fund value less accrued distribution ($3.000.000) *No distributions made in 2025*

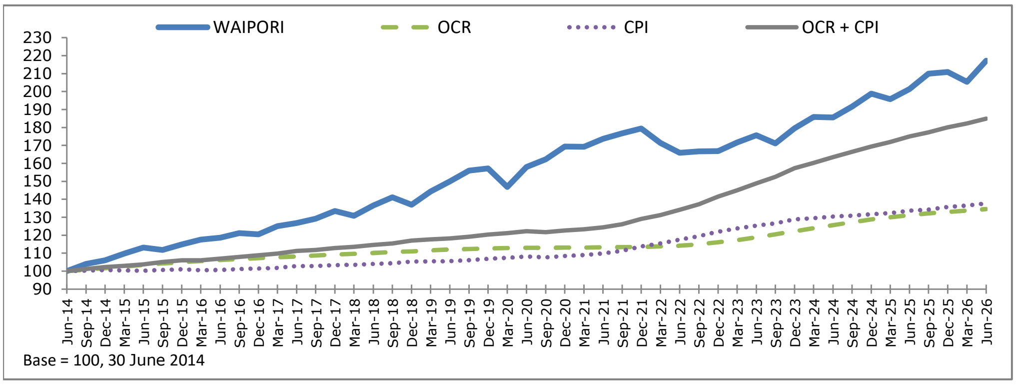
The difference between Total Fund Value (rounded to the nearest 100,000) and Total Summary of Investments (page 2) is other receiveables such as dividends, interest and sales proceeds due but not yet received.



3. TOTAL RETURN (Period June 2014 - June 26)

Objective	Waipori Return*	OCR*	CPI*	OCR + CPI	Achieved	Period Years
The Council envisages a minimum return over the medium to long-term, net of all fees and charges attributable to the Fund, equivalent to the weighted average Offical Cash Rate (OCR) plus the movement in the "all groups" Consumer Price Index (CPI).	**6.7%**	2.5%	2.7%	5.3%	✓	12.00

**Returns annualised*



WAIPORI FUND

Statement of Financial Performance for month ended 30 June 2026

Quarter 30/06/2025	Actual YTD 30/06/2025		Quarter Actual	Quarter Target	Quarter Variance	Year to Date Actual	Year to Date Target	Year to Date Variance	Target Full Year
		Income							
299,152	1,376,214	Dividends	354,971	431,507	(76,536)	1,531,207	1,734,707	(203,500)	1,734,707
512,822	2,018,391	Interest	519,077	560,690	(41,613)	2,181,189	2,245,490	(64,301)	2,245,490
189,242	408,396	Surplus on sale of Equities	(29,805)	-	(29,805)	126,732	-	126,732	-
		Unrealised Gains/(Losses)							
3,231,742	*3,303,922*	*Equities*	4,859,793	*n.a.*	*n.a.*	1,918,189	*n.a.*	*n.a.*	*n.a.*
(1,023,948)	*562,065*	*Exchange Movements*	493,103	*n.a.*	*n.a.*	2,951,571	*n.a.*	*n.a.*	*n.a.*
2,207,794	3,865,987	Revaluation of Equities	5,352,896	332,897	5,019,999	4,869,760	1,332,797	3,536,963	1,332,797
33,030	1,460,702	Revaluation of Bonds	414,954	-	414,954	295,206	-	295,206	-
(625)	1,632	Revaluation of $AUD Bank A/C	497	-	497	3,707	-	3,707	-
3,241,415	9,131,322	**Total Income**	6,612,590	1,325,094	5,287,496	9,007,801	5,312,994	3,694,807	5,312,994
		less Expenses							
49,665	198,660	Management Fees	53,001	53,000	1	212,004	212,000	4	212,000
20,128	80,280	Equity Management Advice	19,243	16,700	2,543	87,363	70,097	17,266	70,097
33	137	Bank Fees	37	81	(44)	140	180	(40)	180
69,826	279,077	**Total Expenses**	72,281	69,781	2,500	299,507	282,277	17,230	282,277
3,171,589	**8,852,245**	**Net Surplus/(Deficit)**	**6,540,309**	**1,255,313**	**5,284,996**	**8,708,294**	**5,030,717**	**3,677,577**	**5,030,717**

P 4

WAIPORI FUND

Statement of Movement in Principal of Fund
For Period to 30 June 2026

30-Jun-25		30-Jun-26
59,050,000	**Principal Opening**	59,050,000
-	Additional Capital	-
59,050,000	Closing Balance	59,050,000
	Inflation Adjustment Reserve	
48,894,667	Opening Balance	51,470,824
2,576,157	Transfer from Retained Earnings	3,297,481
51,470,824	Closing Balance	54,768,305
	Retained Earnings	
(4,808,254)	Opening Balance	1,467,834
8,852,245	Net Surplus/(Deficit)	8,708,294
(2,576,157)	Transfer to Inflation Adjustment Reserve	(3,297,481)
-	Distribution to Council	(3,000,000)
1,467,834	Closing Balance	3,878,647
111,988,658	**Total Fund at End of the Period**	**117,696,952**

Statement of Financial Position
As at 30 June 2026

30-Jun-25		30-Jun-26
	Current Assets	
63,583	Bank Account	91,860
433,466	Debtors/Prepayments	526,490
12,600,860	Short Term Investments	8,960,248
13,097,909	**Total Current Assets**	9,578,598
	Investments	
57,935,388	Equities	63,261,684
41,021,931	Term Financial Instruments	44,926,375
98,957,319	**Total Investments**	108,188,059
112,055,228	**Total Assets**	**117,766,657**
	less	
	Current Liabilities	
66,570	Accruals	69,706
66,570	**Total Current Liabilities**	69,706
111,988,658	**Total Value of Fund**	**117,696,952**

P 5