

WAIPORI FUND SIPO REVIEW

Department: Finance

EXECUTIVE SUMMARY

- 1 This report seeks Council's approval for proposed changes to the Statement of Investment Policy and Objectives (SIPO) for the Waipori Fund (the Fund).
- 2 The SIPO has been reviewed with some changes proposed. The SIPO with tracked changes is provided at Attachment A and a clean version at Attachment B.

RECOMMENDATIONS

That the Council:

- a) **Approves** the revised Statement of Investment Policy and Objectives for the Waipori Fund.

BACKGROUND

- 3 The purpose of 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".
- 4 The SIPO was last reviewed in June 2019 and is required to be reviewed every three years. The proposed changes clarify a number of areas of the SIPO and are summarised below.

DISCUSSION

Proposed SIPO updates

- 5 The proposed changes to Section 2 - Governance:
 - Updated reference to the Trustee Act 1956 which has been superseded by more recent legislation - Trusts Act 2019.
 - Reference to strategic plan updated with long term plan.
 - Include responsibility of The Fund Manager to facilitate annual cash distribution to the Council.
- 6 The proposed change to Section 3 – Investment Objectives:
 - Reworded investment objectives paragraph to clarify expectation to provide annual cash distributions and to incorporate consideration of a long term perspective (preserving assets for future ratepayer generations) and inflation.

- The income and capital growth section includes some minor grammatical changes.
- 7 The proposed changes to Section 4 – Investment Policies:
- Risk and Return – the second and third paragraphs referencing the risk/return relationship are transferred from the Diversification section. This is deemed more relevant as the paragraphs consider the risk/return profile and factors that impact the risk assessment.
 - Diversification - a largely cosmetic rewording of the opening sentence to emphasise importance of diversification on reducing risk and the duty the Fund Manager has to examine a range of investments when formulating the investment strategy.
 - Distributions - minor rewording to clarify that Council will agree distributions on advice from the Fund Manager. It also notes that 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.
- 8 No changes are proposed to Section 5 – Investment Strategy at this stage. This section is discussed further below.
- 9 The proposed change to Section 6 – Review Procedures updates the next date for review to 2026 to bring back in line with the next 10 year plan cycle.
- 10 The proposed changes to Appendices:
- Appendix A is updated to the Trust Act 2019.
 - The timeframe for quarterly reporting to Council is extended from 21 to 30 calendar days post the end of each calendar quarter to accommodate regular DCTL Board meetings.

Other matters

- 11 DCC is in the process of developing an Investment Plan and have requested, in the Letter of Expectation for the Dunedin City Holdings Limited (DCHL), that they undertake a review of the draft Investment Plan. The DCHL Board is 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 Until the Investment Plan is completed and approved by Council, it is recommended that the Investment Strategy, including the current asset allocation, included in the SIPO be unchanged.
- 13 There is currently no specific management agreement in place for the Waipori Fund. It is recommended that a formal management agreement be developed between DCC and DCTL/The Fund Manager.

NEXT STEPS

- 14 The updated SIPO, including any amendments, will form part of the supporting documentation for the 9 year plan.
- 15 DCHL have been requested to undertake a review of the Investment Plan.

- 16 DCC staff will develop a formal management agreement between DCC and DCTL/The Fund Manager.

Signatories

Author:	Tony Nelmes - Project Accountant
Authoriser:	Carolyn Allan - Chief Financial Officer

Attachments

	Title	Page
A	Waipori Fund SIPO - showing tracked changes	
B	Waipori Fund SIPO - clean	

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	<input type="checkbox"/>	<input type="checkbox"/>	✓
Economic Development Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Environment Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Arts and Culture Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
3 Waters Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Future Development Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Integrated Transport Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Parks and Recreation Strategy	<input type="checkbox"/>	<input type="checkbox"/>	✓
Other strategic projects/policies/plans	<input type="checkbox"/>	<input type="checkbox"/>	✓

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. Mana whenua and Māori will have an opportunity to engage in the consultation process.

Sustainability

Sustainability is an underlying principle of the DCC's strategic framework. Sustainability is discussed in the Infrastructure Strategy and financial resilience is discussed in the Financial Strategy for the draft 9 year plan.

Zero carbon

The proposed changes to the 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

Information on the Waipori Fund is included in the Financial Strategy.

Financial considerations

The SIPO sets out how the assets of the Waipori Fund are to be managed.

Significance

There will be full engagement on the 9 year plan, which will cover any area of significance.

Engagement – external

The proposed amendments have been reviewed and approved by the Board of DCTL.

SUMMARY OF CONSIDERATIONS***Engagement - internal***

The proposed amendments have been discussed with management.

Risks: Legal / Health and Safety etc.

There are no identified risks.

Conflict of Interest

There are no known conflicts of interest.

Community Boards

There are no known implications for the Community Boards.



Waipori Fund

Statement of Investment Policy and Objectives

Approved by the Council on 25 June 2019

Contents

1. Introduction	3
2. Governance	4
3. Investment Objectives	5
4. Investment Policies	6
5. Investment Strategy	9
6. Review Procedures	10
Appendix A: The Trustee Act 2019	11
Appendix B: Reporting by the Fund Manager	12
Appendix C: Version Control	13
1. Introduction	3
2. Governance	4
3. Investment Objectives	5
4. Investment Policies	6
5. Investment Strategy	9
6. Review Procedures	10
Appendix A: The Trustee Act 1956	11
Appendix B: Reporting by the Fund Manager	12
Appendix C: Version Control	13

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 Trustee Act [1956-2019](#) (as detailed in Appendix A of this document) and any other relevant legislation.
- Establish the Fund's investment objectives, taking due account of the priorities, from time to time, of its [strategic-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 Trustee Act [1956-2019](#) 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 ~~its~~ income, subject ~~always~~ 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. ~~Exceptional circumstances may from time to time cause the Council to reconsider this stance in respect of particular investments.~~

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 the investment of the Fund should be appropriately strategically diversified across a mix of assets both between and within broad categories of investment (representing different risk/return choices) as detailed in Section 5 of this document.~~

~~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, levels of economic activity and political conditions.~~

~~Out of these risk assessments will emerge a set of risk/return profiles for a diverse range of investments. Based on these profiles a portfolio of investments can be built up that is expected to meet the objectives of the Fund.~~

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 ~~to the Council~~ each year as requested by the Council. In general, the Council ~~will request 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 ~~prescribed-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%.
- 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 ~~June 2022~~2026, or sooner if market conditions or other factors so warrant.

Appendix A: ~~The Trustee Act 1956~~2019

Section 13E of the Trustee Act ~~1956~~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.

- a) ~~The desirability of diversifying trust investments.~~
- b) ~~The nature of existing trust investments and other trust property.~~
- c) ~~The need to maintain the real value of the capital or income of the trust.~~
- d) ~~The risk of capital loss or depreciation.~~
- e) ~~The potential for capital appreciation.~~
- f) ~~The likely income return.~~
- g) ~~The length of the term of the proposed investment.~~
- h) ~~The probable duration of the trust.~~
- i) ~~The marketability of the proposed investment during, and on the determination of, the term of the proposed investment.~~
- j) ~~The aggregate value of the trust estate.~~
- k) ~~The effect of the proposed investment in relation to the tax liability of the trust.~~
- l) ~~The likelihood of inflation affecting the value of the proposed investments or other trust property.~~

Appendix B: Reporting by the Fund Manager

Within ~~21-30~~ 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		



Waipori Fund

Statement of Investment Policy and Objectives

Approved by the Council on 25 June 2019

Contents

1. Introduction	3
2. Governance	4
3. Investment Objectives	5
4. Investment Policies	6
5. Investment Strategy	9
6. Review Procedures	10
Appendix A: The Trustee Act 2019	11
Appendix B: Reporting by the Fund Manager	12
Appendix C: Version Control	13

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) and any 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%.
- 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		