INVESTMENT POLICY

GENERAL

Council's philosophy is to optimise long term returns while balancing risk and return. It recognises that as a responsible public authority its investments should be low risk, and be managed conservatively. Speculative investments will be avoided; however Council also recognises that lower risk generally means lower returns.

Council's financial investments are managed as a portfolio of financial assets. Its primary objectives when investing are to protect the investment's capital value and to minimise the risk of capital loss. Accordingly, only creditworthy counter parties are acceptable.

Within the credit constraints, Council also seeks to:
- Optimise investment return
- Ensure investments are liquid and sufficiently flexible
- Diversify the mix of financial investments
- Manage potential capital losses due to interest rate movements if investments need to be liquidated before maturity

Income from Council's investments is generally used to offset the general rate. The proceeds from a sale of an actual investment will be held by the Council as a financial investment.

INVESTMENT MIX

Council may maintain investments in the following financial assets
- Loan advances (refer to section 1)
- Equity investments (refer to section 2)
- Property investments (refer to section 3)
- Forestry investments (refer to section 4)
- Financial investments (refer to section 5)

1. Loan Advances

Nature of Investment / Rationale for Holding
In special circumstances, Council will provide loan advances for sporting, community development and other reasons. Examples of these loans have been to the Twizel Basketball Club to purchase equipment for their use in the Twizel Events Centre and also the debenture that the Council previously held with High Country Health Limited, a company formed to operate the Twizel medical practice.

Interest rates are set at the average of Council's bond portfolio rate, recalculated annually.

Council approves all loan advances.

Disposition of Revenue
Interest is taken to the Investment Trading Account. Interest earned is allocated to the general rate.

The Council approves any repayment; proceeds on repayment are used to reimburse the reserve from where it was originally taken, or otherwise are taken to the ratepayers equity account and used in achieving Council's strategic objectives.

Risk Management
The primary risk is that the borrower defaults on the payment of interest and principal amounts owing to Council. Where possible Council seeks security for any loans provided. All loans to sporting bodies are subject to a chattel security.

Should loan repayments go into arrears, Council takes immediate steps to retrieve the monies owing.

Management/Reporting Procedures
The Council reviews performance of these investments on a regular basis to ensure Council objectives are being achieved and that interest and principal repayments are being made in accordance with the loan agreement.

Specific Policy
Council's policy is to seek wherever possible early retirement of loans, otherwise Council intends to hold loan investments until maturity.

2. Equity Investments

Council has the following equity investments:

- Mackenzie Holdings Limited (MHL)
- Alpine Energy Limited.

2.1 <u>Mackenzie Holdings Limited</u>
Nature of Investment/Rationale for Holding
The Council established Mackenzie Holdings Limited as a wholly-owned subsidiary in 2004 charged with developing the Pukaki Airfield as an operational airfield. The operations have been transferred to Pukaki Airport Board, a committee of Council. Mackenzie Holdings Limited is not operational and will be wound up in due course. It has been exempted under section 7 of the Local Government Act 2002 from the normal reporting requirements.

2.2 <u>Alpine Energy Limited</u>
Nature of Investment
Alpine Energy Limited was created under the Energy Companies Act 1992, Council having 2,049,870 $1 shares representing a minority 4.9% shareholding. The company supplies electricity to the South Canterbury region and was created from the former South Canterbury Electric Power Board.

Rationale for Holding
Council views this investment as a strategic asset ensuring the cost effective distribution of electricity to the District.

Disposition of Revenue
Interim and final dividends are taken to the investment trading account. Dividends earned are allocated to the four District communities of Twizel, Fairlie, Tekapo and rural, based on their respective capital values.

Council approves any disposition; proceeds on disposition are taken to the ratepayers equity account and used in achieving Council's strategic objectives.

Risk Management
Alpine Energy is made up of a number of discrete "businesses" which operate independently of each other and which attract varying degrees of risk including electricity distribution and electrical contracting. Alpine Energy's main business is electricity distribution where the risks are considered to be low given the high cost of replicating an electrical network. Alpine Energy manages its other business risks through separate companies, which limits its liability. Within each business the respective boards manage the operational risks.

Management/Reporting Procedures
The Council approves the statement of corporate intent annually and monitors the investment through unaudited six monthly and audited annual financial statements.

Specific Policy
Council reviews its investment in Alpine Energy on an annual basis.

3. Property Investments

Nature of Investment
In addition to commercial and residential property, the Council has landholdings which have been acquired in a number of ways. Any surplus land is either leased or held intending to be sold at market valuation or at an agreed value satisfactory to Council.

Rationale for Holding
Council's overall objective is to only own property that is necessary to achieve its strategic plan objectives. Council reviews property ownership through assessing the benefits of continued ownership in comparison to other arrangements which could deliver the same results. This assessment is based on the most financially viable method of achieving the delivery of Council services. Council generally follows a similar assessment criterion in relation to new property and land investments.

Disposition of Revenue
Property rentals are charged at commercial levels. All income including rentals and ground rent from property are taken to the property trading account and are used to offset the general rate. Council approves any disposition of property or landholdings. Sale proceeds are taken to the real estate reserve and used in achieving Council's strategic objectives.

Risk Management
The capital value of property and land is impacted by changes in economic and financial factors e.g. business confidence, growth, and interest rates. Council manages this by only holding property that relates to the delivery of core services. Council intends to sell down its landholdings when it is prudent to do so and at a value satisfactory to Council.

The Council reviews the performance of its property investments through regular reporting.

Specific Policy
The property and landholdings portfolio is reviewed annually. All surplus landholdings and commercial property are disposed of at market valuation or at a price satisfactory to Council.

4. Forestry Investments

Nature of Investment/ Rationale for Holding
Council has approximately 1,040 hectares of forestry plantation. Council has historically invested in forestry, as it provides diversification of Council's investment portfolio as well as provides good long-term inflation adjusted returns.

Forestry plantations are held as long-term investments on the basis of net positive discounted cash flows, factoring in projected market prices, annual maintenance and cutting costs and discounted at Council's annualised cost of capital.

Disposition of Revenue
Any harvesting requires Forestry Board approval. Harvest proceeds are taken to the forestry trading account and used to further develop the forestry plantations. Revenue from carbon credits is treated similarly. Returns are made back to Council in the form of rental paid for the freehold land that the Forestry Board occupies. This rental is allocated to the four communities of Twizel, Fairlie, Tekapo and Rural, based on their respective capital values.

Risk Management
The most significant risk relates to product price returns, which are dependent on world markets. This means that forestry returns are dependent on commodity prices and carbon markets driven by other countries. Where there is a short-term downward spike in international stump prices, Council will defer harvesting until such time as it becomes economically viable.

Management and Reporting Procedures
The investment is monitored and managed by the Forestry Board, which consists of up to four appointed members. A forester and forest manager are employed on contract to report on the plantation management regime and report to the Forestry Board on a regular basis.

Specific Policy
As long as investing in forestry remains financially viable, Council intends to retain its forestry investment and harvest when stump value is maximised.

5. Financial Investments

Nature of Investment
Council invests in approved financial assets, which excludes dealing in shares. Council invests in the following instruments:

- Government investments,
- Registered bank investments,
- Local Authority investments.

- State Owned Enterprises (SOE) investments,
- Corporate investments, and
- District Health Board investments.

Rationale for Holding
Council primarily holds financial investments to earn revenue used in the reduction of general rates. Council also maintains a portfolio of financial investments for the reason of:
- Investing proceeds from the sale of assets,
- Investing amounts allocated to general and special fund reserves e.g. disaster reserve,
- Investing funds allocated for approved future expenditure, and
- Investing surplus cash and working capital funds.

Disposition of Revenue
Interest is taken to the investment trading account. Interest earned is allocated to the general rate.

Financial investments are normally held to maturity date. Where investments are liquidated prior to maturity date, approval is obtained from the CEO.

Risk Management
Investment Objectives
Council's primary objective when investing is the protection of its investment. Accordingly, only credit worthy counter parties are acceptable. Credit worthy counter parties are selected on the basis of their Standard and Poors (S & P) ratings, or the Moody's Investor Services ("Moodys") or Fitch Ratings ("Fitch") equivalents which must be strong or better. Credit ratings are monitored on a quarterly basis by the Finance Manager from updated advice from the Council's investment advisors.

The following principles capture the above objectives:

- ***Credit Risk***
  Credit risk is minimised by placing maximum limits for each broad class of non- Government issuer, and by limiting investments to local authorities, registered banks, strongly rated SOEs, corporates and DHBs within prescribed issuer and portfolio limits. These are detailed in the authorised investment criteria for financial market investment activities.

- ***Liquidity Risk***
  Liquidity risk is minimised by ensuring that all investments must be capable of being liquidated in a readily available secondary market. Furthermore, Council requires that the duration of the Council's portfolio must be within a range of 25% shorter or longer than the benchmark portfolio set in conjunction with the Council's investment adviser (refer to benchmarking as part of this investment policy).

<u>Interest Rate Risk Management</u>
Council's investments give rise to a direct exposure to a change in interest rates, impacting the return and capital value of its investments.

The CEO approves interest rate risk management strategy as recommended by the Finance Manager, who determines the appropriate interest rate profile to adopt for investments, after reviewing on a regular basis, cash flow forecasts incorporating plans for approved expenditure and strategic initiatives, monitoring the interest rate markets, evaluating the interest rate outlook and seeking appropriate advice where necessary.

The Finance Manager implements an interest rate risk management strategy by using risk management instruments to protect investment returns and to change interest rate and maturity profiles.

The use of interest rate risk management instruments requires Council approval.

Management and Reporting Procedures
The CEO approves the investment strategy, recommended by the Finance Manager. During the annual budget round the Finance Manager recommends a formal investment strategy to the CEO. Thereafter, the CEO approves the investment strategy on a quarterly basis, as recommended by the Finance Manager who evaluates Council's cash flow forecasts, the outlook for interest rates, the shape of the yield curve and where necessary seeks appropriate advice.

Benchmarking
The Council measures the performance of the investment portfolio by benchmarking the performance of the portfolio against the performance of an appropriate external benchmark portfolio. This provides the Council with an indication as to the effectiveness and suitability of the current investment parameters and the manner in which the parameters are being implemented at an operational level.

Specific Policy
Council reviews its investments portfolio annually and manages the portfolio according to the objective performance measures determined during the annual budget round.

Counterparty Exposure Limits
Council ensures that all financial investments and interest rate risk management is undertaken with institutions that are of high quality credit to ensure amounts owing to Council are paid fully and on due date. This does not limit Council investing in other assets, other than financial investments.

More specifically, Council minimises its credit exposure by:

- Transacting with entities which have a strong credit rating,
- Limiting total exposure to prescribed amounts and portfolio limits, and
- Timely and rigorous compliance monitoring.

Table 1 below "*authorised investment criteria for financial market investment activities*" summarises credit requirements and limits.

Foreign Exchange Policy
Council does not borrow or enter into incidental arrangements within or outside New Zealand in currency other than New Zealand currency.

Cash Management
From time to time, Council has cashflow surpluses and borrowing requirements due to the mismatch of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the finance function.

Cash management activities must be undertaken within the following parameters:
Cash management instruments are limited to:

a. Call deposits with registered banks.
b. Negotiable instruments with maturity less than three months.
c. Term deposits with registered banks (less than six months). Not recommended if early break penalties are enforced.

Cash may only be invested with approved counterparties as detailed below.
If practical, a targeted minimum of $250,000 is invested at call.
An optimal daily range of no more than $100,000 is targeted for in Council's current account.

Interest rate risk management on cash management balances is not permitted.

6. Local Government Funding Agency

Despite anything earlier in this Policy, the Council may invest in shares and other financial instruments of the New Zealand LGFA and, may borrow to fund that investment. The Council's objective in making such investment will be to:

- Obtain a return on investment; and
- Ensure that the LGFA has sufficient capital to become and remain viable, meaning that it continues as a source of debt funding for Council.

Because of the dual objective, the Council may invest in LGFA shares in circumstances in which the return on that investment is potentially lower than the return it could achieve with alternate investments.

If required in connection with the investment, the Council may subscribe for un-called capital in the LGFA.

Table 1: Authorised Investment Criteria for Financial Market Investment Activities

Authorised Asset Classes	**Overall Portfolio Limit as a Percentage of the Total Portfolio**	**Approved Financial Market Investment Instruments (must be denominated in NZ dollars)**	**Credit Rating Criteria – Standard and Poor's (or Moody's or Fitch equivalents)**	**Limit for each issuer subject to overall portfolio limit for issuer class**
New Zealand Government	100%	• Government Stock • Treasury Bills	Not Applicable	Unlimited
Rated Local Authorities	70%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$3.0 million $1.0 million $2.0 million $3.0 million $4.0 million
Local Authorities where rates are used as security	60%	• Commercial Paper • Bonds/MTNs/FRNs	Not Applicable	$2.0 million $2.0 million
New Zealand Registered Banks	100%	• Call/Deposits/Bank Bills/Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA – or better	$10.0 million $1.0 million $2.0 million $3.0 million $4.0 million
State Owned Enterprises	70%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$3.0 million $1.0 million $2 million $3.0 million $4.0 million
Corporates	60%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA -or better	$3.0 million $1.0 million $2.0 million $3.0 million $4.0 million
Financials	30%	• Commercial Paper • Bonds/MTNs/FRNs	Short term S&P rating of A1 or better Long term S&P rating of BBB or better Long term S&P rating of A- or better Long term S&P rating of A+ or better Long term S&P rating of AA- or better	$3.0 million $1.0 million $2.0 million $3.0 million $4.0 million

Investment Policy

Adopted by: **Council**

Adopted date: 21 May 2018

Review date: as required.