

9. THE INVESTMENT POLICY

Investment Policy	
Responsibility	Deputy Chief Executive
First adopted	10 July 2003 (265/03)
Historic revision dates	28 June 2007 (358/07); 28 May 2009 (134/09); 28 June 2012 (236-12), 30 May 2013 (13/163), 13 November 2013 (13/317)
Next review date	2018
Review frequency	3 yearly as part of the Long Term Plan
Approval authority	Council
Consultation required	Special Consultative Procedure required by the LGA 2002
Record number	323711
Associated documents	Council's Long Term Plan and financial policies



9.1. Policy Objectives

The principal objectives are:

- To prudently manage Council's investment assets in the interests of the district and its inhabitants and ratepayers, only for lawful purposes and so as to safeguard from loss
- To maximise investment income within a prudent level of investment risk
- To comply with all relevant statutes and their amendments
- To ensure Council is able to meet its future commitments as they fall due, in both the short term and the long term, through active liquidity management
- To manage interest rate risk and to maintain the Council's exposure to interest rate risk within acceptable levels
- To safeguard the Council's investments by limiting counter-party risk and through ongoing monitoring of the credit ratings of approved financial institutions
- To actively manage adequate internal controls to ensure that funds are invested in accordance with Council policy
- To avoid all financial arrangements that could be described as speculative. To maintain a risk averse stance at all times.

9.2. Principles

Council must manage its revenues, expenses, assets, liabilities, investments, and general financial dealings prudently and in a manner that promotes the current and future interests of the community. Council is required to provide predictability and certainty about sources and levels of funding.

9.3. Definitions

Treasury Management Oversight Sub-Committee: A sub-committee of Council. The sub-committee currently includes a number of elected members and officers. The Treasury Management Oversight Sub-Committee is responsible for the oversight of Council's Investment Policy. It confirms strategy and reviews proposals and actions taken. Where appropriate, the sub-committee seeks independent advice

9.4. Background

The Local Government Act 2002 Section 102(2)(c) requires Councils to have an Investment Policy. Section 105 of the Act sets minimum requirements for the Policy.

9.5. Policy Statement

9.5.1. General

The Policy (per section 105 of the Local Government Act 2002) must include:

- Any policy on investments generally including
- The mix of investments (Section 105[b])
- The acquisition of new investments (Section 105[c])
- An outline of the procedures by which investments are managed and reported on, to the Local authority (Section 105[d])
- An outline of how risks associated with investments are to be assessed and managed (Section 105[e]).

A primary objective is to ensure that investments are protected from risk:

- Counterparties must be low risk institutions
- Credit ratings are to be reviewed regularly by the Group Manager Corporate.
- (Refer to Appendix 1 – Approved Counterparty, Instruments and Investment Limits.)
- After allowing for the above constraints, Council seeks to:
- Maximise investment return
- Maintain liquidity
- Avoid capital losses, eg investments liquidated before maturity.

In terms of this Policy, an investment is any asset held for the purpose of operating income and/or capital gain that was not acquired for service delivery purposes. Council currently holds investments in the following categories:

- Treasury/financial Instruments
- Property Investments – land and buildings
- Equity investments
- Registered mortgages
- Secured loans
- Unsecured loans
- Internal loans.

9.5.2. Council's investments

South Waikato Investment Fund

In 1998, Council invested the proceeds of its sale of Power New Zealand Limited shares separately in accordance with the Statement of Investment Policies and Objectives, as adopted by Council resolution 99/056 dated 10 March 1999, and subsequent amendments.

The South Waikato Investment Fund (SWIF) has been transferred to an external trust.

Special and restricted reserve funds

Following the introduction of the legislation requiring depreciation reserves, Council is required to hold Council Created non-SWIF and Restricted reserves, to be invested in accordance with an adopted Statement of Investment Policies and Objectives for that Fund.

General investment funds

In addition to these funds Council has general funds available for investment. These tend to arise from short-term operating cash flow surpluses.

9.5.3. Categories of investment

Treasury investments

Investments represent:

- Cash held to finance activities arising from an emergency or unexpected event
- The balances of Council created or restricted reserves sinking funds and general reserves
- The working capital reserves of Council:
 - The proceeds from the sale of redundant and/or surplus property, plant and equipment. Council holds these funds in reserve to purchase or assist in purchasing new or replacement property, plant and equipment.
 - Funds invested to generate income for named or general purposes of Council.

Property investment

Investment property holdings will be divested where fair market value can be obtained and there is no strategic necessity or other limiting factor requiring their retention. Council's objective is to only own property which is necessary to achieve its strategic vision and deliver relevant services.

Council will generally not purchase land and/or buildings directly as an investment. It will allow its investment advisor to invest in New Zealand property. The Treasury Management Oversight Sub-Committee reviews the performance of its property investments on a regular basis. All operational income from investment property is to be credited to general revenue.

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Miscellaneous equity investments and loan advances

Investments include shareholdings in public, private and local government enterprises and loan advances to charitable trusts, incorporated societies and residential housing, which is consistent with Council's Long Term Plan.

Equity investments are permitted, providing they form part of a clearly defined, realistic and adopted investment or other business strategy.

Council retains a minor shareholding in Local Government Insurance Corporation Limited and Shared Valuation Database Systems. These were acquired historically or as the result of a shared service venture and may be divested provided fair market value can be obtained. All dividend income from Council's equity investments is included in general revenues.

Loans, mortgages and other advances

Council has in the past provided limited loan funding to community organisations. Any advance of this nature requires a Council resolution. The organisation's ability to repay and the obtaining of adequate security for Council's position must be considered in any decision to lend.

The Treasury Management Oversight Sub-Committee reviews the performance of these investments on a regular basis to ensure strategic and economic objectives are being achieved. Council ensures that interest and principal repayments are being made in accordance with the loan agreement.

Cash management

From time to time, Council has daily cashflow surpluses and borrowing requirements due to the timing difference of daily receipts and payments. All cash inflows and expenses pass through bank accounts controlled by the Treasury Finance Department.

Cash flows determine Council's borrowing requirements and surpluses for investment. Generally any cash to be invested for longer than three months is not covered by this section of the policy. Cash Management activities must be undertaken within the following parameters:

Cash management instruments are limited to:

- Cash deposits with registered banks.
- Negotiable instruments with a maturing date of not more than six months.
- Term deposits with registered banks (not more than six months).

9.5.4. Matching investments with the intent of the fund

It is intended that the type of investment should match the expected use of the particular fund so that the use of long term investment, such as shares, can be maximised for funds which are not expected to be used in the short term.

The long term return of shares has historically, and is predicted to continue to be, higher than cash investments. However it is expected that periodically (e.g. every 20 years) shares could halve in value and that as an investor Council should be prepared for this. In the long term, returns are predicted to be better from shares than cash but it is important that a long term view is taken.

Three types of investments with their appropriate investment lives are identified:

Type of investment	Timeframe in which funds would generally be needed
Cash	0 -1
Bonds	1-3
Shares	3-10

9.5.5. Revenue from investments

Utilisation of revenue earned from Investments is to be treated in the following manner:

Working capital

Investment income arising from working capital cash surpluses is to be used to fund the annual general activities of Council that are supported by district-wide rates and charges.

Special funds

Income arising from the investment of special purpose funds is to be credited to the appropriate fund.

Utility services special funds

Council provides utility services (stormwater, sewerage and water supply) to the urban communities, a water supply to two rural communities, plus a range of other separately rated services. Surplus funds remain the property of the consumers of each service. Income earned on the investment of any surplus funds is credited to the respective utility service Special Restricted Reserve.

Notes:

- Interest earned on loan monies shall be applied to settlement of costs for the related loan monies.
- Returns on shareholdings shall be applied in accordance with specific Council resolutions.
- Rental income shall be applied in accordance with specific Council resolution.
- No interest will be charged on any Reserves that have a negative balance.

9.5.6. Proceeds from any disposal or maturity of investments

Special funds

To be used for a purpose consistent with that for which the Reserve was created. Any departure from this requires a Council resolution.

Land and buildings

Any re-investment of the proceeds from the sale of land and/or buildings is to be authorised by Council, and to be supported by Council resolution.

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Acquisition of new investments

When considering new investments outside the provisions of this policy, Council will undertake public consultation in relation to strategic assets or where the issue is considered to be significant, in accordance with its Significance Policy.

9.5.7. Outline of management and reporting procedures

Council has delegated responsibility for quality control and risk management. The measures to be applied include:

Equities

- Adherence to policy
- Minimum income in line with budget.

In-house managed New Zealand equities

(Such as shareholding in the Local Government Insurance Corporation and Shared Valuation Database Systems)

- Net asset backing supports value of shareholding
- Contingent liabilities do not have an adverse effect on value of shareholding.

Loans, mortgages and advances

- Mortgagor's ability to service debt
- Mortgagor's ability to repay debt on due date.

Treasury investments

- Adherence to policy
- Investments held comply with appropriate credit rating standards
- Interest income, actual to budget
- Actual return to market benchmark.

Real estate

- Adherence to policy
- Rental income, actual to budget.

Reports

The following reports are prepared:

Report	Frequency	Prepared by	Prepared for
Daily Cash Report	Daily	Corporate Support	Financial Accountant
Treasury Report	Quarterly	Corporate Support	Treasury Management Oversight Sub-Committee
Investment Limits	Monthly exceptions immediately	Corporate Support	Group Manager Corporate + Treasury Management Oversight Sub-Committee
Statement of Depreciation Funds	Annually	Corporate Support	Council

Refer also to the Statement of Investment Policies and Objectives adopted for the management of Council Created non-SWIF and Restricted Reserves Fund (Appendix 2).

9.5.8. Delegations

Investment policy

- Alterations and amendments to policies and objectives - Council
- Appointment of Investment Managers - Council
- Appointment of Fund Managers - Council
- Approve bank relationships - Council
- Approve authorised signatories (see below) - Council
- Open or close bank accounts - Group Manager Corporate / Chief Executive
- Manage investments - Group Manager Corporate.

9.5.9. Risk management

Credit risk

Approved counterparty, instrument and investment limits are set in Appendix 1. Council minimises its credit risk by restricting its treasury investments to government stock, local authorities with rates as security, highly rated registered banks, state-owned enterprises and other corporates. There is also continuous monitoring of the individual credit ratings of institutions. Where there is a concern that funds may be at unnecessary risk and urgency is required, appropriate action can be taken by the authorised signatories.

Interest rate risk

Council's investments give rise to direct exposure to a change in interest rates, impacting on the return and capital value of its fixed rate investments.

The Treasury Management Oversight Sub-Committee is responsible for setting the interest risk management strategy by monitoring the interest rate market on a regular basis and, after taking appropriate advice, evaluating and determining the interest rate profile to adopt.

Management implements the strategy by reviewing rolling cash flow forecasts and using risk management instruments to protect investment principal and returns and/or to change interest rate and maturity profiles.

The following interest rate risk management tools may be used after formal approval of the Treasury Management Oversight Sub-Committee:

- Interest rate swaps
- Forward rate arrangements
- Purchase of interest rate options products including floors, bond options and swaptions
- Interest rate collar type strategies.

Liquidity risk

Liquidity risk is the risk that funds may not be available to Council when needed, without incurring penalty costs. Council's counterparty criteria should ensure that all investments are readily saleable in the secondary market. Nevertheless a policy has been established that at least 25% of financial investments (across all of Council's investments as a whole) must mature within the next 12 months.

Foreign exchange policy

Council has foreign exchange exposure through the occasional purchase of foreign exchange denominated plant, equipment, services and currency.

Generally, the exposure to foreign exchange risk on these commitments is relatively small and will not be hedged. Hedging is permitted with the South Waikato Investment Fund (SWIF) and the restricted depreciation reserves.

The use of other foreign exchange risk management products is not permitted.

Internal control

Council has delegated responsibility for quality control and risk management. Council has adopted an Investment Policy that includes policy and procedures for the following:

- Authorising personnel
- Delegations to personnel
- Internal controls
- Cheque/electronic banking signatories
- Confirmations
- Holding of certificates
- Reconciliations
- Reporting.

The major internal control focus is the adoption of sound and prudent treasury operational procedures, to minimise any financial risk the Council may experience, due to unintentional actions, error, fraud or use of unauthorised activities or financial products.

Cheque/electronic banking signatories

These are approved by Council in the delegations manual and include the operational executive team and various other senior managers.

The Deputy Chief Executive and the Chief Executive may negotiate financial transactions but cannot authorise their own negotiations.

The Chief Executive may, as necessary, make a temporary appointment of an Authorised Officer for a period not exceeding 30 days.

Dual signatories are required for all transfers. Cheques must be in the name of the counterparty, crossed and "Not Transferable/Account Payee Only" and via the Council's bank account.

Authorised personnel

All counterparties are to be provided with a list of personnel approved to undertake transactions, standard settlement instructions, and details of personnel able to receive confirmations.

Confirmations

All inward confirmations are received and checked by Corporate Support staff against deal tickets and deal summary records to ensure accuracy.

Monthly, the Group Manager Corporate peruses all dealing activity, deal tickets and confirmations to ensure that documentation is in order.

Reconciliations

Any adjustments arising during bank statement reconciliation are dealt with by Corporate Support staff and signed off by the Financial Accountant.

Any discrepancies arising during deal confirmation checks are dealt with by Corporate Support staff and signed off by the Deputy Chief Executive

The Financial Accountant reviews the monthly reconciliation of the investment and cash management spreadsheet to the general ledger, prepared by Corporate Support staff.

Interest income as per the investment and cash management spreadsheet is reconciled by the Corporate Support staff to bank statements to ensure income is received.

Holding of certificates

All deliverable certificates of investments are to be held in safe custody by Council.

NZ Government stock, Treasury bills, local authority stock and debentures are registered with the Reserve Bank of New Zealand (RBNZ). Council receives notice of the stock transferred into its name from the RBNZ.

9.5.10. Relevant Delegations

As specified in the policy

9.5.11. References and Relevant Legislation

Local Government Act 2002 (Section 105)

9.5.12. Annotations

Res No	Date	Subject/Description
265/03	10/07/03	Policy adopted.
235/04	24/06/04	Policy amended/confirmed as part of Long Term Council Community Plan process
291/05	23/06/05	Policy amended/confirmed as part of Annual Plan process
29/06	31/01/06	Amended to include distribution from Council Created Reserves for renewal of existing infrastructure
347/06	10/07/06	Policy amended/confirmed as part of Long Term Council Community Plan process.
358/07	28/06/07	Policy amended/confirmed as amendment to LTCCP
134/09	28/05/09	Policy amended/confirmed as part LTCCP process
236/12	28/06/12	Policy amended/confirmed as part Long Term Plan 2012-22 process
13/163	30/05/13	Policy amended/confirmed as part of the Annual Plan 2013-14 process
13/317	13/11/13	Policy changed as part of the Long Term Plan 2012-22 Amendment to allow for the South Waikato Investment Fund to now be administered by the South Waikato Investment Fund Trust

Appendix 1 – Approved counterparty, instrument and investment limits

Approved Counterparty, Instrument and Investment Limits

Counterparty	Instrument	Total Exposure for each Counterparty and Percentage Limit of Total Investment Portfolio
No Risk		
Government Guaranteed	Government Stock Treasury Bills	Unlimited
Close to No Risk		
Territorial Local Authorities where debt is guaranteed by future rates revenue	Local Authority Stock Local Authority Debentures	\$20 million per counterparty and unlimited for portfolio
Low Risk		
New Zealand registered banks and strongly rated corporates (including state-owned enterprises) with a Standards and Poors long term rating of AA- or better or a short term rating of A1+ or better.	Money Market Call Deposits Money Market Term Deposits Transferable Certificates of Deposit Negotiable Certificates of Deposit Bank Bills Promissory Notes Corporate Banks	\$15 million per counterparty and unlimited for portfolio
New Zealand registered banks and strongly rated corporates (including state-owned enterprises) with a Standards & Poor's long term rating of A- or better or a short term rating of A2 or better.	Money Market Call Deposits Money Market Term Deposits Transferable Certificates of Deposit Negotiable Certificates of Deposit Bank Bills Promissory Notes Corporate Banks	\$5 million per counterparty and up to 35% of the portfolio

Notes:

- Funds in current accounts with the Council's principal banker, used for day-to-day cash management, are not to be included in the investment limit.
- Funds invested at call, up to a maximum of one million dollars, are to be classified as funds required for the day-to-day management of Council's affairs and, likewise, are to be excluded from the investment limit.

Appendix 2 - Statement of investment policies: Council created non-SWIF and restricted reserves.

This statement summarises Council's policies in respect of the investment of the Council Created non-SWIF and Restricted Reserves Fund. It is the intention of Council to review and update, as appropriate, the policies to reflect the changing investment markets, community characteristics and Council requirements.

Introduction**Background**

The Council Created Non-SWIF and Restricted Reserves Funds were developed by the South Waikato District Council following the introduction of the Local Government Amendment Act (No 3) 1996. The legislation effectively required Council to fund depreciation and this has resulted in cash depreciation funds being built up and reserved for future capital expenditure on infrastructure. Such reserves are to be maintained and managed separately from the working capital of Council and Council's SWIF.

There are three types of Council Create non-SWIF and Restricted reserves Funds:

- Depreciation Restricted Reserves are used for the future capital funding for the replacement of assets
- Special Restricted Reserves are used to account for the surpluses and deficits collected for specific Targeted Rate Schemes such as water, stormwater, sewerage and halls.
- Council Created Reserves have been established at the discretion of Council to manage funds that have a specific purpose. The SWIF is a Council Created Reserve but is covered in Appendix 2.

Current assets

The current portion of the Fund was approximately \$13.8m in 30 June 2011. Each year contributions will be made to, and withdrawals made from, the Council Created Non-SWIF and Restricted Reserves Funds.

Investment risk

Council recognises the risks associated with fluctuations in the underlying values of different investments. Accordingly, Council will look to manage the impact of temporary short-term asset value fluctuations, as appropriate, from time to time.

Taxation

Council's investment income is subject to normal taxation rules for Public and Local Authorities, as set out in Section CB 4 of the Income Tax Act 2007, and therefore Council does not expect to pay income tax on the investment income of the Council Created non-SWIF and Restricted Reserves Fund. This is important for investments that are taxed at source. For example, for New Zealand shares the imputation credits associated with dividends do not boost the return to the Council.

The balance date of Council is 30 June.

Distribution policy

Distributions can be made from the Council Created non-SWIF and Restricted Reserves Funds each year. The Depreciation Restricted Reserve is used for the renewal of existing infrastructure. Distributions from the Special Restricted Reserves can only be for the benefit of the population of ratepayers who have contributed to the particular Targeted Rate Scheme. Distributions from Council Created Reserves will be dependent on the purpose of each Reserve. The Council Created non-SWIF and Restricted Reserves Fund may also be drawn on in the event of a natural disaster significantly damaging Council's infrastructure.

Primary objectives

The primary objectives underlying the Investment Policy for the Council Created non-SWIF and Restricted Reserves Fund are:

- To ensure that the Council Created non-SWIF and Restricted Reserves Fund is invested prudently to ensure that money is available for distribution, as required, to meet the needs and financial policies of Council
- To maintain, over time, the value of the Council Created non-SWIF and Restricted Reserves Fund's capital base in real terms and to grow such capital value. Real in this context relates to changes in the Consumer Price Index (CPI)

- To maximise the return each year, having regard to Council's risk tolerance.

Performance objectives

Return requirements

The return requirements of Council are to achieve a real total return after investment expenses over the long-term as set out in the Long Term and Annual Plans. 'Real' means over and above inflation as measured by annual CPI inflation rates.

Risk profile

The risk profile of the investment strategy of Council will be set to maximise the long-term after-tax return while staying within the parameters set out in this policy.

Returns

Income will be applied to all Reserves with a positive balance and applied to the capital base in order to protect against the impact of future short-term fluctuations and to accommodate inflation. There is no separate fluctuation reserve.

Investment strategy

Given the objectives of Council, and the shorter term nature of the Council Created non-SWIF and Restricted Reserves Funds (excluding restricted depreciation reserves) these funds will be invested based on the following long-term benchmark allocation and will generally be maintained within the ranges indicated below:

Long Term Investment Strategy Asset Class*	Benchmark Allocation	Allowable Range
NZ Bonds / Other Fixed Interest	90%	0 – 100%
NZ Cash	10%	0 – 100%
Income Assets (Bonds and Cash)	100%	100%

**subject to the prudential investment guidelines set out in this Appendix.*

Given the longer term natures of the restricted depreciation reserves these funds will be invested based on the same investment profile as the SWIF as indicated below. They will follow the long-term benchmark allocation and will generally be maintained within these ranges.

Long Term Investment Strategy Asset Class*	Benchmark Allocation (Note 1)	Allowable Range (Note 2)
NZ Cash	5%	0% - 10%
NZ Corporate Bonds (including internal loans)	50%	45% - 55%
International Bonds	10%	5% - 15%
NZ Property	7.5%	2.5 %- 12.5%
NZ Equities	12.5%	7.5% - 17.5%
International Equities	10%	5% - 15%
Hedge Funds	2.5%	0 - 7.5%
Commodities	2.5%	0 - 7.5%

Note 1 - Benchmark allocation

The benchmark allocation reflects the long-term views of the asset structures likely to generate the required investment return to meet the primary objectives. The benchmark allocation assumes a hypothetical 'neutral environment' ie one in which the Council does not have a tactical view that one asset class should be favoured over another.

Note 2 - Allowable range

These reflect the normal minimum and maximum holdings for an asset class. The ranges exist to allow for normal market movement so that the Council can minimise transaction costs and are not for short-term tactical decisions.

The Council Created non-SWIF and Restricted Reserves Fund's benchmark strategy and ranges will be reviewed as circumstances change and also when appropriate.

In respect of the above strategy it is intended that:

- The Council Created non-SWIF and Restricted Reserves Fund will be managed around the benchmark with appropriate rebalancing back to benchmark as required
- The overseas share investments will be managed on a passive basis. The overseas share assets will be hedged typically within a range of 50 to 100%
- A specialist NZ bond and fixed interest manager(s) may be appointed to manage the NZ Bonds / Other Fixed Interest assets via a suitable mandate, however this portfolio may be held and managed directly by the Council in whole or in part
- The Cash portfolio may be held and managed directly by the Council in whole or in part.

Internal borrowing

It is recognised by the Council that, from time to time, it has borrowing needs to fund infrastructure and community resources. Such borrowings may be sourced from the Special Depreciation Reserves Funds, but is limited to 20% of the total value of the Depreciation Reserves Funds i.e. the total value of the NZ Corporate Bonds section of the investment profile. Such internal borrowing must be done on an 'arms-length commercial' basis and the interest rate charged is set at the return otherwise available on similar term fixed interest investments.

Investment guidelines and requirements

The following investment guidelines and requirements have been set for prudential reasons to ensure there is an adequate level of security in the investments. They relate to the day-to-day management of the Council Created non-SWIF and Restricted Reserves Fund and, in each case, can be deviated from, as appropriate, by a decision of Council.

Bonds

- Bond investments are not limited to government guaranteed investments and should focus on non-government guaranteed securities where appropriate
- All investments with a credit rating below the level of the Council, as would be measured by the Standard & Poor's or equivalent rating measure, must be well diversified
- Normally at least 50% of the bond investments will have a level of security equal or better than a Standard & Poor's AA- credit rating
- All security holdings must have a level of security equal or better than a Standard & Poor's A- credit rating
- All security holdings with a security level below AA- security level must be notified to Council
- No holding of a single government issue should exceed 10% of the market value of the Council Created non-SWIF and Restricted reserves Fund
- No holding in a single non-government entity should exceed 5% of the market value of the investments of the Council Created non-SWIF and Restricted Reserves Fund
- No investments in direct mortgages may be made.

Cash

Cash and cash equivalent investments must be well diversified and invested with organisations with a level of security equal to, or better than, a Standard & Poor's A2 rating, or a Moody's equivalent rating.

General

- All investments must be prudent investments and shall be made in accordance with the requirements of the applicable legislation

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- Borrowing for investment purposes is prohibited
- No investment manager appointed by Council may:
 - Hold, without prior disclosure to Council, any investment in its own company, its parent or any subsidiary and must disclose any investment in associated companies
 - Delegate to another investment manager on terms other than in accordance with these guidelines.
- Investments in assets other than those contemplated by this policy statement (including antiques, art, stamps, gold, silver, or venture capital investments) are not permitted
- Total holdings in any one company shall not exceed 7.5% of the market value of the Council Created non-SWIF and Restricted reserves Fund

Currency hedging may be used by a manager, at its discretion, for the prudential investment management of the Council's SWIF provided that such hedging is not used for gearing purposes.

Pooled investments

Where the appropriate investment vehicle is a pooled investment arrangement, it is recognised by Council that the strict application of the investment guidelines and requirements may not be possible, or be in the overall best interests of the Council Created non-SWIF and Restricted Reserves Fund. Where such a vehicle is used, the manager of the pooled arrangement shall be required to disclose to Council, as soon as practicable, details of any investment that materially falls outside the guidelines and requirements, so that Council can continually reassess the overall suitability of such an investment vehicle.

Monitoring and review

The overall performance of the Council Created non-SWIF and Restricted Reserves Fund will be evaluated on an on-going basis in terms of return and volatility against:

- The Council Created non-SWIF and Restricted Reserves Fund's overall performance objectives, as identified in Clause 2 of this policy statement
- The return, after expenses, of a portfolio with the benchmark asset allocation invested in the market indices used to review the individual asset sector returns
- The risk-free rate of return as measured by the Credit Suisse First Boston (CSFB) NZ 90 Day Bank Bill Index
- Such other objectives as determined by Council from time-to-time.

The performance of each sector will be evaluated on a return and volatility basis over the period indicated against the return of the appropriate market index.

	Market Index	Evaluation Period
NZ Bonds	CSFB NZ Government Stock Gross Index	3 years
Cash	CSFB NZ 90 Day Bank Bill Index	1 year

Management, investment advisors and managers

Management

The responsibility for the implementation and monitoring of the Council Created non-SWIF and Restricted Reserves Fund's investment policies shall be that of the Chief Executive.

The Chief Executive's role, likely to be achieved through the Deputy Chief Executive, includes:

- Implementing the Council Created non-SWIF and Restricted Reserves Fund's investment policies
- Regular monitoring of any appointed investment managers
- Liaison with Council's investment advisor
- Advising Council of changes or issues regarding the Council Created non-SWIF and Restricted Reserves Fund
- Reporting to Council on the performance of the Council Created non-SWIF and Restricted Reserves Fund on a basis agreed between Council and the Chief Executive.

Appointment of investment advisor/consultant

Council believes that an investment advisor/consultant should be appointed to assist Council develop its investment policies, to help evaluate the performance of the investment managers, and to provide strategic research and market information. The role and accountabilities of the investment advisor are set out in Section 7.

Appointment of investment managers

External professional investment managers may be appointed to manage the Council Created non-SWIF and Restricted Reserves Fund.

Where investment managers are appointed, a specific mandate will document the requirements of the manager in terms of performance evaluation, reporting, and the investment guidelines and requirements within the guidelines of the Council as a whole.

Council may change investment manager(s) from time to time as it sees fit and at its sole discretion.

Investment advisor's responsibilities and accountabilities**The appointed investment advisor, in terms of Clause 6.2, shall be responsible for and accountable for:**

- Assisting Council in the review and development of the Council created non-SWIF and Restricted Reserves Fund's investment policies
- Evaluating the on-going appropriateness of the long-term investment strategy relative to the investment objectives
- Monitoring the investment manager's performance in terms of Council's evaluation policy
- Proactively advising Council on the way in which the Council created non-SWIF and Restricted Reserves Fund should be invested and market changes including legislation and trends
- Ensuring that the investment manager manages the Council created non-SWIF and Restricted Reserves Fund under its care in terms of the mandate
- Proactively advising Council on the need for changes to its policies or the implementation of its policies.

Reports

In terms of its responsibilities the investment advisor is expected to provide independent reports quarterly, or more frequently as required or requested, covering:

- The managers' performance and analysis of the performance
- 'Market intelligence' in terms of changes to the manager that may have an impact on the quality of the future performance.

With a view to identifying the potential for:

- An unacceptable risk occurring
- Poor future performance
- Sudden and unexpected events that may lead to unacceptable outcomes.

Temporary departures from this statement

Council recognises that from time to time circumstances will occur which require a departure from the guidelines set out in this statement. Any such departure requires the prior approval of the Treasury Management Oversight Sub-Committee of Council.

There are currently no departures from this statement.