Investment Policy

This Investment Policy has been prepared pursuant to Sections 102 and 105 of the Local Government Act 2002 (LGA).

The policy is structured in the following sections:

1. Purpose;
2. Mix of Investments;
3. Acquisition of New Investments;
4. Revenue and Proceeds of Investments;
5. Procedures by which investments are managed and reported on;
6. An outline of how risks associated with investments are assessed and managed; and
7. Responsible Investment Policy.

1. Purpose

Council's investments are acquired, held and realised by Council to generate revenue to further the vision and community outcomes identified in its Long-term Plan. Council may also acquire and hold investments for the additional purpose of directly furthering its community outcomes ('impact investments').

In managing its investments, Council generally is not driven by commercial considerations alone. As a public body it is accountable in terms of the social, economic, environmental and cultural wellbeing of its communities. These considerations may lead to Council making investment decisions that would not be made on commercial or financial considerations alone. In managing its investments Council will consider and balance the following objectives:

- Achieve the community outcomes set out in the Long-term Plan;
- Protect its investment;
- Maximise investment returns;
- Manage its risk

2. Mix of Investments

Council has a variety of investments that, at any time, may include cash, trust funds, special funds, shares, shares in Council Controlled Organisations (CCO's) including Council Controlled Trading Organisations (CCTO's) (such as MWRCH), in property held for investment purposes and financial reserves, investment in internal loans for scheme capital works, and funds for the One Plan project.

The current mix of Council's investments largely reflects the assets transferred to Horizons at the time of Local Government reform in 1989. In 2010 as part of the overall financial strategy to reduce the rates burden on ratepayers, Council sold its shares in Napier Port Ltd in order to invest in other opportunities as they arose. Since 2010, Council has a more diversified portfolio including property and shares. The current mix of investments fall into four categories:

- Equity Investments;
- Property;
- Financial Investments; and
- Loan Advances

Council may, from time to time deem it appropriate, in terms of prudent financial management and in pursuit of its objectives in Section 1, to modify its investment profile; such a change would be entered into only through specific Council resolution and in compliance with the provisions of the LGA.

Equity Investments

Equity investments may include investments held in CCO's and other shareholdings. Council's equity investments fulfil the objectives as outlined in Section 1.

Council seeks to achieve an acceptable rate of return on all its equity investments consistent with the nature of the investment and their stated philosophy on investments in Section 1.

Council recognises that there are risks associated with holding equity investments and to minimise these risks Council, through the Audit, Risk and Investment Committee, monitors the performance of its equity investments on a twice yearly basis to ensure that the stated objectives are achieved. Council seeks professional advice regarding its equity investments when it considers this appropriate.

Council may also acquire shares that are gifted or as a result of restructuring. Any purchase or disposition of equity investments requires Council approval via resolution.

Property

Council may own property investments to fulfil the objectives outlined in Section 1. Council reviews ownership of these investments through assessing the benefits, including financial returns, in comparison to other arrangements that could deliver similar results.

Surpluses generated from commercial and semi-commercial property investments are treated as an internal dividend to Council. Other surpluses from property are treated as revenue in the related Council activity.

Property disposals are managed to ensure compliance with statutory requirements and, where appropriate, in consultation with communities as required by our Significance and Engagement Policy.

Property purchases are supported by registered valuations and where appropriate, a full business case analysis. Council will not purchase properties on a speculative basis. Council may purchase properties for strategic purposes.

All property acquisitions and disposals are approved by Council.

CentrePort Ltd

Council has the following objectives specific to its CentrePort Ltd (CPL) holding:

- To maximise the value of Horizons' equities in CPL;
- To ensure the export and import sectors of the region are serviced by efficient ports; and
- To ensure CPL is operated as a successful commercial port.

Council is considering its commercial interests and ownership models. Should there be significant change to those ownership structures and models, this will trigger a special consultative procedure in line with sections 76AA and 83 of the LGA.

Financial Investments

Council's primary objectives when investing is the protection of its investment capital. Accordingly, Council may only invest in approved creditworthy counterparties.

Council may invest in approved financial instruments as determined by the risk management procedure (section 6).

Council's investment portfolio will be arranged to provide sufficient funds for planned expenditures and allow for the payment of obligations as they fall due. Council prudently manages liquid financial investments as follows:

- Financial investments must be restricted to a term that meets future cash flow and capital expenditure projections;
- Council may choose to hold specific reserves in cash and direct what happens to that investment revenue, in effect, the revenue from financial investments will be an interest stream into the treasury activity. The treasury activity pays interest on special funds and reserves.

Loan Advances

Council may provide advances to CCO's, charitable trusts and community organisations for strategic and commercial purposes. New loan advances are by Council resolution only. Council does not lend money or provide any other financial accommodation to a CCO on terms and conditions that are more favourable than those that would apply if Council were borrowing the money or obtaining the financial accommodation.

Council does not lend to CCTO's on more favourable terms and conditions than what it can achieve itself, without charging any rate or rate revenue as security.

Advances to charitable trusts and community organisations do not have to be on a fully commercial basis. Where advances are made to charitable trusts and community organisations at below Council's cost of borrowing, the additional cost is treated as an annual grant to the organisation.

3. Acquisition of New Investments

Acquisition of financial investments, such as on-call and short-term deposits, is managed within the treasury functions allocated to specified and authorised Council staff. This function covers the selection of initial deposits, reinvestment and maturities.

Acquisition and management of medium to long-term investments are done in consideration of Council's objectives in section 1. As such, Council may from time to time deem it appropriate, in terms of prudent financial management to modify its investment profile; such a change would be entered into only through specific council resolution and in compliance with the provisions of the LGA.

New Zealand Local Government Funding Agency Limited Investment

Despite anything earlier in this policy, Council may invest in shares and other financial instruments of the New Zealand Local Government Funding Agency Limited (LGFA), and may borrow to fund that investment. The Council's objective in making any such investment will be to:

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

Because of these dual objectives, 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 alternative investments. If required in connection with the investment, Council may also subscribe for uncalled capital in the LGFA and be a Guarantor.

4. Revenue and Proceeds of Investments

Disposition of revenue from investments

Revenue from investment of funds reserved for particular purposes, such as Scheme Reserves and Capital Asset Reserves, is appropriated through the prospective Statement of Comprehensive Revenue and Expense to the relevant reserves, utilising the weighted average interest rate earned from Council's non-equity related investments.

Revenue from other investments is retained as a revenue source in the prospective Statement of Comprehensive Revenue and Expense to assist the funding of Council's general activities.

Revenue from asset sales

Revenue from the disposal of fixed assets is appropriated to the relevant Capital Assets Reserves and generally used for the purchase and replacement of fixed assets.

Abnormal funding items

Council will generally use proceeds from abnormal funding items (such as the sale of a major capital item and reductions in Council's shareholdings) to maintain its capital reserves and investment portfolio, and not for operating expenditure.

Disposition of Revenue

A prudent percentage (as determined by the board of MWRCH) of dividend and interest revenue from CPL is to be used to reduce rates.

Councils accounting policy in respect of dividend revenue is that dividends are recognised when declared.

5. Procedures for Management and Reporting to Council

- Council's policy for the management and reporting of investments includes: Adherence to Council's financial processes and delegations (see below) to Councils staff to invest surplus short-term funds and negotiate reinvestments, subject to the provision of adequate cash resources to meet normal expected demands;
- Monthly reporting of current investments to the chief executive and executive team, including details of investment types, maturity dates and interest rates applicable; and
- Periodic reporting to Council through a summary of investments, including investment amounts by type, year of maturity and total amounts, and performance against the responsible investment policy.

The following policies will be applied by Council in the management of its investment in CPL. The management of these policies is delegated to MWRCH.

- MWRCH will continue to review CPL's policy for dividends; and
- MWRCH will continue to consider divestment options in line with Council's policy in Section 1.

Delegated Authorities:

Activity	Responsibility
Approve policy document	Council
Alter policy document	Council
Approve acquisition and disposition of investments (other than financial instruments)	Council
Open/close bank accounts	Chief Financial Officer (delegated by Council)
Approve authorised cheque/ electronic signatory positions	Chief Executive (delegated by Council)

Investment management activity	Chief Executive (delegated by Council) Chief Financial Officer (delegated by Council) Per risk control limits
Approve allowable risk management instruments	Council
Approve financial investment activity	Chief Financial Officer
Adjust interest rate risk profile	Chief Executive (delegated by Council) Chief Financial Officer (delegated by Council) Per risk control limits
Maximum daily transaction amount (approved investing, cash management, interest rate risk management)	Council (Unlimited) Chief Executive ($30 million) Chief Financial Officer ($20 million)
Ensuring compliance with policy	Chief Executive (delegated by Council) Chief Financial Officer (delegated by Council)
Policy review	Chief Executive (delegated by Council) Chief Financial Officer (delegated by Council)

6. Risk Management

General

In carrying out Council's statutory obligations under section 101 of the LGA, Council will manage its revenues, expenses, assets, liabilities, investments and general financial dealings prudently and in a manner than promotes the current and future interests of its regional communities. Council must also make its investments in accordance with the provisions of the Trusts Act 2019 as they apply to the investment of trust funds. In exercising the powers of investment, Council is required to exercise the care, diligence and skill that a prudent person of business would exercise in managing the affairs of others. Council may also consider, in making investment decisions:

- The desirability of diversifying investments;
- The desirability of a managed funds approach;
- The nature of existing investments;
- The risk of capital loss or depreciation;
- The potential for capital appreciation;
- The likely revenue return;
- The length of the term of the proposed investment;
- The marketability of the proposed investment during, and on the determination of, the term of the proposed investment;
- The effect of the proposed investment in relation to tax liability; and
- The likelihood of inflation affecting the value of the proposed investment.

CentrePort

Council's investment in CentrePort Limited (CPL) has some risk. Returns to the shareholders are driven by the level of profitability that CPL can continue to generate. Given the fixed cost nature of CPL's business, the level of revenue it can generate is the prime driver of profitability. Both the returns Council can expect to receive from the investment and the ultimate value of this investment are therefore very dependent on the ability of the CPL to protect and enhance its revenue base. Much has been achieved to reduce Council's exposure to the risks associated with this investment.

Council's ongoing risk management procedures include:

- Passing the management of the CPL investment into the hands of a commercially skilled MWRCH Board;
- Appointing Horizons' chief financial officer (CFO) as a reporting officer to the council on related matters. Horizons' CFO has quarterly briefings from CPL and MWRCH;
- Approving on an annual basis MWRCH's Statement of Intent;
- Receiving a formal briefing and a half-yearly report on the results achieved and future outlook.

Credit Exposure

In managing its investments generally, Council will always seek to protect the investment and manage the risks. Accordingly, Council has determined that Horizons is "risk averse" and will apply the "prudent person" principle for the management of risk and return on Council's investments.

When investing cash, Council will seek to minimise its risk by investing only in institutions with a high degree of security or credit rating, and by limiting maximum exposure in certain cases. Council has established the following requirements for all financial investments:

Counterparty/Issuer	Minimum Long-term/ Short-term Credit Rating	Investments Maximum Per Counterparty ($m)	Interest Rate Risk Management Instrument Maximum Per Counterparty ($m)	Total Maximum Per Counterparty ($m)	Total Financial Investment Portfolio
NZ Government	n/a	Unlimited	None	Unlimited	100%
LGFA	AA-/A-1	20.0	None	20.0	50%
State Owned Enterprises	A+/A-1	10.0	None	10.0	20%
NZ Registered Bank **	A+/A-1	20.0	10.0	30.0	100%
Corporate*	A+/A-1	5.0	none	5.0	10%
Local Government*	A-1/A+	2.0	None	2.0	20%

**Subject to a maximum exposure no greater than 20% of the portfolio being invested at any one point in time.*

*** The limit amount can be exceeded up to a maximum period of five working days [the transactional bank account] where the excess amount relates to revenue related cash balances.*

In determining the usage of the above gross limits, the following weightings will be used:

- Investments (eg. Bank Deposits) – Transaction Notional × Weighting 100 per cent;
- Interest Rate Risk Management (eg. swaps, FRAs) – Transaction Notional × Maturity (years) × 3 per cent; and
- Individual counterparty limits are kept on a register by management and updated on a day-to-day basis with specific approvals made by the chief financial officer. Credit ratings should be reviewed on an ongoing basis and in the event of

material credit downgrade this should be immediately reported to Council and assessed against exposure limits. Counterparties exceeding limits should be reported to Council.

7. Responsible Investment Policy

Horizons Regional Council will implement a Responsible Investment Policy. The Responsible Investment Policy integrates Environmental, Social and Governance (ESG) considerations into the overall investment strategy where possible.

The main principles of Council's Responsible Investment (RI) Policy are:

- Council believes that Environmental, Social and Governance (ESG) issues can affect the performance of investment portfolios, assets and holdings and that applying the RI Policy aligns the interests of Horizons Regional Council as an investor with Council's and their constituents broader values.
- When Council chooses funds, shares and assets, special consideration will be given to the ESG aspects of their investment profile.
- Council will seek appropriate disclosure on ESG issues by the entities in which it is invested.

Preference will be given to a fund manager that can demonstrate a higher degree of alignment with the Council's RI Policy. Council may hold investments through pooled funds as an effective and cost efficient means of accessing some investment markets. For such funds, Council recognises it will have little or no influence over the structure of the product or securities held in the fund.

In addition to expecting its investment decision makers to integrate ESG issues to the investment process, Council will seek investment products and managers that monitor and restrict exposure to companies with core business operations that involve:

- The manufacturing or development of controversial weapons
- The manufacturing of tobacco
- The production of fossil fuels
- Generating revenue from the operation of gambling machines
- The production and distribution of pornography/adult entertainment

Council will also seek investment managers that monitor exposure to companies that cause environmental degradation and exacerbate climate change. The monitoring of these issues of concern ensures that Council investments are aligned with the broader initiatives brought forward with the Council's Long-term Plan.