Investment Policy

This policy should be read in conjunction with the Liability Management Policy.

1 Purpose

To ensure the prudent management of the Council's funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

To establish a framework and a set of guidelines within which the treasury function of the Christchurch City Council (the Council) can operate.

Investments held by Council-controlled trading organisations (CCTOs) and other subsidiary companies are outside the scope of this policy.

2 Objectives

(a) To preserve the principal of those funds within the portfolio.

(b) To ensure that funds are available as needed to meet those immediate and/or future operating requirements of the Council.

(c) To manage the portfolio in such a fashion as to ensure a satisfactory return, within the context and parameters set out in objectives (a) and (b) above.

3 Management Structure, Responsibilities and Delegations

	Responsibilities
Council	• Approve the Investment Policy, and review, at least three yearly, as part of the LTCCP process. • Monitor compliance with the Investment Policy through the receipt of periodic reports. • Approve investments in CCTOs, other subsidiary companies or trusts including the authorisation of the principal, source of funds, security and general terms, after receiving professional advice on valuation and acquisition procedures, where appropriate. • Approve loans to non-Council entities to facilitate community infrastructure asset creation including the authorisation of the principal, source of funds, security and general terms. • Approve loans to individuals and to community organisations, either on a one-off basis or by class. • Approve investments made outside of this policy. • Appoint Sinking Fund Commissioners. • Grant delegated authority to act on investment issues.
Chief Executive	• Ensure compliance with this policy through the appointment and accountability of appropriate staff. • Appoint a Treasury Review Team.

4 Standard of Prudence

Investments shall be made with judgement and care, under circumstances then prevailing which persons of prudence, discretion and intelligence exercise in the professional management of funds, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived.

Investment policy

5 Authorised Investment Categories and their Purpose

The Council's investments are made for a range of purposes and fall broadly into five categories:

5.1 General Funds Investments

5.1.1 These investments are held for general Council use. Typically, they are invested on a commercial basis to produce a financial return for the Council to use in its ordinary course of business.

5.2 Equity investments in Council Controlled Trading Organisations (CCTOs) and other Subsidiary Companies

5.2.1 The Council holds equity investments in a range of CCTOs and other subsidiary companies for a mix of the following purposes:

(a) Providing a rate of return on the investment to be used for general revenue purposes.

(b) Ensuring that ownership of essential infrastructural facilities with monopoly characteristics remain in community ownership.

(c) Separating trading activities or services from the ordinary operations of the Council in the interest of transparency, efficiency and competitiveness of pricing.

5.3 Property Held for Investment Purposes

5.3.1 Investment properties are defined as being held for market return purposes and having no Council operational function.

5.3.2 The decision to hold or dispose of investment property is driven by the performance of this investment compared with similar properties in the market.

5.4 Investment of all Reserve Funds including Trust Funds

5.4.1 These reserve and trust funds have the following characteristics:

(a) The Council has resolved to set aside funds for a specific, defined future purpose.

(b) The Council has defined a minimum holding of the Emergency Capital Fund, set at $5,000,000 to provide a first source of funding available in the case of an emergency arising from a natural disaster.

(c) Estimates of the value of each separate reserve fund including revenue projections are prepared each year.

(d) These funds are available for appropriation in the Annual Plan to finance expenditure incurred for the purpose of the fund.

(e) The investments that make up the Reserve Funds can be held in common with General Funds investments with the earnings apportioned to each separate fund or may be invested separately with professional fund managers in managed portfolios of investments.

(f) Where the source of funds is unspecified Reserve Funds the maximum which can be invested in loans from these sources is 10% of total reserve funds. Specific Loan Reserve Funds, Emergency Capital Fund, Debt Repayment Reserves and other specific short-term reserve funds are excluded from funds able to be invested.

5.4.2 Capital Endowment Fund

The Council has established a separate fund known as the Capital Endowment Fund. It is intended that the capital of this fund will be held together with sufficient income capitalised annually to preserve the real value of the fund after provision for inflation. Part of the original fund will comprise a fluctuation reserve of $3.5 million to facilitate fluctuations in earnings from investments and enable budgeted commitments for earning distributions to be met. The balance of the income will be available to the Council to provide for economic development projects and civic and community projects that will enhance the city or region.

The Capital Endowment Fund will be invested according to criteria applied to other Council reserve funds.

5.5 Sinking Fund Investments

5.5.1 These funds are held in trust by the Commissioners appointed by the Council for the repayment of certain Council loans in accordance with the Council's Liability Management Policy.

5.5.2 Sinking Funds may be invested in the following investment sub-types as detailed in Sections 6.1 and 6.2 of this policy.

5.5.3 Management of Sinking Fund investments shall be subject to the procedures outlined in Section 6 of this policy.

6 Types of Investment

For the purpose of calculating investment limits, "the portfolio" is defined as including all investments held under clauses 6.1, 6.2, 6.3.5 and 6.3.8.

The Council may hold the following types of investments:

6.1 Any issuance by a Registered Bank subject to the following conditions being met:

(a) the bank remains the primary debtor throughout the term of the investment;

(b) the bank maintains a Standard and Poor's short-term credit rating of A-3 or better, and a long-term credit rating of A or better, (equivalent ratings from other credit rating agencies may be used);

(c) the total amount invested with any one bank does not exceed 33% of the portfolio, except where the total bank investments are less than $10,000,000, in which case the investments shall be made with at least two banks.

(d) for the purpose of this clause the amount invested includes short-term bank deposits, accepted bills, certificates of deposit, promissory notes and long-term stocks and bonds. Deposits may include foreign currency to meet the Council's commitments in overseas currencies.

6.2 Short-Term Promissory Notes and Stocks and Bonds issued by Government, State Owned Enterprises, Local Authorities, and suitably rated corporate entities subject to the following conditions being met:

(a) the total amount invested in stock issued by the New Zealand Government may be up to 100% of the portfolio.

(b) the total amount invested with State Owned Enterprises (SOEs) or approved government owned entities does not exceed 33% of the portfolio, with the total investment with any one issuer not exceeding 10%;

(c) the total amount invested with local authorities must not exceed 60% of the portfolio, but subject to a maximum of 10% unless an issuer has a Standard and Poor's long term credit rating of A- or better, (or equivalent), in which case the percentage may be up to 20% of the portfolio. In all cases the stock and/or notes must be rate-secured;

(d) the total amount invested in notes issued by any company in New Zealand must not exceed 33% of the portfolio, with the total investment with any one issuer not exceeding 10%, subject to the issuer or issue having a Standard and Poor's rating of A- or better, (or equivalent).

6.3 Loans and Investments

Loans and investments may be made to the following only after Council resolution, the resolution to include authorisation of the principal, source of funds, security and general terms and conditions.

6.3.1 Loans to CCTOs and other subsidiary companies and trusts where Council or a subsidiary are the settlor.

6.3.2 Loans to individuals (for Council approved purposes).

6.3.3 Loans to community organisations.

Investment policy

6.3.4 Loans to non-Council entities to facilitate community infrastructural asset creation as approved specifically by the Council.

6.3.5 Shares in (listed) public companies.

6.3.6 Shares in CCTOs and other subsidiaries.

6.3.7 Real estate held for investment purposes.

6.3.8 Professionally managed (external to the Council) portfolios of investments, either by direct investment or through Unit Trusts, including:

(a) Equities both New Zealand and overseas domiciled

(b) Fixed interest, both New Zealand and overseas domiciled

(c) Short term cash

(d) Real estate.

6.3.9 Other investments that the Council may from time to time resolve.

7 Performance Review Criteria

7.1 The performance of any external investment manager used will be monitored against the performance of other investment managers at least quarterly.

7.2 Any external investment manager used will be reviewed annually with respect to their organisational structure, investment processes and personnel.

7.3 Investment policies and objectives, asset allocation strategy and overall investment-management structure will be reviewed at least once every three years.

7.4 The performance of any funds managed without the use of external investment managers will be monitored against suitable benchmarks as determined from time to time by the Chief Executive of the Council.

8 Role of CCHL in Monitoring CCTOs

8.1 Christchurch City Holdings Ltd (CCHL) is an infrastructure investment and monitoring company established by the Council to hold its significant CCTOs and other subsidiary companies on behalf of the Council.

8.2 Each company which is held directly by the Council or CCHL is required to prepare annually a Statement of Intent that sets out its activities and strategic direction and to report in accordance with the Statement of Intent to CCHL except where that company is listed on the stock exchange.

8.3 Regular monitoring will be carried out by CCHL on the operational performance and periodically CCHL will review the ownership options, business strategy and operating plans, capital structure and risk management affecting both the CCHL and CCC-owned CCTOs and other subsidiary companies.

8.4 Investment performance of CCTOs and other subsidiary companies will be assessed in comparison to the performance of similar companies in the same industry taking account of the objectives established in the Statements of Intent.

8.5 The CCHL Board will report directly to the Council at least six times a year on issues arising from its monitoring role. Ad hoc briefing sessions and seminars for Councillors will also be arranged.

8.6 The Council is responsible for the approval of Statements of Intent and the appointment of directors for all CCTOs and other subsidiaries held directly by the Council and CCHL.

8.7 Directors of all CCTOs and other subsidiary companies will be selected according to the policy established by the Council in June 2003.

8.8 Ownership of shares in CCTOs and other subsidiaries may be transferred to CCHL when a subsidiary has an established record of financial performance and it is Council policy to retain the investment in the long term.

8.9 This policy does not apply to non-trading companies or companies which are subsidiary to companies which report directly to CCC or CCHL.

9 Risk Management Parameters

9.1 Hedging

9.1.1 Derivative interest rate instruments may be used to hedge interest rates under the following circumstances:

(a) They must be applied to a specific class of existing investment of the Council;

(b) They may be used to avoid an exposure to adverse rates based on the interest rate view formed by the Treasury Review Team;

(c) All hedging contracts longer than twelve months must be discussed with the Director, Strategic Investment, or General Manager, Corporate Services, before being transacted;

(d) Contracts to be taken for periods longer than ten years must be discussed in advance with the Treasury Review Team.

9.1.2 Derivatives may not be used for speculative purposes under any circumstances.

9.2 Approved Hedging Instruments

(a) Interest rate swaps.

(b) Forward Rate Agreements (FRAs).

(c) Bought options on FRAs, swaps or government bonds.

(d) Sold options on FRAs, swaps or government bonds, but only as an integral part of a 1:1 collar

(e) All derivative contracts entered into shall be reported to the Treasury Review Team on the day of the transaction.

9.3 Hedging Counterparties

(a) Unless otherwise stated, all hedging counterparties must be a Registered Bank in terms of the Reserve Bank Act and have a long term credit rating of 'A' or above from Standard and Poor's, or equivalent from another recognised credit rating agency.

(b) Other approved counterparties include the Council, and CCHL subsidiaries, and other recognised financial intermediaries with the appropriate credit rating.

(c) The following table summarises minimum credit rating requirements and limits:

Counterparty's Minimum S&P Short- Term Credit Rating	Counterparty's Minimum S&P Long- Term Credit Rating	Total Exposure Limit for each Counterparty
A1+	AA-	$50 million
A1	A	$20 million

If any counterparty's credit rating falls below the minimums specified in the above table, all practical steps are to be taken to reduce the credit exposure to that counterparty to zero as soon as reasonable.

(d) Exposure to each counterparty is defined as the total amount invested with that counterparty.

(e) All settlements shall be by cleared funds.

10 Reporting – Council and Management

10.1 Treasury Review Team

The Treasury Review Team will review the following on a monthly basis:

(a) Return on the portfolio and the relevant market return.

(b) Risk exposure position; the Council's current interest rate position including underlying physical exposures, hedges in place and the actual net risk position, compared to the risk control limits of the policy.

(c) Policy compliance; conformity with policy limits and requirements in the areas of portfolio composition, counterparty credit risk, and operational risk.

(d) Funding facility and liquidity report; availability of operating and capital funds.

10.2 Council

A summarised report incorporating key elements of (a) to (d) above will be made to the Audit and Risk Management Sub Committee twice yearly and the Sub Committee shall make regular progress reports to Council on the management of treasury operations and results.

11 Performance Measurement

11.1 Review

Measuring the effectiveness of the Council's cash investment activity is achieved through objective measures as follows:

(a) Adherence to policy.

(b) Comparison of actual monthly and year to date investment return vs. budget return (as per the Annual Plan) and comparable fund and financial market indices.