

## OTAGO REGIONAL COUNCIL

### Agenda for a meeting of the Finance and Corporate Committee to be held in the Council Chamber, 70 Stafford Street, Dunedin on Wednesday 29 January 2014 following the Communications Committee meeting

**Membership:**

- Cr David Shepherd (Chairperson)
- Cr Gary Kelliher (Deputy Chairperson)
- Cr Graeme Bell
- Cr Doug Brown
- Cr Louise Croot MNZM
- Cr Michael Deaker
- Cr Gerrard Eckhoff
- Cr Trevor Kempton
- Cr Sam Neill
- Cr Gretchen Robertson
- Cr Bryan Scott
- Cr Stephen Woodhead

**Apologies:**

**Leave of absence:**

**In attendance:**

Please note that there is an embargo on agenda items until 8.30 am on Monday 27 January.

#### CONFIRMATION OF AGENDA

#### PUBLIC FORUM

#### MINUTES

**Page Nos.**

The minutes of the meeting held on 20 November 2013, having been circulated, for adoption

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#### Matters arising from minutes

**PART A - RECOMMENDATIONS**
**Page Nos.**

Item 1

7 - 28

2014/0607 **Managed Fund – Statement of Investment Policy and Objectives.**  
DCS, 20/1/14

The Council's Statement of Investment Policy and Objectives is attached for consideration and adoption by Council.

**PART B – ITEMS FOR NOTING**

Item 2

29 - 32

2014/0598 **Passenger Transport Operations Update – Patronage, Student Fare Concession Trial, and Journey Planner.** DCS, 17/1/14

Providing an update on passenger trips for the Dunedin network, the tertiary student fare concession trial and the implementation of the journey planner for Dunedin.

Item 3

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2014/0601 **Executive Report.** DCS, 17/1/14

The report describes significant activities carried out by the Finance and Corporate sections since November 2013.

## OTAGO REGIONAL COUNCIL

### Minutes of a meeting of the Finance and Corporate Committee held in the Council Chamber, 70 Stafford Street, Dunedin on Wednesday 20 November 2013 commencing at 10.30 am

**Present:**

- Cr David Shepherd (Chairperson)
- Cr Gary Kelliher (Deputy Chairperson)
- Cr Graeme Bell
- Cr Doug Brown
- Cr Louise Croot MNZM
- Cr Michael Deaker
- Cr Gerrard Eckhoff
- Cr Sam Neill
- Cr Gretchen Robertson
- Cr Bryan Scott
- Cr Stephen Woodhead

**Leave of absence:** Cr Trevor Kempton

**In attendance:**

- Peter Bodeker
- Wayne Scott
- Jeff Donaldson
- Fraser McRae
- Gavin Palmer
- John Threlfall
- Peter Taylor
- Janet Favel

#### CONFIRMATION OF AGENDA

There were no changes to the agenda. Cr Shepherd noted that details of public transport patronage which were to have been presented to the Committee had been held over to allow further information to be gathered.

#### ITEMS FOR NOTING

Item 1  
2013/1167 **Transport Operations November 2013.** DCS, 11/11/13

The report provided an update on preparation for the trial student fare concession scheduled for February to April 2014, and noted progress on Google Transit journey planner.

Mr Scott spoke further on the following:

- Security issues with Environment Canterbury's Metro Card had been publicised. The particular issue was not a risk for the Otago Regional Council's GoCards.
- Student fare concession trial - a communications strategy had been agreed with Student Association representatives.
- Google transit – data was being tested by the Google Transit Team. There would be a soft launch, then the official launch, with appropriate publicity.

The funding of GoCards for the student concession trial was discussed. Mr Scott explained that this was a three way joint venture between ORC, OUSA, and OPSA, and the trial would attract a subsidy. The contributions by the three parties included the cost of the GoCards, which were to be provided free to first year students, and publicity.

Mr Scott explained in response to a question that the Google Transit journey planner would provide information in map form about transport from point A to point B, and the implementation of RealTime was being investigated. Because of the difficulty of implementing RealTime in Dunedin's network, it would initially be trialled in Queenstown.

Cr Croot moved  
Cr Scott seconded

*That the report be noted.*

**Motion carried**

Item 2

2013/1168 **Executive Report.** DCS, 12/11/13

The report described significant activities carried out by the Finance and Corporate sections since October 2013, under the headings Local Government Bill, 2013 Triennial Elections, and Account Payments.

*Local Government Amendment Bill No. 3* - The issue of accommodating new techniques for public communication and consultation was raised. Mr Scott commented that the current public consultation system was seen as clumsy and it was likely that the detail of the Bill would refer to electronic consultation. A comment was made that even if this was not required by the Bill, ORC should investigate introducing its own electronic consultation system. The due date for submissions was to be advised, but Mr Scott expected it would be before Christmas.

*2013 Triennial Elections* - Mr Scott explained that the ORC's responsibilities in the local body elections were carried out by Ms Pam Jordan, DCC Returning Officer. Ms Jordan was very knowledgeable and helpful, and Mr Scott suggested that a letter expressing Council's appreciation for her work be sent to her.

Submissions to the Justice and Electoral Select Committee's enquiry were due on 20 December, and Mr Scott confirmed he would liaise with SOLGM and LGNZ on their submission.

Concerns about the recent triennial elections included:

- Confusion with two voting systems on one voting paper.
- 6,000 blank ORC voting sheets were returned, and voters could have completed only the TLA section then given up.
- The ORC profile at election time was low.
- Profile booklet:
  - Lack of information about the roles and duties of regional councillors. Mr Scott explained that the profile book was controlled by legislation.
  - ORC information was at the end of the booklet. It was suggested that the booklet be split DCC, ORC, District Health Board, to clearly differentiate information on candidates for the different authorities.

General support for on-line voting was noted.

Mr Bodeker commented that he, Mr Scott and Mr Taylor were in the process of reviewing information to be made available about the work of the ORC, and how this would be circulated.

Cr Woodhead advised from the Zones 5 and 6 meeting held the previous day that a trial of electronic voting was to be carried out, with the aim of having it in place for the next triennial election. Cr Woodhead considered that a three week voting time was too long, and the voting period needed to be short and sharp and well publicised. He suggested that Mr Scott pass the tenor of Councillors' discussion on to LGNZ and SOLGM for inclusion in their submission.

Cr Neill moved

Cr Scott seconded

- (1) *That this report be received.*
- (2) *That the payments and investments summarised in the table above and detailed in the tabled schedule, totalling \$23,626,664.41, be endorsed.*
- (3) *That a letter be written to Ms Pam Jordan, DCC, expressing appreciation for her assistance in the recent local body elections.*

**Motion carried**

The meeting closed at 11.04 am.

**Chairperson**

## REPORT

Document Id: A593410

Report No: 2014/0607

Prepared For: Finance and Corporate Committee

Prepared By: Director Corporate Services

Date: 20 January 2014

**Subject: Managed Fund - Statement of Investment Policy & Objectives**

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### 1. Précis

The Council utilises a fund manager to manage its 'managed fund', in accordance with an adopted Statement of Investment Policy and Objectives (SIPO).

It is appropriate that the policy document be reviewed from time to time, and a revised document is attached for consideration.

### 2. Background

The Council established a managed fund in 2000 as part of its strategy to prudently diversify its investments. The fund was established with an initial investment of \$10 million, with a further \$5 million added in 2004. The interest and dividend income received is returned to the Council each year as investment income, while the equity investment components ride the market in terms of unrealised gains (and losses). The balance of the managed fund as at 31 December 2013 was \$17,705,269.

The fund was managed by Forsyth Barr Funds Management until 2012, when management was transferred to BNZ Private Bank

### 3. Statement of Investment Policy and Objectives (SIPO)

The SIPO provides the policy framework, set by the Council, for the operating parameters within which the investments are managed, and for the Council to effectively supervise, monitor and evaluate the management of those funds.

It is appropriate that the SIPO be reviewed from time to time, and the attached document is presented to update the present SIPO, taking account of the recommendations of the new Fund Manager, BNZ Private Bank.

The attached draft SIPO is predicated on a low risk investment strategy, with a cash and fixed interest target of 65% of the fund total.

It is noted that surplus funds held outside the managed fund are managed through a 'Multibank' arrangement managed by BNZ Private Bank, in terms of the Council's adopted investment policy.

**4. Recommendation**

- (1) That the attached Statement of Investment Policy and Objectives be adopted.
- (2) That the adopted policy be incorporated into the Council's treasury management policy.



Wayne Scott  
**Director Corporate Services**

Encl: Statement of Investment Policy & Objectives (SIPO)



# Otago Regional Council

## Statement of Investment Policy and Objectives

Prepared by  
Selwyn Smith  
Private Banker  
13 December 2013

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## 1. Purpose

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The purpose of this Statement of Investment Policy and Objectives (SIPO) is to provide the policy framework for Otago Regional Council (the Council) to effectively supervise, monitor and evaluate the management of the investment activities of the Council.

The SIPO defines the key responsibilities and the operating parameters within which the investments and their ongoing management are to operate. The SIPO should at all times encourage the use of methodologies and processes that reflect industry best practice, encompass the principles of good corporate governance, and reflect the corporate vision of Otago Regional Council.

## 2. Objectives

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### 2.1 Introduction

The Local Government Act 2002 requires local authorities to adopt an Investment Policy to ensure that the financial resources of the Council are managed in an efficient and effective way.

### 2.2 Objectives

Otago Regional Council's primary investment objectives are:

- To protect and maintain the purchasing power of the current investment assets and all future additions to the investment assets.
- To maximise investment returns within reasonable and prudent levels of risk.
- To maintain an appropriate asset allocation in order to make distributions as required while preserving the real value of the Council's capital from the effects of inflation.

### 2.3 Time Horizon

The investment guidelines are based upon an investment horizon of greater than seven years. Therefore, interim fluctuations should be viewed with appropriate perspective.

### 2.4 Risk Tolerance

The councillors consider Otago Regional Council is a risk-averse entity but some risk must be assumed in order to achieve the long-term investment objectives of the portfolio, given there are uncertainties and complexities associated with investment markets. It is the express desire of the Council to minimise portfolio volatility through the adoption of prudent portfolio management practices. Overall, a conservative investment approach is to be adhered to.

### 2.5 Performance Expectations

In general, Otago Regional Council's investment portfolios are to be managed by external investment advisers to earn a return at least equal to the relevant benchmark / a targeted net return of 5.6% per annum.

### 2.6 Policy Setting and Management

The Council may from time to time approve/amend the policy parameters set in relation to Otago Regional Council's investment activities. These changes will be minuted and incorporated into the SIPO and the dates of the changes noted.

## 3. Duties and Responsibilities

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### 3.1 The Council

The Council will take cognisance of the prudent person and duty of care rules as set out in the Trustee Amendment Act 1988.

As fiduciaries, the primary responsibilities of the Council are:

- To state in a written document the Council's attitudes to risk, expectations, objectives and guidelines for the investment of their assets.
- To review this SIPO on a regular basis.
- To ensure Otago Regional Council's investment assets are prudently diversified to meet the agreed risk/return profile.
- To control and account for all investment, record keeping and administrative expenses associated with the management of Otago Regional Council's investment funds.
- To establish formal criteria to select, monitor, evaluate and compare the investment performance results achieved by the investment adviser and the overall portfolio against agreed benchmarks, peer groups and Otago Regional Council's objectives on a regular basis.
- To avoid prohibited transactions and conflicts of interest.
- To encourage effective communications between the Council and parties involved with investment management decisions.

### 3.2 Custodian

Custodians are responsible for the safekeeping of Otago Regional Council's investment assets. The specific duties and responsibilities of the custodian are to:

- Value all investment assets.
- Collect all income and dividends owed to the portfolio.
- Settle all transactions (buy/sell orders) initiated by the Investment Manager.
- Provide monthly reports that detail transactions, cash flows, securities held and their current value. The report should also detail the change in value of each security and the overall portfolio since the previous report.

### 3.3 Investment Adviser

The Council may retain an objective, third-party investment adviser to assist the Council in managing the overall investment process. The adviser will be responsible for guiding the Council through a disciplined and rigorous investment process to enable the Council to prudently manage their fiduciary duties and responsibilities. The investment adviser will:

- Manage the assets under their supervision in accordance with the guidelines and objectives outlined in the SIPO and in their service agreements.
- Provide advice on appropriate strategic asset allocation, security and fund manager selection and implement purchases and sales accordingly.
- Periodically monitor the SIPO and its appropriateness, (in conjunction with the Council).
- Periodically review the custodial arrangements and make recommendations.
- Provide instructions to each fund manager with respect to the lodging or withdrawing of funds placed.
- Oversee and monitor the performance of the fund managers.
- Appoint and remove fund managers.
- Provide quarterly reports to the Council in a form agreed to between the Council and the adviser.
- Make available appropriate personnel to attend meetings as agreed between the Council and the adviser.
- Provide the Council with a six-monthly review of investment performance against agreed benchmarks.
- Report to the Council annually as to the total expenses incurred and tax paid in managing Otago Regional Council's investment portfolio.
- Communicate to the Council all significant changes pertaining to the portfolio it manages or the adviser's firm itself. Changes in ownership, organisational structure, financial condition and professional staff are examples of changes to the firm in which the Council are interested.
- Use the same care, skill, prudence and due diligence under the prevailing circumstances that an experienced investment professional, acting in a like capacity and fully familiar with such matters, would use in like activities for like

portfolios with like aims in accordance with all applicable laws, rules and regulations.

## 4. Investment Policy and Implementation

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### 4.1 Asset Class Guidelines

Long-term investment performance is primarily a function of strategic asset allocation and asset class mix.

History shows that while interest-generating investments, such as fixed interest portfolios, have the advantage of relative stability of capital value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments have a significantly higher expected return but have the disadvantage of much greater year-on-year variability of return. From an investment decision-making point of view, this year-on-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long, (10 years or greater).

The Council are empowered to make investments in the following asset classes and assets:

- Cash - term deposits, cash on call.
- NZ fixed interest – NZ Government, local authority and NZ State-Owned Enterprise bonds, corporate bonds, fixed interest funds.
- International fixed interest – either direct, if appropriate or via managed funds.
- Listed property companies, property funds and direct property investments.
- Equities, either via managed funds or directly.
- Alternative assets, such as commodities and hedge funds.

### 4.2 Asset Allocation

Academic research offers considerable evidence that the strategic asset allocation decision far outweighs security selection and market timing in its impact on portfolio variability and performance. On this basis the Council prefer to adopt a strategic asset allocation and passive strategy over an active and/or tactical asset allocation strategy.

The asset allocation benchmark is to be:

Asset Class	Target Allocation	Acceptable Range	
		Minimum	Maximum
NZ Cash	5%	1%	10%
NZ Fixed Interest	50%	45%	55%
International Fixed Interest	10%	5%	15%
NZ Property	7.5%	5%	10%
Australasian Equities	12.5%	7.5%	17.5%
International Equities	10%	5%	15%
Hedge Funds	2.5%	1%	5%
Commodities	2.5%	1%	5%
<b>Total</b>	<b>100%</b>		

## 4.3 NZ Fixed Interest Investment Guidelines

### 4.3.1 Portfolio Objectives for Direct NZ Fixed Interest

To gain a diversified exposure to the New Zealand Fixed Interest market through investing in direct securities with the following objectives identified below:

- Provide access to the market in a cost-effective manner,
- Provide a stable income and capital preservation (in nominal terms) over a full market cycle,
- Reduce overall volatility of a strategically diversified portfolio, and
- Provide a high level of transparency.

### 4.3.2 Portfolio Construction Guidelines

#### a. Diversification

The portfolio should be constructed to achieve appropriate diversification (in the constraints of the NZ market) relative to:

- New Zealand fixed interest issuers,
- The industries/sectors the issuers are involved with,
- The individual issue and overall portfolio duration, and
- Overall credit risk exposure of a portfolio.

The level of the diversification will be governed by the size of the fixed interest portfolio.

Credit ratings will have an impact on the level of diversification. Securities with lower credit ratings require a higher level of diversification.

#### **b. Number of Securities**

To achieve sufficient levels of diversification, a minimum of 15 securities where the size of the NZ Fixed Interest portfolio is more than \$1,000,000, and 10 securities where the size of the NZ Fixed Interest portfolio is less than \$1,000,000, is required. Where appropriate diversification cannot be achieved due to the size of the portfolio or availability in the market, surplus funds may be directed to money market instruments until availability improves.

#### **c. Duration**

The portfolio should be diversified across all durations to minimise the adverse effects of reinvestment risk on maturity. Otago Regional Council should be aware if the duration of their portfolio deviates from the benchmark duration by more than 1 year.

#### **d. Liquidity**

Although Otago Regional Council invests into the direct New Zealand fixed interest market with a “buy and hold” philosophy, over time its needs may change and greater levels of liquidity may be required.

The more liquidity is required, the more government and liquid (i.e. senior debt issues of \$150m or greater) corporate securities should be included in the portfolio.

#### **e. Exposure Levels by Credit Rating**

Guidelines for maximum security exposure levels for individual securities are set by credit rating. The following criteria should be considered when making decisions on exposure levels within a portfolio:

- Consideration should be given to excessive exposure to any single issuer,
- Consideration should be given to other asset class exposures Otago Regional Council may have to an issuer,
- The portfolio should be distributed across credit ratings, with a core of senior ranking securities rated A or higher, and
- BBB rated and unrated SOE securities can be included so long as they have characteristics in line with the Council’s investment expectations and objectives.

The following table presents a set of guidelines that need be used when constructing a portfolio.

**Guidelines:**

S&P Rating band	Overall maximum % of bond portfolio
AAA to BBB-	100%
A+ to BBB-	55%
BBB+ to BBB-	15%
Unrated *	7.5%
Sub-Investment Grade	0%
Government	100%

\* Generally, the Council will not seek to invest in unrated securities in a bond portfolio unless an implied investment-grade rating has been assigned.

A maximum of 5% of floating rate/annual resettable securities is permitted in a portfolio. However, this does not include perpetual securities (as detailed under the “Perpetual Securities” heading).

Where possible, the following maximum individual security guidelines should be followed to gain diversification whilst ensuring sound credit quality within portfolios.

**Maximum Individual Security Guidelines:**

S&P Rating band	Security maximum % of bond portfolio
Unrated Corporate	4%
BBB / Unrated SOE	5%
A	7.5%
AA	10%
AAA	15%
Government	15%

Please note that the above table provides guidelines for assessing an individual security. Although there is no maximum issuer exposure specified, diversification guidelines described under the “Diversification” heading are to be followed.

**f. Perpetual Securities**

Given the equity structure (including potential imputation credits) of perpetual securities, this class of fixed interest is not to be used.

#### **g. Structured credit**

Due to the complexity of structured credit instruments and the lack of sophisticated monitoring systems required to provide ongoing assessment, Otago Regional Council should not include this type of investment in its NZ fixed interest portfolio. It is considered that the required fixed interest exposure can be adequately achieved by investing in securities with simple structures which possess typical fixed interest characteristics.

#### **h. Ratings Downgrade**

If a security is downgraded, the mandatory guidelines table should be revisited to ensure that the new rating falls within the ratings framework. A decision must be made by the Council in light of the downgrade as to the future holding of the security (which could potentially be outside the guidelines).

#### **i. Reinvestment**

Recommendations to reinvest the proceeds from a maturity should take into account all of the above portfolio construction guidelines.

Where it is uneconomical to gain a direct exposure to NZ or international fixed interest, investment may occur via a recommended managed fund in order to gain an appropriate level of diversification.

### **4.4 International Fixed Interest**

#### ***4.4.1 Portfolio Objectives for International Fixed Interest***

To provide an exposure to a diversified portfolio of international bonds.

#### ***4.4.2 Portfolio Construction Guidelines***

The Council consider it prudent to gain exposure to international fixed interest via a managed fund or funds in order to gain sufficient diversification and achieve economies of scale.

### **4.5 Property Investment Guidelines**

#### ***4.5.1 Portfolio Objectives for Property Investment***

To provide an exposure to the New Zealand listed property sector.

#### **4.5.2 Portfolio Construction Guidelines**

##### **a. Investment Philosophy**

The inclusion of property stocks in the portfolio should be based on a buy-and-hold philosophy. As such, turnover is expected to be low, (ideally, no more than 1 change per year).

##### **b. Diversification**

The portfolio is to be diversified across different property types and regions. A minimum of 4 property stocks should be held.

##### **c. Liquidity**

There should be enough liquidity so that each property stock can be liquidated at a fair market value within 1 month.

##### **d. Debt Position**

Each property stock should have a prudent debt position, be compliant with its covenants, and avoid excessive refinancing risk.

##### **e. Valuation**

Property stocks that are significantly overvalued should not be included.

##### **f. Quality**

The average quality of the properties within each stock's portfolio should be at least B-grade.

##### **g. Management**

Companies should display best practice corporate governance principles. Tests include the following:

- A Board structure consisting of a majority of independent directors;
- The roles of the Chairman and CEO are performed by separate individuals;
- There is an independent audit committee for financial reporting integrity, and
- There are established and disclosed policies for the oversight and management of material business risk.

## 4.6 Australasian Equity Guidelines

### 4.6.1 Portfolio Objectives for Australasian Equity Investment

To provide a combination of capital growth and income via a broad exposure to the Australasian equity market.

### 4.6.2 Portfolio Construction Guidelines

#### a. Investment Philosophy

The inclusion of stocks in the portfolio should be based on a buy-and-hold philosophy. As such, turnover is expected to be low, (ideally, no more than 3 changes per year).

#### b. Diversification

The portfolio is to be diversified across the respective industries that comprise the Australasian equity market. A minimum of 10 stocks should be held. Property stocks are to be excluded as this sector is treated as a separate asset class.

#### c. Liquidity

There should be enough liquidity so that each stock can be liquidated at a fair market value within 1 month.

#### d. Top-down Approach

The investment adviser is to incorporate a top-down approach when deciding on the composition of the portfolio. The inclusion of sectors that are likely to struggle on a forward-looking basis should be treated with caution. If a company in such a sector is included in the portfolio, the investment case should be properly documented.

#### e. Earnings and Dividends

Companies with a proven track record of steadily growing earnings and dividends are favoured over those with potential but unproven prospects.

#### f. Cost of Capital

Companies must meet their cost of capital on an ongoing basis.

#### g. Valuation

Stocks that are significantly overvalued should not be included.

#### h. Dominance

The companies selected should be dominant within their respective industries.

### **i. Management**

Companies should display best practice corporate governance principles. Tests include the following:

- A Board structure consisting of a majority of independent directors;
- The roles of the Chairman and CEO are performed by separate individuals;
- There is an independent audit committee for financial reporting integrity, and
- There are established and disclosed policies for the oversight and management of material business risk.

Where it is uneconomical to gain a direct exposure to Australasian equities, investment may occur via a recommended managed fund in order to gain an appropriate level of diversification.

### **j. Changes to the Portfolios**

Changes to the New Zealand property and Australasian equity portfolios should be considered when:

- There is a substantial change in the investment adviser's investment view of a stock;
- There is a significant change to a company's investment mix;
- There are changes to a company's dividend policy;
- A stock becomes significantly overvalued versus its peers, leading to potentially poor future returns, or
- There has been a change in the structure of the listed property or equity market through new listings, corporate actions and other significant events.

Research needs to clearly support any recommended changes.

## **4.7 International Equity Guidelines**

### ***4.7.1 Portfolio Objectives for International Equity Investment***

To provide an exposure to investments in the international equities sector.

### ***4.7.2 Portfolio Construction Guidelines***

The committee members consider the international equity strategy should provide adequate diversification across a number of countries and industries. This is likely to be

achieved by investing in managed funds. Cost-effectiveness and liquidity are key considerations to be taken into account.

An exposure to small-cap shares (via an actively managed fund) and emerging markets is included for additional diversification and the potential for higher growth over the long term.

The weighting to each region will take into consideration economic output and not exclusively market capitalisation, so that the strategy is not reliant on any one economy.

## **4.8 Alternative Assets Guidelines**

### ***4.8.1 Portfolio Objectives for Alternative Asset Investment***

To improve diversification, enhance the potential for long-term capital growth and reduce the overall variation of returns within the Council's portfolio.

### ***4.8.2 Portfolio Construction Guidelines***

The Council consider it prudent to gain exposure to alternative assets via a managed fund or funds in order to achieve sufficient diversification and economies of scale.

## **4.9 Foreign Currency Management**

Historically, fluctuation of the New Zealand dollar against other major currencies has been significant and has resulted in additional portfolio volatility.

To minimise the risks associated with currency fluctuations the following policies apply:

- Holdings of international fixed interest investments are to be fully hedged back to NZ dollars at all times.
- When investing in international equities either directly or via managed funds, a neutral currency position is the preferred strategy with at least 50% of the international equities being hedged back to NZ dollars at any one point in time. Any deviation from the preferred hedging level will require the Council' approval.

## **4.10 Tax Policy**

Any investment strategy employed needs to take into account Otago Regional Council's tax status, although this should not be to the detriment of the long-term strategic asset allocation.

Any tax leakage is to be quantified by the investment adviser and reported to the Council annually.

#### **4.11 Rebalancing Guidelines**

The percentage allocation to each asset class may vary depending on market conditions. The strategic asset allocation agreed to between the Council and the investment adviser will have upper and lower limits for each asset class. To remain consistent with the asset allocation guidelines, the investment adviser will periodically review the portfolio and each asset class. If the actual weighting has moved outside the tolerance levels, the investment adviser will rebalance the portfolio back towards the recommended weighting. This rebalancing procedure is to be completed at least annually. To ensure transactional costs are minimised, a pragmatic approach to rebalancing is to be adopted.

## 5. Monitoring and Evaluation

### 5.1 Performance Objectives

The Council acknowledges fluctuating rates of return characterise the securities markets, particularly during short time periods. Recognising that short-term fluctuations cause variations in performance, the Council intends to evaluate investment performance from a long-term perspective.

The Council is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis and it is at the Council' discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

On a timely basis, but not less than annually, the Council will meet to review whether the investment adviser and the investment options selected continue to conform to the criteria outlined in the SIPO, specifically:

- Adherence to the asset allocation levels set with rebalancing occurring within the agreed parameters and in a timely fashion.
- Adherence to the agreed investment philosophy and constraints;
- The adherence of individual investments to investment guidelines;
- Material changes in the investment options, organisation, investment philosophy and/or personnel; and
- Any legal or other regulatory agency proceedings affecting the investment options.

### 5.2 Benchmarks

The Council has determined that performance objectives should be established for each investment option and for the overall investment portfolio. Manager performance will be evaluated in terms of an appropriate market index and the relevant peer group. These are to be agreed to between the Council and the investment adviser. Asset classes and relevant benchmarks could include:

Asset Class	Index
New Zealand Cash	ANZ 90 Day Bank Bill Index
NZ Government Bonds	ANZ NZ Government Stock Index
New Zealand Corporate Bonds	ANZ Investment Grade Corporate Bond Index
International Fixed Interest	Barclays Capital Global Aggregate Bond Index (NZD hedged)

New Zealand Property	NZX Property Gross Index
New Zealand Equities	NZX50 Gross Index
Australian Equities	S&P/ASX 200 Accumulation Index
International Equities	MSCI All Countries World Net TR Index
Asset Class	Index
Hedge Funds	HFRI Fund of Funds Index
Commodities	DJ-UBS Commodity TR Index

### 5.3 Watch List Procedures

An investment option and/or investment adviser may be placed on watch list and a thorough review and analysis may be conducted when:

- Performance is below median for their peer group over a one, three and/or five-year cumulative period;
- The three-year risk adjusted return falls below the peer group's median risk-adjusted return;
- There is a change in the professionals managing the investment;
- There is an indication the investment option and/or investment adviser is deviating from the stated style and/or strategy;
- There is an increase in fees and expenses;
- Any extraordinary event occurs that may interfere with the investment option and/or Investment Adviser's ability to prudently manage investment assets.

This process is delegated to the investment adviser and/or a nominated third party and they will report to the Council at least annually.

### 5.4 Measuring Costs

The total portfolio delivery costs should be fair and reasonable. The appointed investment adviser should offer a fee-only service with all commissions returned to Otago Regional Council.

The investment adviser is to report to the Council annually on the breakdown and the total costs of delivery including:

- Administration/custodial reporting fees;
- Management expense ratios for managed fund investments;
- Advisory fees;
- Other brokerage or fees.

## 6. Review of the Investment Policy Statement

The Council will review this SIPO at least annually to determine whether the stated investment objectives are still relevant and it is feasible that they will be achieved. It is not expected that the SIPO will change frequently. In particular, short-term changes in the financial markets should not require adjustment to the SIPO.

**Approved by Otago Regional Council:**

Signature	Position	Date

**Copy to Investment  
Adviser:**

Copy sent by	Date

**REPORT**

Document Id: A592982

Report No: 2014/0598

Prepared For: Finance and Corporate Committee

Prepared By: Manager Support Services

Date: 17/01/2014

**Subject: Passenger Transport Operations Update - Patronage, Student Fare Concession Trial, and Journey Planner**

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**1. Précis**

This report provides an update on passenger trips for the Dunedin network, the tertiary student fare concession trial and the implementation of the journey planner for Dunedin.

The monthly comparison of passenger trips for 2011, 2012, and 2013 calendar years for the entire Dunedin network for all services and for Saturday services only, shows a slightly less than 1% decrease in patronage for 2013 across the entire network, with Saturday services showing a 3% increase for the same period.

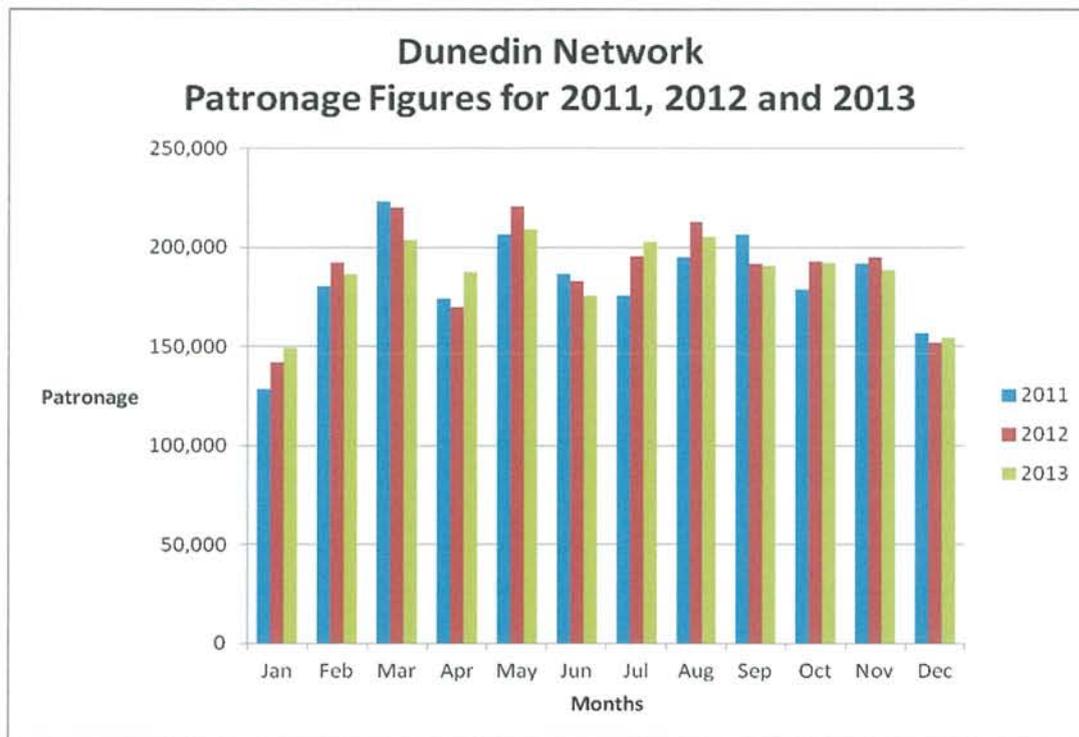
Preparations for the tertiary student fare concession trial scheduled between 17 February and 30 April are in hand. Communications staff have been coordinating marketing activities with both the University and Polytechnic Student Associations.

Google Transit journey planner is now in the final stages of testing. Once Google engineers have completed testing a go live date will be confirmed.

**2. Patronage**

The following graphs represent comparative monthly passenger trips for the Dunedin network for the 2011, 2012, and 2013 calendar years.

The graph presented in Figure 1 represents a slightly less than 1% decrease in passenger trips between the 2012 and 2013 calendar year across the entire Dunedin network.



**Figure 1**

Improvements to Council's Saturday services were introduced late January 2012. The graph presented in Figure 2 represents a 12% increase in passenger trips between 2011 and 2012, and a 3% increase in trips between the 2012 and 2013 calendar years across the entire Dunedin network for Saturday services only.

It should be noted that some of the disparity in the graph between years for any one month relate to the number of Saturdays occurring for that month in that particular year e.g. in 2011 and 2012 there were five Saturdays in December but in 2013 there were only four. Table 1 represents the number of Saturdays per month for each of the years.

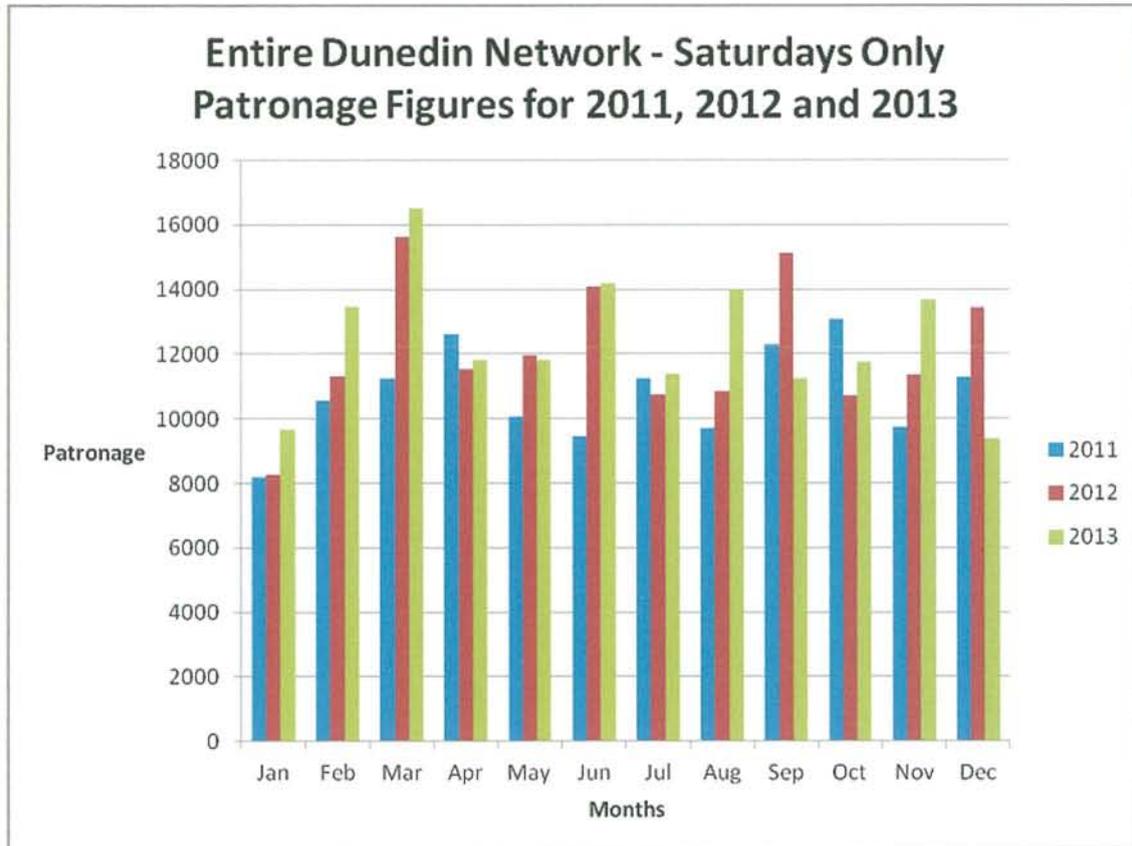


Figure 2

	2011	2012	2013
<b>Jan</b>	5	4	4
<b>Feb</b>	4	4	4
<b>Mar</b>	4	5	5
<b>Apr</b>	5	4	4
<b>May</b>	4	4	4
<b>Jun</b>	4	5	5
<b>Jul</b>	5	4	4
<b>Aug</b>	4	4	5
<b>Sep</b>	4	5	4
<b>Oct</b>	5	4	4
<b>Nov</b>	4	4	5
<b>Dec</b>	5	5	4

Table 1

### 3. Student Fare Concession Trial

The student fare concession trial is scheduled to take place from 17 February 2014 (Orientation Week) to 30 April 2014. The concession will be available to all Otago University, Otago and Aoraki Polytechnic students through the use of Council's GoCard. The concession is a further 15% discount over and above the standard 10% discount off the adult cash fare. Students will be required to present a current student ID to drivers in order to obtain the trial concession.

Otago University (OU) and Otago Polytechnic (OP) Student Associations and ORC staff are coordinating a promotional campaign, with the Student Associations targeting students using a mixture of their printed, radio and social media networks. The two student associations are also coordinating the distribution of 6,000 GoCards to the first year students of the three tertiary institutions. Both OU and OP Student Associations are contributing to the cost of the cards which will be issued free of the standard issue fee.

Necessary programming of the ticketing system is complete with final testing scheduled for the week commencing 20 January.

The University Book Shop (UBS) have agreed to become an issuing agency so that there will be GoCard top up facilities available on and near campus. Equipment is being installed and staff training is also scheduled to occur the week commencing 20 January. Depending on how the trial goes, UBS may continue as an agency for GoCard top ups after the trial is complete.

#### **4. Journey Planner**

A soft launch of the Google Transit journey planner was scheduled to occur prior to Christmas, however, the final testing by the Google team took longer than expected which meant this could not occur. The final testing also identified two issues after the Christmas break which are being rectified. Google Transit engineers will then undertake additional final testing and once complete, they will confirm a go live date.

#### **5. Recommendation**

That this report be received.



Wayne Scott  
**Director Corporate Services**

**REPORT**

Document Id: A593218

Report No: 2014/0601  
Prepared For: Finance and Corporate Committee  
Prepared By: Director Corporate Services  
Date: 17/01/2014

**Subject: Executive Report - January 2014**

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**1. 2014/15 Draft Annual Plan and Estimates**

The initial work on the 2014/15 Draft Annual Plan projects and estimates is nearing finalisation. A Council workshop is scheduled for 12 February, with the adoption for public consultation being 12 March.

**2. Local Government Amendment Bill**

The Local Government Amendment Bill (No.3) has been introduced to implement a second phase of legislative reform to improve the operation, efficiency and effectiveness of local government.

Submissions on the Bill close on 14 February, and it is intended that a draft submission be prepared for consideration by the Council at its 12 February meeting.

Issues included in the Bill's provisions include:

- That local authorities should actively seek to collaborate with other local authorities and agencies.
- A broadening of the scope of triennial agreements.
- The cost effectiveness of service delivery arrangements for services to be reviewed after each triennial election.
- Every local authority to adopt a policy setting out its approach to the consideration of significance, including when the use of the special consultative procedure is desirable, and how the local authority will engage with communities on other matters.
- People who present views to a local authority should have access to a clear record or description of relevant decisions made.
- Amendments to the special consultation procedure and its documentation, including removing the requirement for its use for the Long Term Plan and Annual Plan.
- Changes to the Long Term Plan documentation and procedures.
- A requirement to prepare and adopt an infrastructure strategy for a period of at least 30 years.

**3. Cromwell Depot Redevelopment**

As approved by Council in November, the contract for the new Cromwell depot was confirmed with Calder Developments Ltd.

Construction work commenced on site in the week commencing 18 November, with the contractor making good progress both before and after the Christmas period.

Concrete foundations, floor slab and concrete walls are in place for the main buildings, with framing completed on one of the buildings, as shown in the accompanying photographs.

Construction is scheduled for completion in early April. Staff are currently operating from temporarily leased premises opposite the site.

#### 4. Account Payments

Schedules of payments made are referred to the Finance and Corporate Committee for endorsement. The financial commitments and payment authorisation are made in accordance with Council's financial delegations and internal control procedures.

Payment Categories	November 2013 \$	December 2013 \$	Total \$
Trade and general payments	2,114,829.18	3,120,970.35	5,235,799.53
Payroll	581,906.66	615,218.60	1,197,125.26
Investments	9,000,000.00		9,000,000.00
<b>Total</b>	<b>\$11,696,735.84</b>	<b>\$3,736,188.95</b>	<b>\$15,432,924.79</b>

#### 5. Recommendation

- (1) That this report be received.
- (2) That the payments and investments summarised in the table above and detailed in the tabled schedule, totalling \$15,432,924.79, be endorsed.



Wayne Scott  
Director Corporate Services



