Committee Members
Cr Debra Magner (Chair)
Cr Stuart Challenger
Cr Brett Cummings
Cr Laura Coll McLaughlin

Heather Mabin (Acting CEO)
Kim Hibbs (People & Capability Manager)
Neil Selman (Acting CSM)

Audit & Risk Committee

A G E N D A *(Rarangi Take)*

10.30 a.m Monday 21 June 2021

1. Welcome (*Haere mai*)

2. Apologies *(Nga pa pouri)*

3. Declarations of Interest

4. Confirmation of Minutes (Whakau korero) – 1 April 2021

5. Matters Arising

6. Notification of Extraordinary and Urgent Business (He Panui Autaia hei Totoia Pakihi)

7. Questions *(Patai)*

8. Chairman's Report *(Nga Purongo-a-Tumuaki me nga Kaunihera)*

9. Risk
   a. Item 1 – Risk register verbal update

10. Long-term Plan
    a. Item 1 - Long-term Plan Progress Report verbal update

11. Acting Chief Executive
    a. Item 1 – Quarterly Financial Report, 31 March 2021 (to be circulated)
    b. Item 2 – Delegated Authority - JBWere signatories
    c. Item 3- Delegated Authority - LGFA signatories
    d. Item 4 – Investment portfolio, 31 May 2021, *Tom Philips JBWere presentation*

12. Public Excluded Business *(He hui Pakihi e hara mo te iwi)*

H. Mabin
Acting Chief Executive

THE WEST COAST REGIONAL COUNCIL

**MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE,
HELD ON 1 APRIL 2021,
AT THE OFFICES OF THE WEST COAST REGIONAL COUNCIL, 388 MAIN SOUTH ROAD,
GREYMOUTH, COMMENCING 12.30 PM**

PRESENT:

D. Magner, S. Challenger, B. Cummings, L. Coll-McLaughlin

IN ATTENDANCE:

V. Smith (Chief Executive Officer), H. Mabin (Acting Corporate Services Manager), K. Hibbs (People and Capability Manager), S. Swensson (Business Support Officer, Engineering), M. Schumacher (Information Technology Team Leader), via Zoom

APOLOGIES:

R. Mallinson (LTP Project Manager)

DECLARATIONS OF INTEREST: There were no declarations of interest.

CONFIRMATION OF MINUTES

Cr Coll-McLaughlin stated that her comment regarding Equip Training was in reference to Councillors. She requested that this be amended.

Moved (Coll McLaughlin / Challenger)

That the minutes of the inaugural meeting held 20 October 2020 be confirmed as correct, with the amendment requested by Cr Coll McLaughlin made.

Carried

CHAIR AND COUNCILLORS' REPORTS:

Cr Magner provided a verbal report on the meetings she has attended since the last meeting. These included several meetings with H. Mabin, meetings with Chris Jennet of Audit NZ and Hugh Jory from the Office of the Auditor General.

Moved (Coll McLaughlin / Cummings) *That the report is received.*

Carried

RISK: ITEM 1 – HEALTH & SAFETY REPORT, MARCH 2021

K. Hibbs presented this summary report. It has been identified that some contractors engaged by WCRC have not been through the prequalification process. Work is being done to ensure this is not something that will continue to happen going forward. It was noted that these is an upcoming ISO45001 audit in June.

Issues with locations of mineshafts on the West Coast were discussed.

Moved (Challenger / Cummings) *That the Health and Safety report is received.*

Carried

ITEM 2 – RISK REGISTER UPDATE

This paper was presented to show what is currently on the register which is from 2015. This morning's workshop was a useful first step to rolling out a risk framework appropriate for the organisation. It was noted that there is $50,000 in the LTP budget for 21-22 to contract this work out. Once there is a framework in place the Risk Register will be managed by the ELT overseen by Mr Smith.

Moved (Coll McLaughlin / Challenger) *That the Risk Register update is received.*

Carried

LONG-TERM PLAN: ITEM 1 – LONG-TERM PLAN PROGRESS REPORT

V. Smith provided an update on behalf of R. Mallinson. The LTP budget is now in its second iteration. The deadline of 12 April will not be met; therefore, the timeline will be extended by a week to ensure Council have robust information to make a decision on.

Moved (Coll McLaughlin / Challenger) *That the Long Term Plan Progress Report is received.*

Carried

ACTING CORPORATE SERVICES MANAGER, CORPORATE SERVICES REPORT
ITEM 1 – DRAFT TERMS OF REFERENCE

H. Mabin presented the two options for the proposed Terms of Reference. There was agreement that that longer version was preferrable with the name amended to Risk and Assurance Committee.

Moved (Coll McLaughlin / Challenger)

That the Audit and Risk Committee recommends the longer version of the Terms of Reference to Council for adoption.

That the Audit and Risk Committee recommends to Council the renaming the Audit and Risk Committee to the Risk and Assurance Committee.

Carried

ITEM 2 – PAYROLL TRANSITION PROJECT PROGRESS REPORT

H. Mabin presented her report noting that the project is on track. J. Shaw, M. Schumacher and K. Hibbs were acknowledged for their work on this project.

Moved (Challenger / Cummings) *That the Payroll Transition Project Progress Report is received.*

Carried

The meeting closed at 1.00 p.m.

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Chairman Date

Report to: Audit & Risk Committee	**Meeting Date: 21 June 2021**
Title of Item: Delegation of Authority – JBWere Investment Portfolio	
Report by: Heather Mabin, Acting Chief Executive	
Reviewed by:	
Public excluded? No	

Report Purpose

The purpose of this paper is to amend the named Council Officers listed in JBWere's Statement of Investment Policy and Objectives.

Report Summary

With the past and future planned change of senior staff at Council, the stipulated Council Officers in JBWere's Statement of Investment Policy and Objectives need to be amended.

Draft Recommendations

It is recommended that the Committee resolve to recommend that Council:

- Approve the removal of Michael Meehan as a Council Officer on JBWere's Statement of Investment Policy and Objectives; and
- Approve the inclusion of Heather Mabin as a Council Officer on JBWere's Statement of Investment Policy and Objectives; and
- Note that Robert Mallinson will be a Council Officer on JBWere's Statement of Investment Policy and Objectives until 27 August 2021.

Issues and Discussion

Background

In June 2017 Council entered into an arrangement with JBWere called the Statement of Investment Policy and Objectives (SIPO), see Attachment 1 *West Coast Regional Council Catastrophe and Main Funds - Statement of Investment Policy and Objectives*.

Under SIPO the JBWere and Council Officers are responsible for the management of the Fund's investments. Council Officers have a governance role to ensure that investments are managed in prudent manner consistent with the purpose of the Funds. These responsibilities include:

- Setting and reviewing the parameters in this SIPO with regard to relevant objectives, risk preference, laws and regulations.
- Securing external management of investments.
- Delegating investment administration activities and custodial functions.
- Establishing clear instructions for operation and engagement with service providers.
- Monitoring and reviewing the performance of investments and service providers.
- Managing conflicts of interest.

Current situation

The recent process to renew Council's Wholesale Investor Certificate, identified the fact that the names of Council Officers on the SIPO needed to be updated. The two employees named were Michael Meehan, a past Chief Executive, and Robert Mallinson.

On 27 August, Robert Mallinson will finish with Council therefore a replacement person needs to be delegated by Council the authority under SIPO.

Considerations

Implications/Risks

The actions outlined in this paper will mitigate the risk of unauthorised staff making decisions about Council's Investment Portfolio held at JBWere.

Significance and Engagement Policy Assessment

There are no issues within this report which trigger matters in this policy.

Legal implications

The suggested amendments to SIPO is in line with the requirements of the Local Government Act 2002 and the Financial Markets Conduct Regulations 2014.

Attachments

Attachment 1: West Coast Regional Council Catastrophe and Main Funds - Statement of Investment Policy and Objectives, June 2017

West Coast Regional Council Catastrophe and Main Funds

Statement of Investment Policy and Objectives (SIPO)

Purpose of this Document:

This document provides a blueprint for the long-term investment strategy of the West Coast Regional Council (the Funds) to assist all associated parties with the supervision, monitoring, and evaluation of the investment portfolio. By adhering to the guidelines in this document it is expected that risk can be reduced and more reliable returns achieved. This document is not intended as a contract of any kind, but rather as a summary of mutually agreed investment management principles and practices.

Prepared by

JBWere (NZ) Pty Limited

0800 555 555

Last Updated: June 2017

1. General

1.1 Purpose of the Funds

The Catastrophe Fund consists of investments held in reserve for the purpose of helping to meet potential emergency funding requirement should a catastrophe occur in the region. The Main Fund has been established for the purpose of growing investments to financially support the work of the West Coast Regional Council (the "Council').

A portfolio of financial assets provides the following valuable characteristics for meeting this purpose that might be lacking with directly held assets:

- *Diversification of risk* (investments spread across regions, sectors, and investment type).
- *Liquidity* (investments generally able to be sold and settled for cash within days).
- *Cashflow generation* (draw down requirements for income and other expenses)
- *Capital growth* (appreciation in portfolio value)

1.2 Scope of this SIPO

This document relates to the management of the Council's financial assets in the Catastrophe Fund and Main Fund (together the "Funds").

1.3 Appointed External Financial Services Provider

The Council has appointed JBWere (NZ) Pty Limited ("JBWere") to provide investment advice, transaction execution, custody and reporting required to manage the Funds.

1.4 Acknowledgements:

This version of the Statement of Investment Policy and Objectives has been agreed to and accepted by:

Individuals acting for the Funds ("Officers"):

Michael Meehan	Robert Mallinson
(CEO)	(Corporate Services Manager)

Representative of JBWere:

Tom Phillips

(Executive Director)

1.5 Reviews of this Document

A review of the investment policies and objectives contained in this document will be undertaken biannually, or sooner if circumstances require, ensuring that stated investment objectives are still relevant and achievable. It is not expected that significant changes will be made to this document frequently. In particular, fluctuations in financial markets should not require adjustment to the strategic asset allocation that represents the core portfolio structure longer term.

Any changes to this document must be approved by the Council and discussed with all parties involved in the investment management process prior to implementation.

2. Responsibilities

The parties responsible for the management of the Funds's investments are the Council's Officers and JBWere as the investment service provider as outlined below.

2.1 Governance

The Officers have a governance role to ensure that investments are managed in prudent manner consistent with the purpose of the Funds. Responsibilities of the Officers include:

- Setting and reviewing the parameters in this SIPO with regard to relevant objectives, risk preference, laws and regulations.
- Securing external management of investments.
- Delegating investment administration activities and custodial functions.
- Establishing clear instructions for operation and engagement with service providers.
- Monitoring and reviewing the performance of investments and service providers.
- Managing conflicts of interest.

2.2 Investment Management and Transaction Execution

The Council has appointed JBWere[1] for discretionary management of investments and transaction execution having the responsibility for:

- Managing the Funds's investments in accordance with a mutually agreed Investment Mandate based on the parameters outlined in this document.
- Efficiently executing all transactions.
- Fulfilling reporting requirements and communicating all significant developments with the Council's investments including any breaches from the agreed parameters set out in the Investment Mandate.
- Complying with all applicable regulatory and legal obligations.

2.3 Custody and Reporting

The Council has appointed JBWere (NZ) Nominees Limited[2] to provide custody administration and reporting services to the Funds. The custodian is responsible for:

- Holding the Funds's assets in safe keeping.
- Providing performance, accounting, and tax reporting.
    - Intraday valuation *(based on market pricing where traded prices are available)* and transaction reports viewable online using a password protected facility.
    - A quarterly summary review emailed at the end of each financial quarter including value of investments held, transactions executed, cashflows received and paid, and performance of the portfolio against relevant benchmarks over the quarter.
    - Annual financial statements and audit information for tax purposes
- Settlement of transactions.
- Protecting the investments during corporate actions and minimising other areas of potential operational risk.

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[1] *JBWere (NZ) Pty Limited is a specialist wealth management business in New Zealand, wholly owned by the parent Australian company JBWere Limited that has origins dating back to 1840. A team of professional financial advisers service larger individual, corporate, and non-profit investors across Australia and New Zealand using international best practices and leading research for managing financial investments. JBWere is fully owned by National Australia Bank.*

[2] *JBWere (NZ) Nominees Limited is a separate legal entity and wholly owned subsidiary of the Australian parent company JBWere Limited. This nominee company acts a bare trustee that provides anonymity, and through segregation of accounts, ensures control and beneficial ownership of investments remains with each investor.*

2.4 Communication and Points of Contact

It is important that an efficient means for communication be established between the Council Officers and JBWere.

- Michael Meehan (Chief Executive Officer) and Robert Mallinson (Corporate Services Manager) are to act as the representatives on behalf of The Council and will be the main point of contact for communication with Tom Phillips and Bruce Robertson at JBWere.
- Mutually agreed times will be set for meetings to formally discuss and review the portfolio with Council or their appointed representatives. All Councillors will receive the quarterly reports and reviews.

3. Investment Objectives

Achieving long-term investment success requires:

- a clearly stated purpose for the Funds
- a well thought-out investment plan
- discipline to adhere to this plan.

3.1 Time Horizon

The investment parameters outlined in this SIPO are based on a long-term investment horizon of greater than 10 years, therefore interim fluctuations in financial markets should be viewed with the appropriate perspective.

3.2 Drawdown Requirements (Withdrawal Policy)

No drawdown is expected to be made from the Catastrophe Fund. The Council has adopted a withdrawal policy for the Main Fund that allows for up to 100% of the Income (being all increases in the value of the Main Fund, realised or unrealised) to be withdrawn on an annual basis.

3.3 Taxation

Both Funds have a tax exempt status. There are some investments where tax is withheld at source that the Funds will be unable to reclaim the tax deducted. The implications for this have been considered when setting the investment strategy.

3.4 Risk Profile

It is important there is alignment of risk preferences among those involved with making investment decisions for the Funds, and that they are consistent with the purpose for which the Funds was established. Investment objectives associated with achieving the purpose of the Funds can be broadly divided into the three competing categories of:

- *Growth* - appreciation in portfolio value
- *Income* - drawdown requirements
- *Safety* - avoiding capital loss from default, poor returns, and investor reaction to variability in returns

An effective investment strategy requires prioritisation among these competing investment objectives, which helps to define the risk profile and mindset required when constructing and managing the investment portfolio of each fund. It is important that investments are managed to achieve agreed quantified targets that relate to these investment objectives over appropriate timeframes.

Catastrophe Fund

Priority	Objective	Attitude	Comment	Quantified Target
1	Safety	A conservative asset allocation is adopted to provide stability in portfolio value.	A conservative and stable investment portfolio is suited to the purpose of having a store of value ready to meet any emergency funding requirements.	Maintain portfolio value ahead of CPI inflation over a 3-5 year period.
2	Growth	Ideally, the inflation adjusted (real) value of investments should be maintained over time.	Growth will come mainly from investments in equities, but also from reinvestment of interest and dividend income.	Investments to outperform relevant asset class benchmarks over a 3 year period.
3	Income	No regular income is to be drawn down.	Investments will be able to support unforeseen (emergency) funding drawdown requirements.	Sufficient liquidity to be able to meet drawdown requirements.
SUMMARY	The Funds is to be considered having a modest tolerance for variability in portfolio value, accepting that a conservative investment stance will limit capital growth.			

Main Fund

Priority	Objective	Attitude	Comment	Quantified Target
1	Income	A regular income is to be drawn down to meet operating expenses.	Investments will be able to support unforeseen funding drawdown requirements.	Able to meet drawdown requirements.
2	Safety	A reasonably conservative asset allocation is adopted to provide a balance between stability and growth in portfolio value.	A reasonably conservative and stable investment portfolio is likely to suit the risk tolerance of the Council.	Maintain portfolio value ahead of CPI inflation over a 3-5 year period.
3	Growth	Ideally, the inflation adjusted (real) value of investments should be maintained over time.	Growth will come mainly from investments in equities.	Investments to outperform relevant asset class benchmarks over a 3 year period.
SUMMARY	The Funds is to be considered having a moderate tolerance for variability in portfolio value, accepting that an overly conservative investment stance will to some extent limit capital growth.			

4. Portfolio Asset Allocation

4.1 Strategic Asset Allocation

The most important impact on investment outcomes longer term is the allocation of investments across different asset classes. The returns between asset classes are typically less correlated (less inclined to move together) than are returns between securities within an asset class. Therefore, asset allocation offers the opportunity to reduce variability in overall portfolio return by having investments spread across asset classes without compromising expected return. However, the ability to impact risk or return from individual security selection is limited, especially for diversified portfolios invested across numerous securities within each asset class.

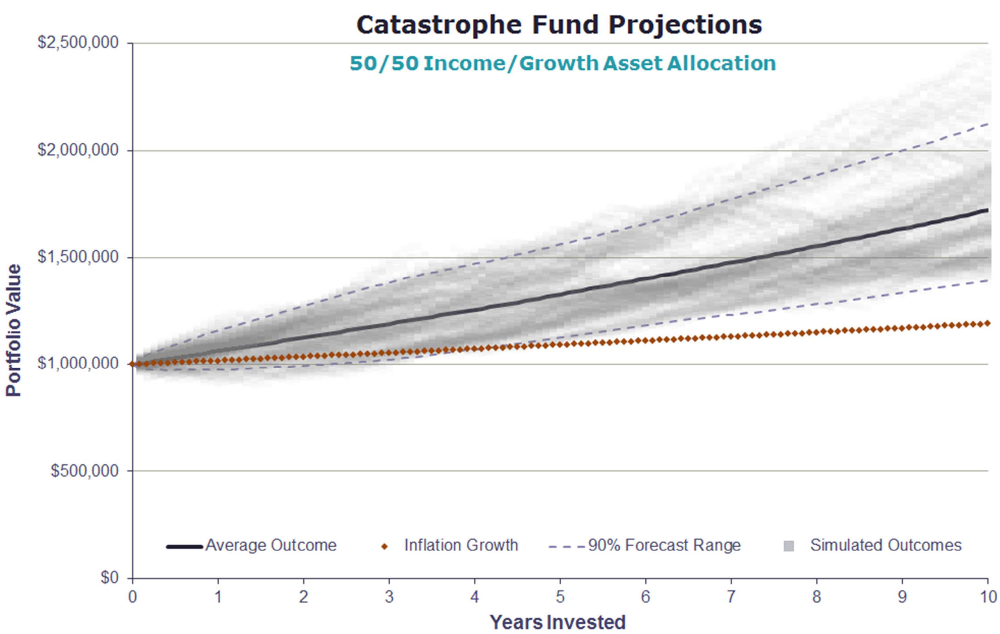
The Strategic Asset Allocation shown in the following table has been determined as most likely to achieve the Funds's investment objectives with an appropriate risk profile over time. Portfolio simulations were used for this determination based on historic market variability and long-term forecast returns (section 4.3) representing the range of market conditions likely to be encountered going forward. The strategic asset allocation provides the backbone to the investment strategy representing the core structure for the portfolio.

4.2 Risk-Return Characteristics of the Strategic Asset Allocation Benchmarks

The table and chart below describes the risk-return characteristics of the chosen strategic asset allocations for the **Catastrophe Fund**. The 10-year expected return for this benchmark asset allocation is 5.6% pa before making any drawdown. These projections ignore fees and the potential for achieving additional return through active portfolio management from security selection and tactical (tilting) asset allocation.

CATASTROPHE FUND Asset Allocation	Strategic Asset Allocation	Tactical Range Limits[1]	*10-Year Expected Return p.a.*	Benchmark Index Representing Asset Class
Cash & Term Deposits	**10.0%**	0% - 45%	*3.50%*	S&P/NZX 90 Day Bank Bill Index
NZ Fixed Interest	**35.0%**	0% - 65%	*4.25%*	S&P/NZX A-Grade Corporate Bond Index
Global Fixed Interest - *NZ$ Hedged*	**15.0%**	0% - 30%	*4.75%*	Barclays Global Aggregate Bond Index - *Hedged to $NZ*
Income Assets	**60.0%**	**45% - 75%**		
Low Correlation Strategies	**5.0%**	0% - 10%	*6.00%*	Cash interest rate + appropriate margin for risk
NZ Equities & Listed Property	**10.0%**	0% - 20.0%	*7.00%*	S&P/NZX 50 Portfolio Index
Australian Equities	**10.0%**	0% - 20.0%	*7.00%*	S&P/ASX 200 Index - *Unhedged*
Global Equities	**15.0%**	0% - 30.0%	*7.00%*	MSCI All Country World Index - *Unhedged*
Growth Assets	**40.0%**	**25% - 55%**		
		Inflation	*1.75%*	NZ Headline Consumer Price Index

1. *The Tactical Range Limits have been determined from historic market behaviour to contain deviation in performance of the portfolio from the strategic asset allocation benchmark, particularly the risk of underperforming the benchmark. Breaches to these limits should be avoided longer term to keep the portfolio from taking on risk-return characteristics that are materially from that targeted.*
2. *Private Equity is an extension of exposure to listed equities. These investments are typically made through fund managers and are illiquid, as the manager will dictate when investment is made and distributions are returned to investors. Any uninvested allocation to Private Equity should be reallocation proportionally across NZ, Australian, and Global Equities to maintain the sub-total exposure to equities.*

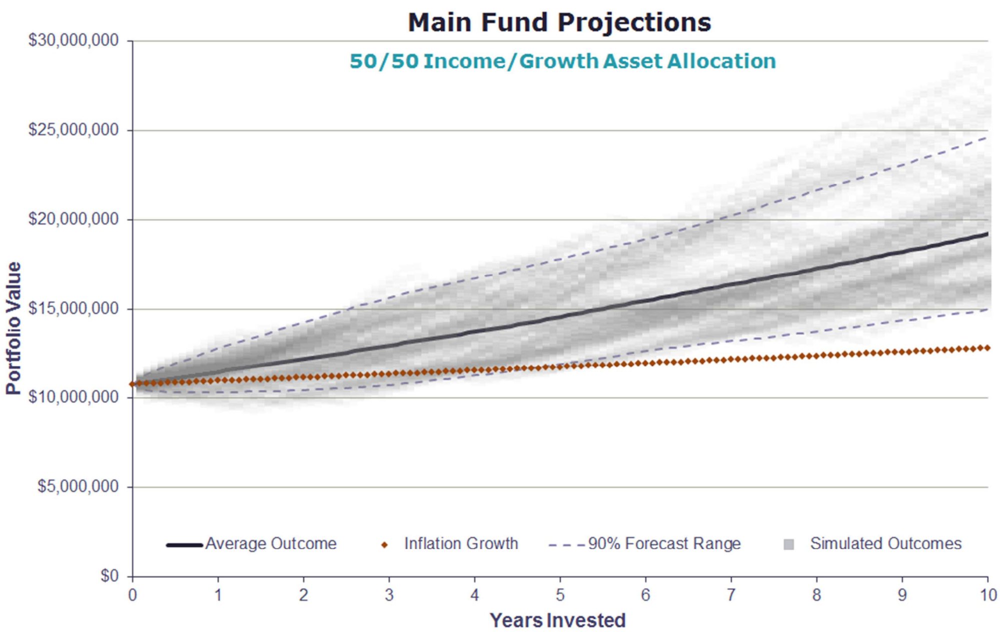


Forecast Gross Return	**5.6%**
Annual Std Dev	*5.8%*
after Inflation	3.8%
Historic Best 12 Months	20.7%
Worst 12 Months	-8.9%
Worst Peak to Trough	-9.5%
(Period: Oct-07 to Mar-09)	

The table and chart below describes the risk-return characteristics of the chosen strategic asset allocations for the **Main Fund**. The 10-year expected return for this benchmark asset allocation is 6.0%pa before making any drawdown. These projections ignore fees and the potential for achieving additional return through active portfolio management from security selection and tactical (tilting) asset allocation.

MAIN FUND Asset Allocation	Strategic Asset Allocation	Tactical Range Limits[1]	*10-Year Expected Return p.a.*	Benchmark Index Representing Asset Class
Cash & Term Deposits	**5.0%**	0% - 35%	*3.50%*	S&P/NZX 90 Day Bank Bill Index
NZ Fixed Interest	**30.0%**	0% - 60%	*4.25%*	S&P/NZX A-Grade Corporate Bond Index
Global Fixed Interest - *NZ$ Hedged*	**15.0%**	0% - 30%	*4.75%*	Barclays Global Aggregate Bond Index - *Hedged to $NZ*
Income Assets	**50.0%**	**35% - 65%**		
Low Correlation Strategies	**5.0%**	0% - 10%	*6.00%*	Cash interest rate + appropriate margin for risk
NZ Equities & Listed Property	**12.5%**	0% - 20.0%	*7.00%*	S&P/NZX 50 Portfolio Index
Australian Equities	**12.5%**	0% - 20.0%	*7.00%*	S&P/ASX 200 Index - *Unhedged*
Global Equities	**20.0%**	0% - 35.0%	*7.00%*	MSCI All Country World Index - *Unhedged*
Growth Assets	**50.0%**	**35% - 65%**		
		Inflation	*1.75%*	NZ Headline Consumer Price Index

1. *The Tactical Range Limits have been determined from historic market behaviour to contain deviation in performance of the portfolio from the strategic asset allocation benchmark, particularly the risk of underperforming the benchmark. Breaches to these limits should be avoided longer term to keep the portfolio from taking on risk-return characteristics that are materially from that targeted.*
2. *Private Equity is an extension of exposure to listed equities. These investments are typically made through fund managers and are illiquid, as the manager will dictate when investment is made and distributions are returned to investors. Any uninvested allocation to Private Equity should be reallocation proportionally across NZ, Australian, and Global Equities to maintain the sub-total exposure to equities.*



Forecast Gross Return	**6.0%**
Annual Std Dev	*7.3%*
after Inflation	4.1%
Historic Best 12 Months	22.9%
Worst 12 Months	-12.6%
Worst Peak to Trough	-14.1%
(Period: Oct-07 to Mar-09)	

4.3 Tactical Asset Allocation

Tactical "tilts" will be applied to each portfolio by JBWere away from the strategic asset allocation to take advantage of or protect against views on short to medium term performance prospects across asset classes. These tilts to the strategic asset allocation produce target asset allocations for the portfolios. Tactical range limits have been set to limit deviations in portfolio asset allocation from strategic asset allocation, which prevents the portfolios from straying too far from the risk-return characteristics that have been deemed appropriate for each Fund over the long-term.

4.4 Investing Large Cash Positions

A staged approach is recommended when investing a large cash position in either portfolio to avoid investing all at once at unfavourably high prices. The size and intervals between investment stages will depend on the relevant asset classes and market outlook. Under the Investment Mandate for managing both Funds, JBWere has scope to take up to six months to fully invest a large cash amount.

5. Monitoring Investment Performance

The anchor point (benchmark) for performance measurement of each portfolio will be the *passive* performance of the respective strategic asset allocation using the allocation weightings and market indices for the return of each asset class. Additional contribution (or detraction) to performance will come from *active* management of the portfolios from tactical tilts away from the strategic asset allocations, and from the selection of securities invested within each asset class compared to the composition of securities across the market for each asset class.

5.1 Active Management Contribution to Portfolio Return

Relative performance of the Funds will be measured against the passive benchmark return to monitor contribution from active management, which will come from:

- Tactical asset allocation calculated from differences in portfolio asset class weightings relative to the benchmark multiplied by index returns representing the asset classes.
- Security (and fund manager) selection calculated by comparing the return of the Funds' investments against the representative index return for each asset class.

5.2 Portfolio Rebalancing

Actual portfolio asset weightings will vary from the target tactical asset allocation (strategic asset allocation + tactical tilts) due to the relative price movements between asset classes. Portfolio asset weightings will be monitored and rebalanced back towards the target tactical asset allocation when the deviations become significant enough to risk leading to material differences in performance between each portfolio and the target asset allocation. Similarly, investments within asset classes will be rebalanced to the extent that a model portfolio is followed for that asset class (equities). The portfolios will be managed within the agreed asset allocation ranges stated in the Investment Mandate.

Any drawdown requirements from the portfolios will first be met from cash balances, and then from the sale of investments in asset classes that are the most overweight relative to target tactical asset allocation, while new injections of capital will be invested in asset classes that are most underweight.

6. Investment Selection within Asset Classes

6.1 Investment Style and Liquidity

Investments will include securities held directly as well as indirectly through managed funds. Directly investing in securities is the preferred approach to investing in Cash, NZ Fixed Interest, NZ Equities, Australian Equities, Global Equities, while managed funds are preferred for investing in Global Fixed Interest, Private Equity and Low Correlation Strategies.

Investments made by JBWere will generally be liquid and able to be sold and settled for cash within three business days. However, Cash invested on term deposit may incur a break fee if funds are called prior to maturity, and investments in Private Equity and some Low Correlation Strategies will have limited liquidity.

6.2 New Zealand Cash

Cash held in JBWere Custody has the advantages of providing:

- The most competitive interest rates available across a number of banks that JBWere has access to.
- Seamless management of funds flow to and from other investments in the portfolio.
- A reporting overview that enables monitoring the important role of asset allocation in portfolio management.

6.3 New Zealand Fixed Interest

JBWere has a dedicated fixed interest team specialising in research, portfolio construction, and "price-making" of debt securities in the New Zealand fixed interest market. These resources enable effective investment by way of direct holdings of these securities for the portfolio allocation to the New Zealand Fixed Interest asset class.

6.4 Global Fixed Interest

Global Fixed Interest is an important complementary asset class to New Zealand Fixed Interest, having superior liquidity and spread of underlying credit risk across regions and industrial sectors globally than what is available in the New Zealand Fixed Interest market. The recommended avenue for investing in the Global Fixed Interest asset class is through global bond fund managers that have the resources and expertise to manage portfolios of direct investments across these vast markets and to remove foreign currency risk by hedging returns into NZ dollars[3]. It is standard practice to reduce the risk of this conservative asset class by fully hedging away foreign currency risk. The "positive carry" received from hedging, due to NZ short-term interest rates generally being higher than in offshore markets, results in a boost to the expected return from investing in Global Fixed Interest that makes it comparable to investing in New Zealand Fixed interest.

6.5 Managing Credit Risk with Cash and Fixed Interest Investments

Default risk is a key consideration for the Funds investing in the Cash and Fixed Interest asset classes, and is managed using the following framework that limits exposure to debt issuer categories and single counterparties. This framework provides a practical approach to portfolio management that accommodates the risk-return preferences of the Funds, while allowing for nuances in the New Zealand cash and debt markets:

- Tactical range limits established about the strategic allocations to the Cash and Fixed Interest asset classes.
- Exposure limits to credit rating by issuer category.
- Limits on exposure to single entities within issuer categories, credit ratings, and across asset classes.

The potential impact from increased default risk associated with lower credit ratings is mitigated by simultaneously reducing the maximum exposure limit to that credit rating and requiring that this reduced exposure be spread across more counterparties (single entities). Having regard for the counterparty exposure of the Funds across cash and term deposits is important, particularly when the Funds is also likely to be invested in longer dated securities (bonds) from the same issuer (e.g. banks).

EXPOSURE LIMIT FRAMEWORK		***(% of Income Assets)***			
Asset Class / Issuer Category	**Credit Rating**	**Max Exposure to Credit Rating [1]**	**Max Exposure to Single Entity [1]**		
1. Cash & Term Deposits					
NZ and Australian Banks	A- or better	100%	33%		
2. NZ Fixed Interest					
NZ Corporates	AAA	100%	25%		
	AA+, AA, AA-	80%	20%		
	A+, A, A-	65%	13%		*40%*
	BBB+, BBB, BBB-	35%	5.8%	*30%*	
	Sub-Investment Grade or Unrated	25%	3.6%		
	(amount that can be sub-ordinated unrated debt) [5]	*7%*	*1.4%*		
Local Authorities *"Credit Rated"*, or where rates are used as security, or security is provided by a debenture / guarantee		50%	12.5%		
State Owned Enterprises (SOEs)	BBB- or better	50%	12.5%		
NZ Government / Guaranteed Bon(	A- (average) or better	100%	100%		
3. Offshore Fixed Interest (NZ$ Hedged)					
Global Bond Funds[3]	A- (average) or better	100%	*N/A*		

Notes:
1. Exposure limits are a percentage of investment in **Income Assets** (i.e. Cash, NZ and Global Fixed Rate Interest investments).
3. The maximum exposure limit could be fully allocated to any of the JBWere recommended global bond funds.
4. There is an unrated exposure limit to account for the existence of good quality issues that are not formally rated.
5. Within the universe of unrated issues, consideration could be given to investing in sub-ordinated debt if JBWere has access to research on the underlying company.

3 *It is standard practice to remove foreign currency risk from the conservative asset class of Global Fixed Interest by hedging returns back into the home currency of the investor. For New Zealand investors there is the added advantage of enhanced return from the positive carry associated with hedging (converting) foreign currency exposure into New Zealand dollars. This positive carry results in the expected return from Global Fixed Interest being similar (arguable higher) to that achievable from the New Zealand Fixed Interest asset class.*

6.6 New Zealand and Australian Equities

Preference is for directly investing in New Zealand and Australian listed equities, where consideration is given to the quality of the company, the industry in which it operates, and pricing relative to valuation. The structure of JBWere recommended portfolios will also take into account themes that are believed will influence sectors of the market, diversification of companies based on relative risks, and specific investor requirements such as taxation imputation, ethical overlay, and time horizon.

Model portfolios are provided to assist with the selection of stocks that are recommended by JBWere in the New Zealand and Australian equity markets. Actual portfolio composition will take into consideration:

- size of funds to be invested
- level of conviction around stock performance
- liquidity of individual stocks
- desire to obtain adequate diversification, and hence control of the risk that the portfolio underperforms the respective market benchmark index

6.7 Global Equities

Investment in Global Equities can be obtained through a prolific array of very liquid and cost effective exchange traded funds, recommended managed funds, and if preferred directly into global equity securities. JBWere maintains a model global equity portfolio using exchange traded funds based on global themes, and also offers this model portfolio as a managed fund that has a currency hedging overlay. JBWere also maintains a list of recommended global equity stocks for direct investment.

6.8 Low Correlation Strategies

This asset class plays an important role in deriving returns that are not affected by conditions in the traditional markets of equities and fixed income. The primary means for investing in this asset class is through recommended hedge funds, from lower risk-return fund of hedge funds to more variable and higher returning individual hedge funds. Ideally, a mix of fund of funds and individual funds should be selected to match the return variability of the chosen strategic asset allocation.

6.9 Foreign Currency Hedging

Allocations to Global Fixed Interest will be fully hedged against foreign currency exposure. However, foreign currency exposure will exist with any foreign currency Cash holdings, and investments in Australian Equities, Global Equities, and some Low Correlation Strategies. The extent that this foreign currency exposure should be hedged back to NZ dollars will depend on the expectations for changes in exchange rates. The benchmarks for the Funds' foreign investments other than Global Fixed Interest will be unhedged.

7. Fees

A single fee of 0.60% pa on the total value of investments across both Funds will be charged quarterly in arrears. This fee covers the following services:

- Strategic advice
- Portfolio investment management subject to an Investment Mandate
- Custody of assets
- Reporting and administration
- *No brokerage* on transactions executed in NZ and Australian markets*
- *No setup fees*
- *No performance fees*

* Third party brokerage that is charged to JBWere (circa 0.25%) for transactions executed outside of NZ and Australian markets will be passed onto the Funds.

8. Risk Identification and Management

Investment risk ultimately comes down to the likelihood of suffering a permanent loss of capital. Sources of investment risk include:

Market	Variability in market prices from equities, currency, interest rate changes (incorporates inflation), and liquidity.
Counterparty	Default and legislative risk associated with credit, political, and regulatory factors at a corporate and country level.
Operational	Operational administration and implementation. Operational error, mismanagement, manager performance.

Often the key source of risk when investing is the investor's reaction to variability in market pricing. Investor emotions can have a large and detrimental impact on returns achieved. The parameters outlined in this document, coupled with the discipline to adhere to these guidelines, is the primary means for keeping emotions in check and delivering consistent returns that are within expectations longer term.

9. Responsible Investing

Responsible investing is an area that has developed rapidly, and continues to evolve with a wide range of standards and procedures being adopted. Responsible investment is increasingly being separated into environmental, social, and corporate governance. Establishing guidelines around responsible investing is largely driven by personal preference. While no specific guidelines have been stipulated in this investment strategy, the following guidelines will be used:

Responsible investing will be achieved by:

- Adhering to the policy guidelines outlined in this document which are modelled on international best practices for wealth management.
- Avoiding investment in entities that violate generally accepted values and practices.
- When the opportunity arises, voting and engaging on environmental, social, and corporate governance issues, and looking for the intention to do this when selecting investment managers.

10. Investment Beliefs

- **Risk and return are related.** Capital markets are broadly efficient in the pricing of financial risk. Higher expected returns on an investment will generally be associated with a higher level of risk.
- **Return requires risk, but risk does not guarantee return.** Achieving a return above that available on high-quality money market investments (a proxy for the risk free rate) requires that risk of some description is taken. However, risk-taking does not guarantee additional return will be achieved, even over long time periods.
- **Diversification reduces volatility.** All other things being equal, combining assets with returns that are less than perfectly correlated reduces the variability of total portfolio return. This is amongst the most important tenets of investment management.
- **The real world is complex.** Real world complexity means that financial theories are often unrealistic and should not be relied upon on every occasion.
- **Behavioural issues are important.** Behavioural issues apply at the security level, the asset class level, and when constructing and managing an overall investment strategy. One example is projecting forward past performance that encourages a more conservative portfolio stance after a period of market weakness, or a more aggressive portfolio stance after a period of market strength.
- **High-quality, proprietary research is essential.** Developing best practice investment portfolios requires a substantial commitment to research, both by advisors, fiduciaries, and managers.
- **Opportunistic management can add value.** Market participants in aggregate receive market returns less costs. However, skilful application of superior access to information, research resources, and access to deal flow can consistently generate above average market returns.
- **Alignment of interests and principle/agency issues are crucial.** Alignment of interests between investors and their agents is crucial in all areas of the investment process.
- **Investment objectives and the meaning of risk vary between investors.** Factors such as time horizon, attitude to likelihood and magnitude of potential loss, liability structure, and broader stakeholder objectives are all important in defining investment objectives and the risk that is relevant to a particular investor.
- **History provides a useful starting point for analysis, but should not be relied upon excessively.** The adage "history never repeats, but it often rhymes" is applicable when investing. Examining history is often a useful starting point for thinking about future investment prospects. However, actual history represents just one outcome that could have occurred from a range of outcomes.
- **Long-term returns are likely to be superior when a genuinely long-term perspective is taken.** Investors who out of necessity must strike a balance between short and long-term objectives face an additional constraint not encountered by those who are able to focus exclusively on the long-term. Long-term investors are better able to structure their portfolios to take advantage of higher returning growth assets and to implement their decisions without undue concern about possible short-run adverse outcomes.
- **Overvalued assets represent a risk.** Prices can deviate significantly from fundamental value over short or even medium-term periods, but will trend towards fundamental value over the long term. Such deviations are often due to behavioural factors. Investing in markets and securities at a time when they are overvalued represents a risk that losses will be sustained when prices revert to fundamental value. Fundamental value invariably depends on the cash flows that will be delivered over time from the investment.
- **Liquidity matters.** Portfolio investments will be monitored to ensure sufficient liquidity to meet expected cash flow requirements as outlined in the investment objectives. The majority of recommended investments held directly or indirectly through pooled vehicles, will be quoted on major market exchanges and may be realised quickly if required. Exceptions could include legacy direct property investments already held and recommended investments in private equity.

Report to: Audit & Risk Committee	**Meeting Date: 21 June 2021**
Title of Item: Delegation of Authority – LGFA	
Report by: Heather Mabin, Acting Chief Executive	
Reviewed by:	
Public excluded? No	

Report Purpose

The purpose of this paper is to establish Council signatories for borrowings from Local Government Funding Agency Limited (LGFA).

Report Summary

During the recent rollover of the $2,000,000 debt Council held with Local Government Funding Agency Limited, it was established that there are no Council Officers with delegated authority to act for Council in this matter. This paper addresses this issue.

Draft Recommendations

It is recommended that the Committee resolve to recommend that Council:

- Approve the inclusion of Heather Mabin as a West Coast Regional Council signatory with LGFA; and
- Approve the inclusion of Chair Allan Birchfield as a West Coast Regional Council signatory with LGFA; and
- Approve the inclusion of Cllr Debra Magner, Chair Audit & Risk Committee as a West Coast Regional Council signatory with LGFA.

Issues and Discussion

Background

In December 2011, the Local Government Funding Agency Limited was incorporated as a Council-Controlled Organisation (CCO) that operates under the Local Government Act 2002. Its primary purpose is to provide to local authorities and their CCOs more efficient funding costs and a diversified funding source.

In February 2019 Council joined as a borrower, see Attachment 1, actioned by the then Chair Allan Robb. And then in May that year, Council received its first loan from LGFA.

LGFA's debt obligations are guaranteed by its council shareholders and borrower and guarantor councils. Points to note about LGFA's shareholders are that:

- Other than the New Zealand Government, each shareholder in LGFA must be a Guarantor.
- Any non-shareholder council that borrows in aggregate NZ$20 million or more from LGFA must be a Guarantor.
- Any council shareholder of a Council Controlled Organisaton who borrows from LGFA.

Current situation

The recent process in May to roll-over Council's debt held with LGFA identified the fact that there are no Officers with delegated authority to act on behalf of Council in this matter. Council's current Delegations Manual is silent on the matter of managing debt.

Please note: During the debt roll-over, LGFA advised that Council was one of the few Council's that utilised the services of lawyers and that there were legal services available through LGFA.

Currently, Council is also not a guarantor, therefore limited to total borrowing of up to $20 million. If Council were to become a guarantor, to be able to then exit a guarantor arrangement, Council would need to have:

- Repay all existing borrowings; and
- Repay all the LGFA's borrowings, current at the time the council notifies of its withdrawal from the guarantee.

During the preparation of the budget for the 2021-31 Draft Long-term Plan, discussion took place as to the potential need for Council to become a guarantor, due to projected debt levels. Officers established that this change would not trigger the requirement to consult the community, however in the short-term there is no need to become a guarantor other than the potential change in ownership structure of Regional Services Holdings Limited (RSHL).

Currently, of the 6 RSHL shareholders, Environment Southland and West Coast Regional Council are not guaranteeing members of LGFA.

RSHL is planning to restructure its organisation, the next milestone being the consideration of a business case about this change at the August Regional CEOs meeting. It is envisaged that given the range of stakeholders the final agreed structure for RSHL will not be in completed until the end of the year.

An aspect of this restructure is for RSHL as a CCO of Councils to become a borrower of LGFA. If this was to happen all shareholding Councils, would need to be guarantors of LGFA and at this point Council would need to consider this change.

Considerations

Implications/Risks

The actions outlined in this paper will mitigate the risk of unauthorised staff making decisions about Council's debt held with LGFA.

Significance and Engagement Policy Assessment

There are no issues within this report which trigger matters in this policy.

Legal implications

The suggested notification of authorised signatories is in line with the requirements of the Local Government Act 2002, the Local Government Borrowing Act 2011 and the Financial Markets Conduct Act 2013.

Attachments

Attachment 1: Accession Deed to Multi-Issuer Deed, Russell McVeagh 26 February 2019

Russell McVeagh

Accession Deed to Multi-Issuer Deed

PARTIES

West Coast Regional Council
Acceding Party

New Zealand Local Government Funding Agency Limited
Subscriber

3681940 v1

Russell McVeagh

DEED dated 26 February 2019

PARTIES

West Coast Regional Council

(**"Acceding Party"**)

New Zealand Local Government Funding Agency Limited

(**"Subscriber"**)

pursuant to the Multi-Issuer Deed defined below.

INTRODUCTION

A. The Subscriber has agreed that the Acceding Party may accede to the Multi-Issuer Deed as an "Issuer".

B. This deed records the accession.

COVENANTS

1. INTERPRETATION

1.1 **Interpretation**: In this deed:

"Local Authority" has the meaning given to it in the Local Government Act 2002.

"Multi-Issuer Deed" means the deed dated 7 December 2011 (as amended and restated on 4 June 2015) between the Subscriber and various Local Authorities entitled "Multi-Issuer Deed".

1.2 **Multi-Issuer Deed**: Terms defined in the Multi-Issuer Deed have the same meaning in this deed unless the context requires otherwise.

2. ACCESSION

2.1 **Accession**: The Acceding Party hereby:

(a) agrees with the Subscriber that with effect on and from the date of this deed, it will be bound by the Multi-Issuer Deed as an Issuer as if it had been an original party thereto and named therein as an Issuer, and agrees to be bound by the terms of, and perform its obligations under, the Multi-Issuer Deed; and

(b) agrees that it will be bound by the special conditions (if any) set out in the annexure to this deed as if those were terms of the Multi-Issuer Deed.

2.2 **Acknowledgement**: The Subscriber acknowledges and agrees to the accession made under this deed.

2.3 **Implied provisions:** For the purposes of section 14 of the Property Law Act 2007, the Acceding Party acknowledges that this deed is, and for all purposes and at all times shall be construed as being, supplemental to the Multi-Issuer Deed.

3. NOTICE

The details for notices for the Acceding Party for the purposes of the Multi-Issuer Deed are:

Delivery Address:	West Coast Regional Council 388 Main South Road Paroa GREYMOUTH 7805
Attention:	Robert Mallinson
Email:	rm@wcrc.govt.nz
Postal Address:	West Coast Regional Council PO Box 66 GREYMOUTH 7840

4. GOVERNING LAW

This deed shall be governed by the laws of New Zealand.

5. NO CROWN GUARANTEE

The obligations and liabilities of the Acceding Party and Subscriber under this deed and the Multi-Issuer Deed are not guaranteed by the Crown.

6. COUNTERPARTS

This deed may be signed in any number of counterparts, all of which together constitute one and the same instrument, and any of the parties may execute this deed by signing any such counterpart.

EXECUTED AS A DEED
Acceding Party

WEST COAST REGIONAL COUNCIL by:

Signature of Elected Member	Signature of Elected Member
Andrew John Robb	Terence Neale Archer
Name of Elected Member	Name of Elected Member

Subscriber

NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED by:

Signature of director

CRAIG .H. STOBO

Name of director

Signature of director

JOHN RICHARD AVERY

Name of director

ANNEX TO THE ACCESSION DEED

1. The Acceding Party will not make any alteration to its Debenture Trust Deed without the prior written consent of the Subscriber.

THE WEST COAST REGIONAL COUNCIL

AUDIT & RISK COMMITTEE

To: Chairperson, West Coast Regional Council

I move that the public be excluded from the following parts of the proceedings of this meeting, namely, -

Item 1 – Confirmation of Confidential Minutes 1 April 2021

Item 2 - Health & Safety Report, 31 May 2021

Item 3 - Jobs For Nature

Item 4 – Quarries (verbal update)

Item 5 – Cyber Security Report

Item No.	General Subject of each matter to be considered	Reason for passing this resolution in relation to each matter	Ground(s) under section 7 of LGOIMA for the passing of this resolution.
Item 1	Confirmation of Confidential Minutes 1 April 2021		
Item 2	Item 2 - Health & Safety Report, 31 May		Clause 7 subclause 2 (a)
Item 3	Jobs for Nature		Clause 7 subclause 2 (b)
Item 4	Quarries Matters		Clause 7 subclause 2 (i)
Item 5	Cyber Security Report		Clause 7 subclause 2 (e)
Item 6	Response to Presentation (if any)		
Item 7	In Committee Items to be Released to Media		

I also move that:

- Heather Mabin and Neil Selman be permitted to remain at this meeting after the public has been excluded, because of their knowledge on the subject. This knowledge, which will be of assistance in relation to the matter to be discussed.

The Minutes Clerk also be permitted to remain at the meeting.