

# ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

## NORTHLAND REGIONAL COUNCIL COMMUNITY INVESTMENT FUND

INVESTMENT REVIEW FOR THE QUARTER ENDING 30 JUNE 2016

ERIKSEN & ASSOCIATES LIMITED

*19 JULY 2016*

### Auckland

Eriksen & Associates Ltd  
443 Lake Rd, Takapuna  
Box 33 1318, Auckland, New Zealand  
Ph +64 9 486 3144 Fax +64 9 486 4413  
auckland@eriksensglobal.com

### Wellington

Eriksen & Associates Ltd  
Level 9, 111 The Terrace  
Box 10 105, Wellington, New Zealand  
Ph +64 4 470 6144 Fax +64 4 470 6145  
wellington@eriksensglobal.com

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**EXECUTIVE SUMMARY****OVERALL**

Eriksen & Associates Ltd (Eriksens) produces investment reviews of the Northland Regional Council Community Investment Fund (the Fund) on a monthly basis. The following review is for the quarter and financial year ending 30 June 2016.

The primary goal of the Fund is to promote business development in Northland. The current asset mix is 55% income and 45% growth assets which was agreed at the August 2014 Audit & Risk meeting.

The Fund is invested with six investment managers in seven separate funds:

Asset Class	Manager	Fund	Benchmark
NZ Fixed Interest	Harbour	Income Fund	70% Corporate A Grade Index/30% NZX50
	Milford	Diversified Income Fund	NZ OCR + 2.5% p.a.
	Mint	Diversified Income Fund	NZ CPI + 4% p.a.
Australasian Equities	Milford	Active Growth Fund	NZX50 + 3% p.a.
	Aspiring	Aspiring Fund	NZX NZ 90 Day Bank Bill Rate + 5% p.a.
Global Equities	Schroders	Real Return Fund	Australian CPI (trimmed mean) + 5% p.a.
	AMP Capital NZ	GMAF	NZ CPI + 5% p.a.

The return requirement of the Fund is a real return of 4% per annum (assuming inflation of 2.5%) after tax (if any) and investment expenses, over the long term which is generally considered at least three to five years. The benchmark return for the Fund has been taken from the June 2016 CPI results which was 0.8% per annum (annualised over three years). This gives a real return one year performance objective of 4.8% for this report.

Over the month there have been no breaches of the SIPO and all investment managers have complied with their specific mandates.

## INTRODUCTION

Eriksen & Associates Limited (Eriksens) were appointed investment advisors to the Fund in November 2012. This report is in accordance with the SIPO approved by Council on 16 February 2016 and the recommendations approved by Council at the Audit and Risk meeting on 19 August 2014. The updated SIPO includes an amendment to include Aspiring Asset Management as a manager of Australasian equities for the CIF, plus an amendment to the Milford Diversified Income Fund's investment objective.

This review reports the investment returns for all cash, bonds and equities held by the Fund for the quarter ending 30 June 2016. The financial year-end for the Fund is 30 June, thus year-to-date returns are the same as the one year returns and so have been excluded from this report. We have included returns from 31 December 2012 as this is when the investment strategy for the Fund changed and investments were first made with Schroders and Milford. It gives a longer period for analysis of returns.

The returns shown are based on the data supplied by the in-house investment team and statements supplied by AMP, Aspiring, Harbour, Milford, Mint, and Schroders as at 30 June 2016. The returns have been calculated from dollar returns and average assets held during the period. There may therefore be a discrepancy from the money weighted asset return if the amounts invested in a particular asset class have changed during a month. If available, the use of daily rather than monthly data might reduce this.

## PERFORMANCE

### MARKET PERFORMANCE

Global equity markets were very volatile in June. Emerging markets (MSCI Emerging Markets), the US market (S&P 500) and the UK market (FTSE 100) were the only markets with positive performances over the month with returns of 1.6%, 0.1% and 4.4%. The Nikkei 225 (Japan) was down with a return of -9.6%. In Europe, the DAX (Germany) was down 5.7% and the CAC 40 (France) fell 6.0%. Over the quarter the only markets with a positive return were again emerging markets (0.7%), the S&P 500 (1.9%) and the FTSE 100 (5.3%). The markets did not expect the BREXIT vote!

The NZX50 was down 2.0% over the month but up by 2.2% for the quarter. The Australian equity market (S&P/ASX 200) was down by 2.5% over the month, but it was up over the quarter with a return of 3.9%. Over the year the NZX50 gained 20.4% while the Australian equity market was up by 0.6%.

Global government and investment grade bonds were up over the one, three and twelve month periods. New Zealand government and investment grade bonds also performed positively over these periods.

The West Texas oil price was down 1.6% over the month, but Brent Crude was up by 0.2%. Over the previous twelve months West Texas was down 18.7% and Brent Crude was down 21.1%.

Unhedged Australian asset returns expressed in NZD terms will have suffered from a 2.4% appreciation of the NZD/AUD exchange over the last month. Over the quarter the NZD appreciated by 6.0%, while over the last twelve months it gained 8.7% against the AUD. This has a large impact on these unhedged assets' returns and increases volatility in returns. The NZD strengthened against all other major currencies over the month except the yen where it weakened by 2.6%. It strengthened by 5.5% against the euro and 14.6% against the sterling. Against the renminbi it appreciated by 6.7%, and against the USD it was up 5.3%. Over three month and one year periods the NZD strengthened against all major currencies except the yen.

## FUND PERFORMANCE BY ASSET CLASS

### OVERALL

The Fund returned -1.0% over the month which underperformed the Fund's objective by 1.4%. For the quarter the Fund returned 1.0%, underperforming the objective by 0.2%.

The Fund's objective return is the annualised three year rolling New Zealand CPI plus 4% per annum. This three year annualised figure is also used to assess the performance of the Fund over shorter time periods. Hence the one year objective is equal to the three year annualised objective, and the one and three month objectives are taken to be the twelfth and fourth root respectively. This methodology maintains consistency with the smoothing of the CPI data over a three year period so as to avoid volatility in the objective from one quarter to the next.

The three year CPI result to 30 June 2016 was 0.8% per annum. Thus the Fund objective for one year is 4.8% (annualised CPI of 0.8% plus 4% per annum). The one month objective is 0.4%, being the twelfth root of 4.8% and the three month objective is 1.2% which is the fourth root of 4.8%.

Over the year it returned 5.8% which outperformed the objective of 4.8% by 1.0%. The three year return was 8.4% per annum, an outperformance of 3.6%. This is a pleasing result as it is the return over the three year time horizon that is specified in the SIPO as the performance objective.

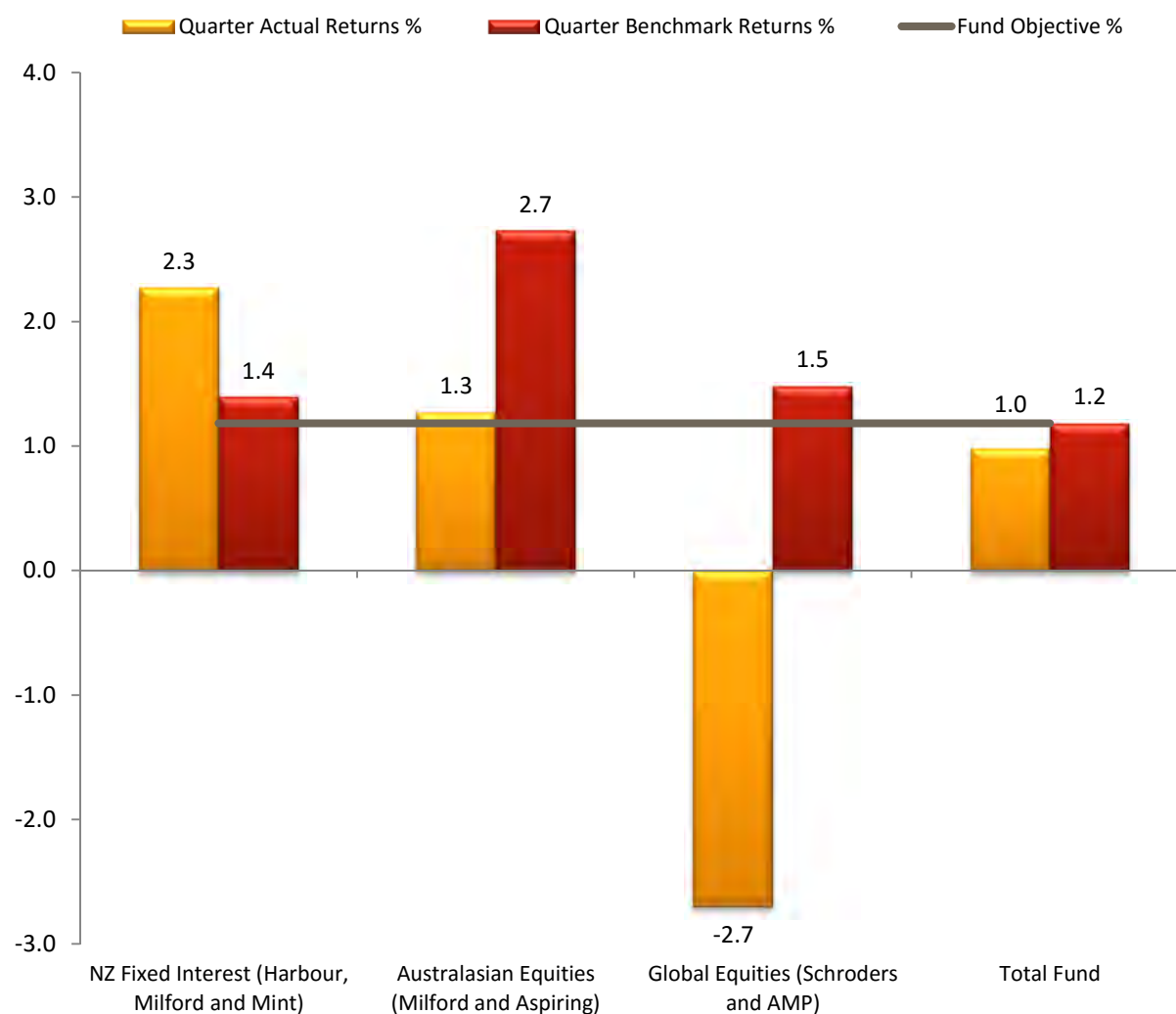
Since inception (three years, six months) the Fund returned 7.9% annualised which was an outperformance of 3.5%.

The following table shows the investment returns of the underlying asset classes and their benchmarks over various time periods. The since inception return has been annualised. The actual and benchmark returns for each asset class are weighted by the underlying fund holdings. The Fund objective remains the same (NZ CPI plus 4% per annum over rolling three year periods).

Asset Class	1 Month %	Quarter %	1 Year %	3 Year (p.a.) %	Inception* (p.a.) %
<b>NZ Fixed Interest</b>	<b>0.2</b>	<b>2.3</b>	<b>9.5</b>	<b>10.7</b>	<b>9.9</b>
Benchmark (weighted average)	0.3	1.4	6.5	5.3	4.9
Over / Underperformance	-0.1	0.9	3.0	5.4	5.0
<b>Australasian Equities</b>	<b>-2.3</b>	<b>1.3</b>	<b>9.0</b>	<b>12.4</b>	<b>13.2</b>
Benchmark	-1.4	2.7	24.0	19.2	19.7
Over / Underperformance	-0.9	-1.4	-15.0	-6.8	-6.5
<b>Global Equities</b>	<b>-2.8</b>	<b>-2.7</b>	<b>-4.8</b>	<b>3.8</b>	<b>3.2</b>
Benchmark (weighted average)	0.5	1.5	6.2	7.0	7.0
Over / Underperformance	-3.3	-4.2	-11.0	-3.2	-3.8
<b>Total Fund</b>	<b>-1.0</b>	<b>1.0</b>	<b>5.8</b>	<b>8.4</b>	<b>7.9</b>
Fund Objective	0.4	1.2	4.8	4.8	4.4
Over / Underperformance	-1.4	-0.2	1.0	3.6	3.5

\*Inception date is 31 December 2012

### QUARTER RETURNS BY ASSET CLASS



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## ASSET CLASS ANALYSIS

### NZ Fixed Interest

This asset class comprises Harbour's Income Fund, Milford's Diversified Income Fund and Mint's Diversified Income Fund.

The returns since September 2014 relate to the performance of the Harbour, Milford and Mint funds. All three of these investments were included in the Fund at different stages after the Fund inception date. Since inception returns include these funds in proportion to the time of initial investment and also include a number of bonds and term deposits which were progressively sold down.

The fixed interest asset class returned 0.2% for the month which 0.1% below the weighted average benchmark. The return for the quarter was 2.3%, an outperformance of 0.9%.

The return over the year was 9.5%, outperforming the benchmark return by 3.0%. The annualised three year return was 10.7%, outperforming by 5.4%. Since inception the asset class returned 9.9% per annum, outperforming by 5.0%. The performance over all time horizons is pleasing.

### Australasian Equities

This asset class is comprised of the Milford Active Growth Fund and the Aspiring Fund. The returns for the one month period include both funds. The longer time horizons relate to the Milford Active Growth Fund as the investment in Aspiring was only made in March 2016.

Australasian equities returned -2.3% for the month, an underperformance of 0.9% against the weighted average benchmark. The return for the quarter was 1.3% which underperformed the benchmark by 1.4%.

The return for the year was 9.0% which was 15.0% below the benchmark. The annualised three year return was 12.4%, underperforming by 6.8%. The return since inception was 13.2% per annum, 6.5% below benchmark.

### Global Equities

The global equities asset class consists of Schrodgers Real Return Fund and AMP's Global Multi-Asset Fund. The three year return and since inception return relates to Schrodgers' performance. The one month, three month, year-to-date and one year performance figures include AMP and Schrodgers.

The investment with Schrodgers is denominated in Australian dollars and is unhedged. The investment in AMP is a 50%/50% split between Schrodgers Real Return Fund in Australia and AMP Australia's Multi-Asset Fund. The return on this investment is fully hedged to NZ dollars.

The one month return for global equities was -2.8%, underperforming the weighted average benchmark by 3.3%. Currency movements were detrimental to the Schroders return over the month, with the New Zealand dollar strengthening against the Australian dollar by 2.4%.

Over the quarter the return was -2.7%, underperforming the benchmark by 4.2%. The New Zealand dollar appreciated by 6.0% over the quarter which weakened Schroders' quarterly return considerably.

The return for the year was 11.0% below the benchmark, returning -4.8%. The New Zealand dollar appreciated by 8.7% against the Australian dollar over the year.

The three year return was 3.8% per annum, underperforming by 3.2%. Since inception the asset class returned 3.2% annualised which was an underperformance of 3.8% against the weighted average benchmark return.

The table below shows the returns for Schroders in New Zealand and Australian dollar terms:

Schroders Real Return Fund + 5%	1 Month Return		Quarter Return		1 Year Return		3 Year Return (p.a.) %	
	NZD	AUD	NZD	AUD	NZD	AUD	NZD	AUD
Net	-3.2	-0.8	-3.8	2.0	-6.2	1.7	3.1	5.4
Benchmark	0.5	0.5	1.4	1.4	6.4	6.4	7.2	7.2
<b>Value Added</b>	<b>-3.7</b>	<b>-1.3</b>	<b>-5.2</b>	<b>0.6</b>	<b>-12.6</b>	<b>-4.7</b>	<b>-4.1</b>	<b>-1.8</b>

Schroders have their portfolio positioned to reduce the risk of capital loss, given their objective of a 5% per annum real return. This defensive strategy has been in place for quite some time as the team prefer to preserve capital even if this means a short term underperformance against their objective.

As at 30 June, Schroders had a high weighting to cash within the fund (27%) and relatively low exposure to equities (28%) for defensive purposes. They also have a 5% US S&P put option in place for further downside protection. This effectively means that if there is a sharp fall in equities, their exposure to equities will be reduced by an equivalent 5%. We are happy with this approach as there is a great deal of risk in the global economy and this style of investing helps to reduce volatility and provide diversification.

We continue to rate Schroders as a Buy.



## FUND PERFORMANCE BY INDIVIDUAL MANAGER

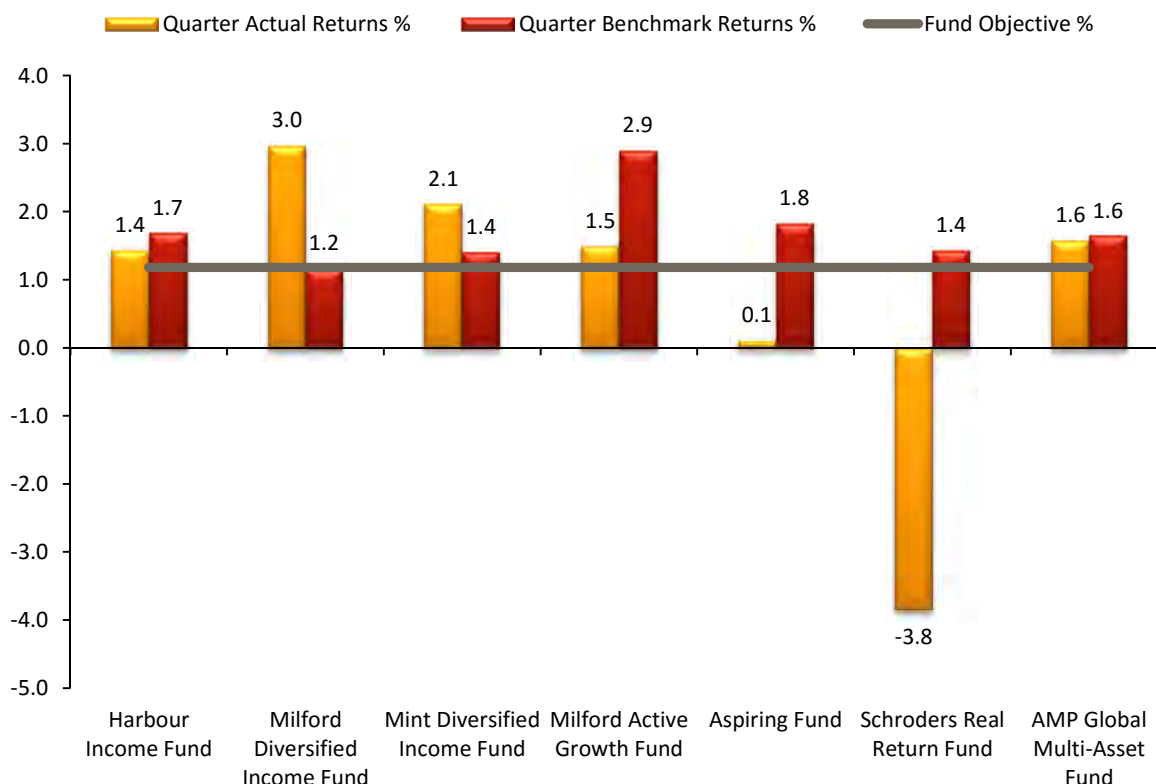
## OVERALL

The table below shows the individual market values and asset returns for the one month, quarter, one year, three year and since inception periods.

Asset	1 Month %	Quarter %	1 Year %	3 Year %	Inception (p.a.) %*
<b>NZ Fixed Interest</b>					
<b>Harbour Income Fund</b>	<b>0.0</b>	<b>1.4</b>	<b>7.0</b>		
Benchmark (70% Corp A + 30% NZX50)	-0.1	1.7	10.5		
Over / Underperformance	0.1	-0.3	-3.5		
<b>Milford Diversified Income Fund</b>	<b>0.1</b>	<b>3.0</b>	<b>12.2</b>		
Benchmark (NZ OCR + 2.5% p.a.)	0.4	1.2	4.9		
Over / Underperformance	-0.3	1.8	7.3		
<b>Mint Diversified Income Fund</b>	<b>0.6</b>	<b>2.1</b>	<b>8.3</b>		
Benchmark (NZ CPI + 4% p.a.)	0.5	1.4	4.4		
Over / Underperformance	0.1	0.7	3.9		
<b>Australasian Equities</b>					
<b>Milford Active Growth Fund</b>	<b>-2.1</b>	<b>1.5</b>	<b>9.8</b>	<b>12.7</b>	<b>13.5</b>
Benchmark (NZX50 + 3% p.a.)	-1.8	2.9	24.0	19.2	19.7
Over / Underperformance	-0.3	-1.4	-14.2	-6.5	-6.2
<b>Aspiring Fund</b>	<b>-3.2</b>	<b>0.1</b>			
Benchmark (90 Day Bank Bill +5%p.a.)	0.6	1.8			
Over / Underperformance	-3.8	-1.7			
<b>Global Equities</b>					
<b>Schroders Real Return Fund</b>	<b>-3.2</b>	<b>-3.8</b>	<b>-6.2</b>	<b>3.1</b>	<b>2.6</b>
Benchmark (Aus CPI TM + 5% p.a.)	0.5	1.4	6.4	7.2	7.2
Over / Underperformance	-3.7	-5.2	-12.6	-4.1	-4.6
<b>AMP Global Multi-Asset Fund</b>	<b>-1.3</b>	<b>1.6</b>	<b>0.9</b>		
Benchmark (NZ CPI + 5% p.a.)	0.5	1.6	5.4		
Over / Underperformance	-1.8	0.0	-4.5		
<b>Total Assets</b>					
<b>Total Fund</b>	<b>-1.0</b>	<b>1.0</b>	<b>5.8</b>	<b>8.4</b>	<b>7.9</b>
Fund Objective	0.4	1.2	4.8	4.8	4.4
Over / Underperformance	-1.4	-0.2	1.0	3.6	3.5

\*Inception date is 31 December 2012

QUARTER RETURNS BY INDIVIDUAL MANAGER



ERIKSEN'S INVESTMENT MANAGER AND FUND RATINGS

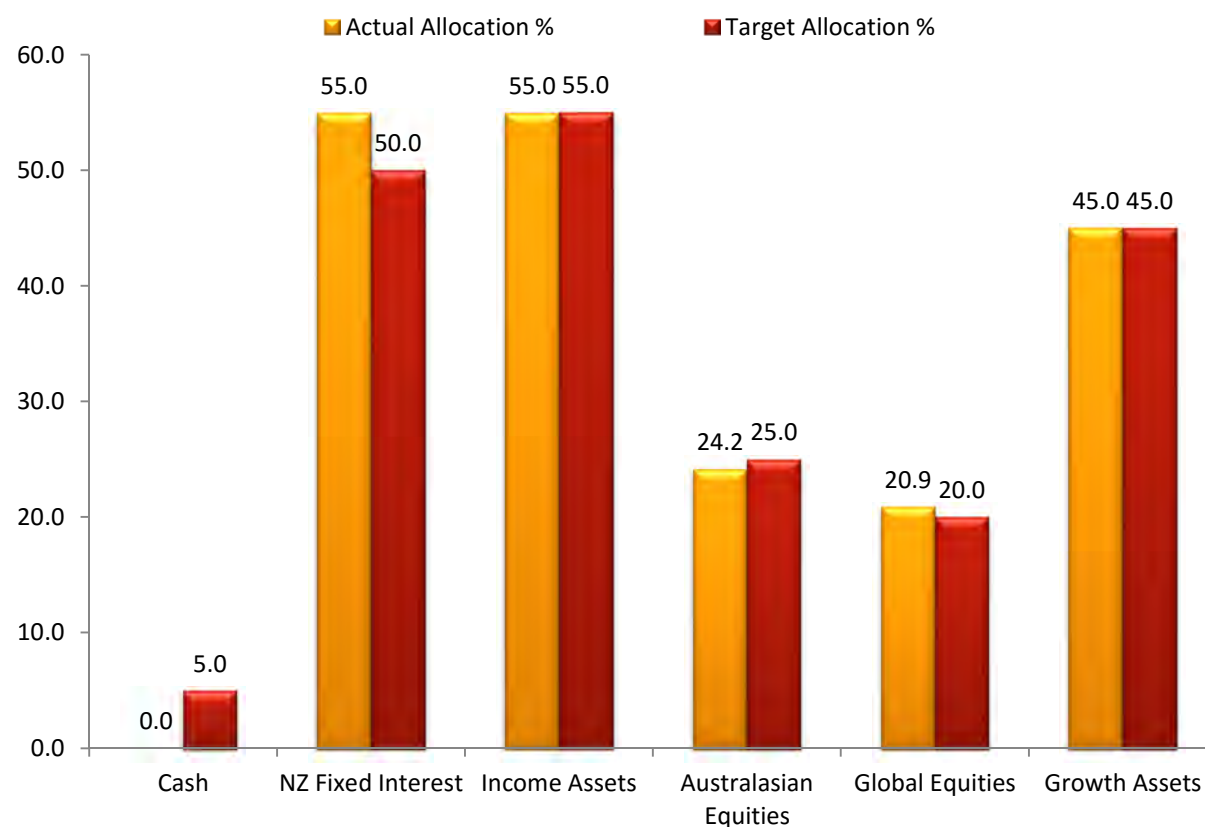
The table below summarises Eriksen’s rating of each of the underlying funds the NRC CIF is invested with. All funds are rated Hold or Buy which means that we recommend the investment should either be kept in the portfolio or more should be purchased. These ratings are generalised, so although we have rated some as Buy we are not recommending the Council invests more in these funds as the proportion invested is sufficient. Please see the Appendix for a detailed explanation of the methodology. Please note that our methodology has changed since our last report however the ratings for each fund as detailed in the table below have remained the same.

Manager	Fund	Rating
AMP Capital	Global Multi-Asset Fund*	Hold
Aspiring Asset Management	Aspiring Fund	Buy
Harbour Asset Management	Income Fund	Buy
Milford Asset Management	Active Growth Fund	Hold
Milford Asset Management	Diversified Income Fund	Hold
Mint Asset Management	Diversified Income Fund	Buy
Schrodgers	Real Return Fund	Buy

\* This product’s rating was downgraded in April due to the exit of Keith Poore (head of investment strategy) from July onwards

## ASSET ALLOCATIONS

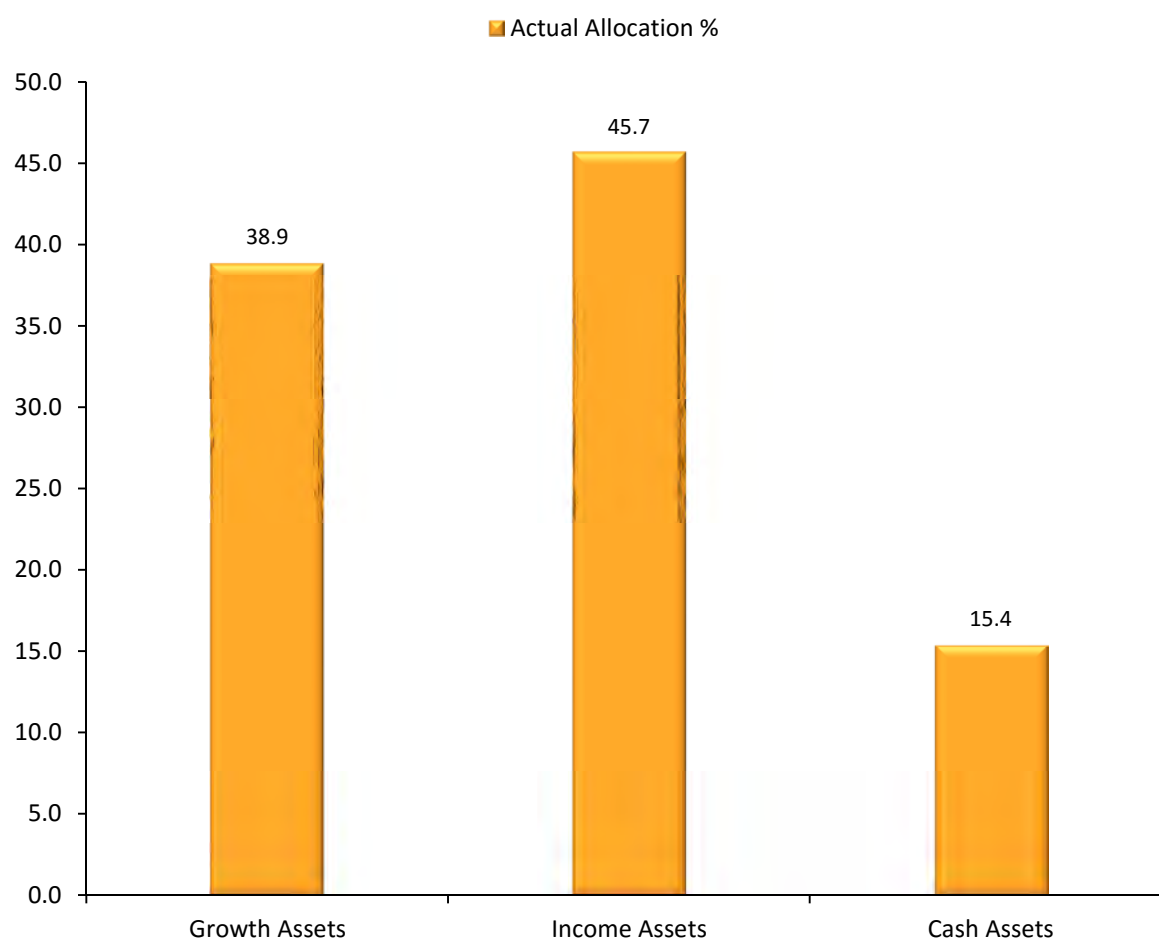
## ASSET CLASS SPLIT



The Fund's asset allocation shows all asset classes are within the ranges as specified by the SIPO. The split between income and growth assets is within the target range. All asset classes are close to their targets.

Allocations	Market Value NZ\$	Actual Allocation %	Target Allocation %	Difference %	Status
Cash	-	0.0	0 < 5 < 40	-5.0	✓
Harbour Income Fund	2,075,523				
Milford Diversified Income Fund	2,875,849				
Mint Diversified Income Fund	1,900,031				
NZ Fixed Interest	<b>6,851,403</b>	<b>55.0</b>	<b>30 &lt; 50 &lt; 70</b>	<b>5.0</b>	✓
<b>Income Assets</b>	<b>6,851,403</b>	<b>55.0</b>	<b>35 &lt; 55 &lt; 75</b>	<b>0.0</b>	✓
Milford Active Growth Fund	2,517,808				
Aspiring Fund	493,621				
Australasian Equities	<b>3,011,429</b>	<b>24.2</b>	<b>15 &lt; 25 &lt; 35</b>	<b>-0.8</b>	✓
Schroders Real Return Fund	2,044,038				
AMP Global Multi-Asset Fund	560,818				
Global Equities	<b>2,604,857</b>	<b>20.9</b>	<b>10 &lt; 20 &lt; 30</b>	<b>0.9</b>	✓
<b>Growth Assets</b>	<b>5,616,286</b>	<b>45.0</b>	<b>25 &lt; 45 &lt; 65</b>	<b>0.0</b>	✓
<b>Total Assets</b>	<b>12,467,689</b>	<b>100.0</b>			

## UNDERLYING FUND ASSETS SPLIT



### **Growth assets includes:**

- Global shares
- Australasian shares
- Property

### **Income assets includes:**

- Global bonds
- Australasian bonds
- Other debt instruments

### **Cash assets includes:**

- Cash or short duration bonds.

Over the quarter there was a 1.4% decrease in growth assets, an increase of 2.9% in income assets and a 1.5% decrease in cash assets.

## ECONOMIC COMMENTARY

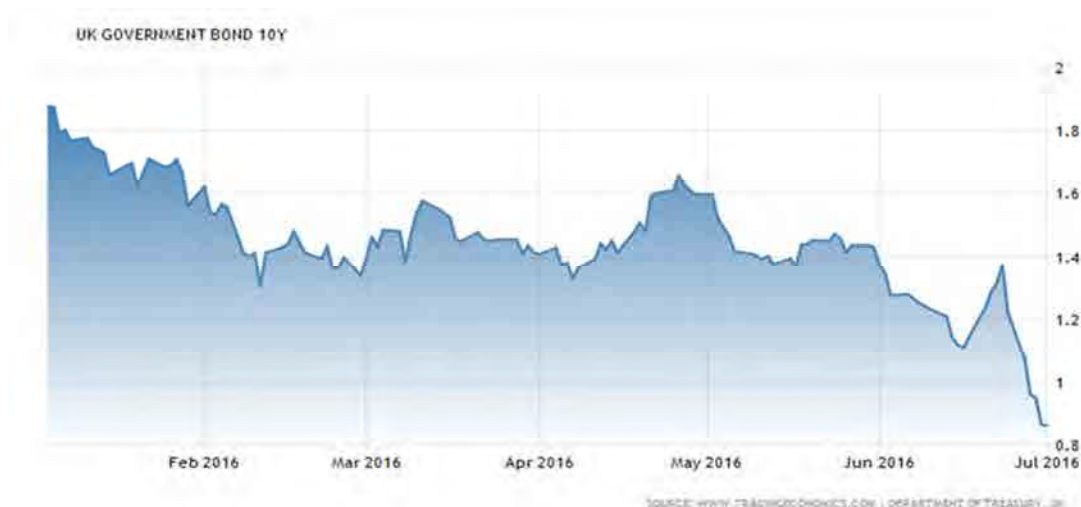
“Brexit” dominated headlines worldwide following the June 23 referendum and the decision to leave the European Union. In the run-up to the vote financial markets largely ignored polls and had priced in a “remain” result. Subsequently as the results trickled in on June 23 and a shock “exit” result looked likely, a burst of trading across the market ensued. Simply put, the market got it wrong.

European markets suffered the largest daily losses, with the key indices falling as follows:

Country/Region	Index	Fall %
Italy	FTSE MIB	-12.5
Spain	IBEX 35	-12.4
Europe	EURO STOXX 50	-8.6
France	CAC 40	-8.0
Japan	Nikkei 225	-7.9
Germany	DAX	-6.8
US	S&P 500	-3.6
UK	FTSE 100	-3.1

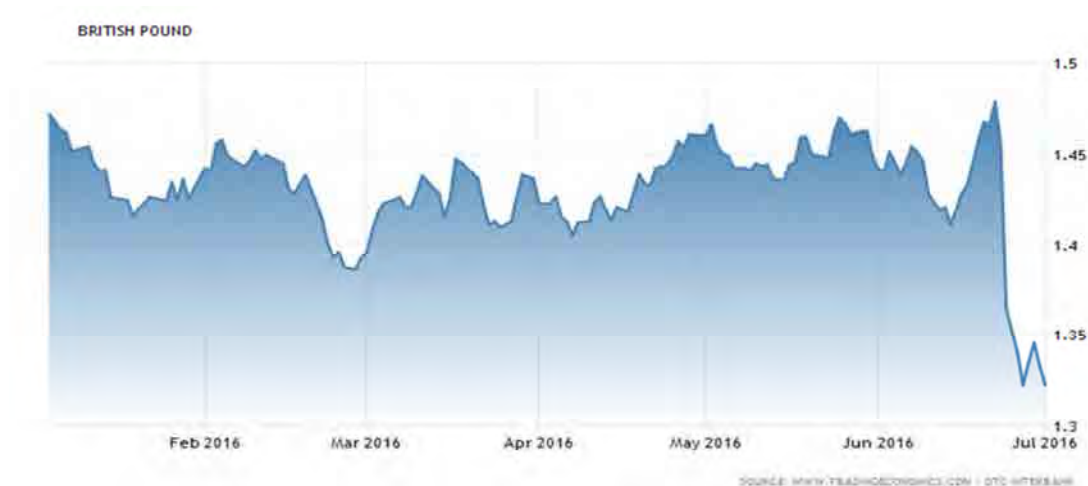
The FTSE 100 Index had the smallest losses, as the market was supported by the weak GBP and globally-focused companies. However, in the days following the result stock markets bounced back.

Long-term bond yields and currency markets are more concerning. Many sovereign 10-year bonds are either at, or near, all-time lows. Capital preservation is the name of the game. The German 10-year bund is in negative territory at -0.14%, while the Japanese 10-year bond has fallen further into negative territory down to -0.25%. After Brexit the US 10-year bond sank to 1.5% thanks to trading that was eight times the normal volume. It is now around 1.4%. The UK 10-year gilt also fell sharply as seen in the following graph. It currently trades at approximately 0.8%.



The GBP fell 7.6% against the USD in the wake of the referendum result (see following graph). To put this into perspective the average daily move of the GBP/USD cross rate since 2012 was 0.35%, a

move 21 times the average. The yen and the greenback both soared due to the risk-off sentiment of investors. Gold also increased because of its “safe-haven” status, reaching a two-year high.



The financial system overhauls made following the GFC may lessen the stress of Brexit. Higher capital ratios, lower risk balance sheets, higher liquidity coverage levels and less dependence on wholesale funding should enable UK banks to manage through. The Bank of England stated they will make £250 billion available to banks and that further liquidity could be provided in foreign currency if required.

The ECB acted to stem the further pressure on bond markets by issuing a statement that it would “...continue to fulfill its responsibilities to ensure price stability and financial stability in the euro area”. Volatility in corporate bond markets will be partially offset by the ECB’s asset purchase program, which started purchasing non-financial corporate bonds in June.

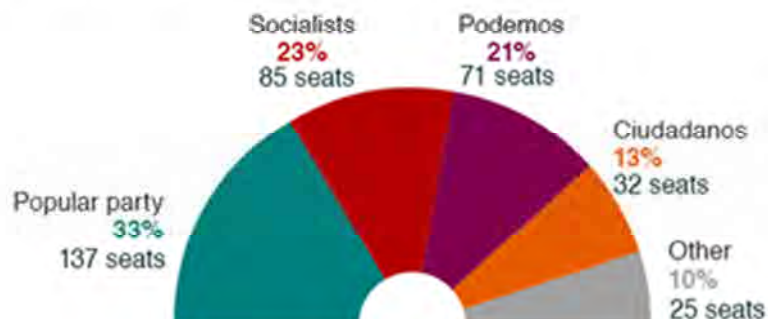
Standard & Poor’s downgraded the UK’s long-term sovereign credit rating from AAA to AA following Brexit. The global rating agency stated their negative outlook reflects the risk to economic prospects, fiscal and external performance, and the role of sterling as a reserve currency. Additionally, with the majority of Scotland and Northern Ireland voting to remain, this provides constitutional issues; particularly if Scotland were to have another referendum for independence.

The situation going forward is what form the negotiations between the UK and the EU will take. It will be messy and no-one really knows what the outcome will be. The two-year transition period to leave begins once Article 50 of the Lisbon Treaty is invoked. Article 50 briefly states the requirements for a member state wishing to withdraw from the EU. This will not happen until a new Prime Minister is elected with David Cameron announcing he will step down in October.

Also making headlines in Europe was the Spanish election which took place on June 26. The election results are shown in the following diagram, with no one party winning outright. This was the second election in six months after virtually a four-way tie in December which meant no legislation has passed through parliament in that time. The Popular Party increased their number of seats since the last election but still could not reach the 176 required to rule outright. Already the Socialists party and Podemos party have stated they are not willing to form a multi-party government with the

Popular Party, meaning a prolonged period of uncertainty and instability for Spain before a ruling government is formed.

### Spain 2016 general election results



Source: bbc.com

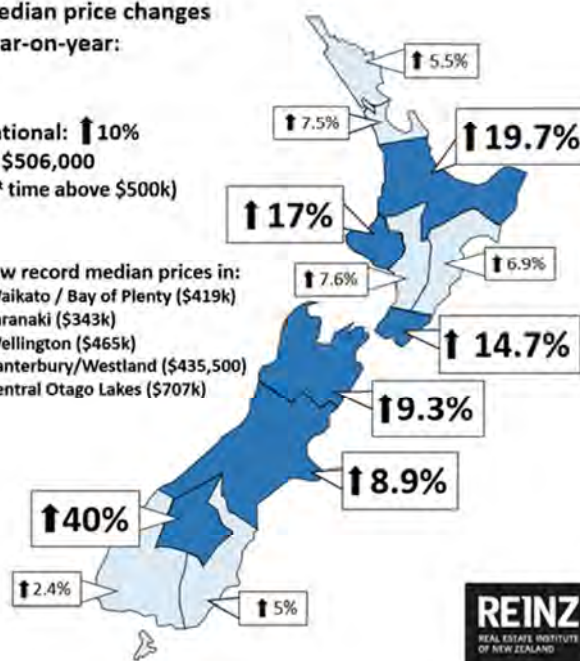
In the US the Federal Reserve is expected to maintain the Fed rate at 0.5% for longer to maximise market liquidity following Brexit. At the start of the month the market had priced in one hike by the end of 2016, by the end of June the market had not priced a full 25bps hike until 2018. Consumer confidence was down in June, with less people optimistic about current conditions and future economic prospects compared to the May survey. The US Manufacturing PMI figures were up in June to 53.2, well above market expectations of 51.4. This is the highest it's been since February 2015. A reading above 50 indicates that the manufacturing industry is expanding and is a good indicator of business confidence.

Business confidence in New Zealand was up in June. This was the fourth monthly increase in a row, supported by upbeat investment intentions, employment intentions and profit expectations.

### Median price changes year-on-year:

National: ↑ 10%  
to \$506,000  
(1<sup>st</sup> time above \$500k)

New record median prices in:  
- Waikato / Bay of Plenty (\$419k)  
- Taranaki (\$343k)  
- Wellington (\$465k)  
- Canterbury/Westland (\$435,500)  
- Central Otago Lakes (\$707k)



Source: reinz.co.nz

The crowded New Zealand housing market continues to prod along. May 2016 figures suggest a broadening of house price increases across the country. The national median house price passed \$500,000 for the first time. This was an increase of 10% in May, continuing on from a 3.2% increase in April. In the Waikato/BOP region a record median price was set for the fourth consecutive month. New record median house prices were also set in Taranaki, Wellington, Canterbury/Westland and Central Otago Lakes.

In Australia the final votes are almost in. Malcolm Turnbull has retained power but with a greatly reduced majority. He may have to rely on independents for confidence and supply. What about the Senate? It is still uncertain whether the Liberal Coalition Government will have sufficient control of the Senate to pass any controversial legislation.

The RBA wisely kept interest rates on hold.

Not only is Quantitative Easing and negative interest rates not working, it is also causing the anti-establishment vote in democratic elections because the rich are getting richer. The poor majority don't like it so they are voting accordingly.

Despite the post Brexit bounce in stock markets, investor confidence has not returned. The next three months could be particularly interesting!

And then there is the US Presidential election.



## APPENDIX: ERIKSEN'S FUND MANAGER RATING METHODOLOGY

Our rating scale for investment managers and their funds is explained below. Please note that this assessment is proprietary information and is for the use of Eriksens and our clients only. We ask that it not be discussed or shared with the fund manager in question without our express prior permission.

After a full qualitative and quantitative analysis, Eriksens assign a numerical score covering five key areas at the Fund level and two key areas at Management level:

### Fund Level

- Philosophy and idea generation
- Process
- People
- Performance and fees
- Portfolio structure and composition

### Investment Manager Level

- Business considerations
- Client support and administration

These numerical assessments are as follows:

Score	Explanation
1	The manager is critically deficient in this area and does not meet expectation or specific requirements, urgent changes are needed
2	The manager is somewhat deficient in this area and may need some immediate changes
3	The manager is competent in this area and displays some competitive advantages but could improve in order to become class-leading, generally there are better choices of manager available
4	The manager is fully competent in this area, displays definite competitive advantages and is a class leader

These scores per area are then added together to give a score out of 28 (seven key areas each with a maximum score of four), then are converted to give a mark out of 100.

This mark is then split into three sections and each are assigned either a Sell, Hold, or Buy rating.

- A score of 26, 27 or 28 (**90% plus**) results in a Buy (with the provision there are no scores of 2 within the total).
- A score of 23, 24 or 25 (**80% - 89%**) results in a Hold;
- A score of 22 or less (**below 80%**) results in a Sell rating.

These ratings are explained in the table below:

Mark	Rating	Explanation
0 - 79 inclusive	Sell	Any monies with a fund with a mark less than 80 should be removed from a portfolio, as there are more attractive managers with higher ability to consistently add value.
80 - 89 inclusive	Hold	The manager is generally competent in all areas of their business and may need some changes but not immediately. They may also be working towards making these changes. Existing monies should be kept with them but no new mandates in general should be awarded.
90 - 100 inclusive	Buy	The manager is competent in all areas of their business, displays definite competitive advantages and is a class leader. New mandates should be awarded to this manager, as they will add value to a client's portfolio.

The team at Eriksens discuss the merits and shortcomings of each manager rigorously and a consensus is drawn before assigning scores. There should be complete and undisputable conviction in a manager across all key areas to warrant a recommendation to clients to invest, thus the score required to achieve a Buy rating has a high hurdle. Managers are reviewed on a quarterly basis with a full assessment conducted annually.

# ERIKSEN & ASSOCIATES LTD

Actuaries & Investment Strategists

## NORTHLAND REGIONAL COUNCIL PROPERTY RE-INVESTMENT FUND

Northland Regional Council has six investments with external fund managers in the Property Re-Investment Fund. The following reports on their performance to date.

### BENCHMARKS

Asset Class	Manager	Fund	Benchmark
Diversified Income	Milford	Diversified Income Fund	NZ OCR + 2.5% p.a.
	Mint	Diversified Income Fund	NZ CPI + 4% p.a.
	Quay Street	Income Fund	NZ OCR + 2% p.a.
Australasian Equity	Aspiring	Aspiring Fund	NZ CPI + 4% p.a.
	Mint	Australasian Equities Fund	NZX50 Gross Index
Australasian Private Equity	Continuity Capital	Private Equity Fund No.2 LP	NZX50 Index (Dividends Reinvested) + 4% p.a.

The Fund objective as specified in the updated SIPO adopted by Council on 17 May 2016 is to generate an after fees return in excess of the MorningStar Unlisted and Direct Property Index plus 1% p.a. over rolling three years periods.

#### Auckland

Eriksen & Associates Ltd  
443 Lake Rd, Takapuna  
Box 33 1318, Auckland, New Zealand  
Ph +64 9 486 3144 Fax +64 9 486 4413  
auckland@eriksensglobal.com

#### Wellington

Eriksen & Associates Ltd  
Level 9, 111 The Terrace  
Box 10 105, Wellington, New Zealand  
Ph +64 4 470 6144 Fax +64 4 470 6145  
wellington@eriksensglobal.com

## PERFORMANCE BY INDIVIDUAL MANAGER

## OVERALL

Asset	1 Month %	Quarter %	1 Year %	Inception* % p.a.
<b>Australasian Private Equity</b>				
<b>Continuity Capital No.2 LP Fund</b>	<b>-10.5</b>	<b>-3.9</b>	<b>5.8</b>	
Benchmark	-1.7	3.1	25.2	
Over / Underperformance	-8.8	-7.0	-19.4	
<b>Australasian Equities</b>				
<b>Aspiring Fund</b>	<b>-3.2</b>	<b>-0.1</b>		
Benchmark	0.5	1.4		
Over / Underperformance	-3.7	-1.5		
<b>Mint Australasian Equities Fund</b>	<b>-1.2</b>	<b>3.7</b>		
Benchmark	-2.0	2.1		
Over / Underperformance	0.8	1.6		
<b>Diversified Income</b>				
<b>Milford Diversified Income Fund</b>	<b>0.1</b>	<b>3.0</b>	<b>12.2</b>	<b>10.8</b>
Benchmark	0.4	1.2	4.9	4.8
Over / Underperformance	-0.3	1.8	7.3	6.0
<b>Mint Diversified Income Fund</b>	<b>0.6</b>	<b>2.0</b>	<b>8.2</b>	<b>8.2</b>
Benchmark	0.5	1.4	4.4	4.3
Over / Underperformance	0.1	0.6	3.8	3.9
<b>Quay Street Income Fund</b>	<b>0.4</b>	<b>1.4</b>		
Benchmark	0.3	1.0		
Over / Underperformance	0.1	0.4		
<b>Total Assets</b>				
<b>Total Fund</b>	<b>-0.5</b>	<b>1.8</b>	<b>9.7</b>	<b>10.4</b>
Fund Objective	0.9	2.6	10.5	13.5
Over / Underperformance	-1.4	-0.8	-0.8	-3.1

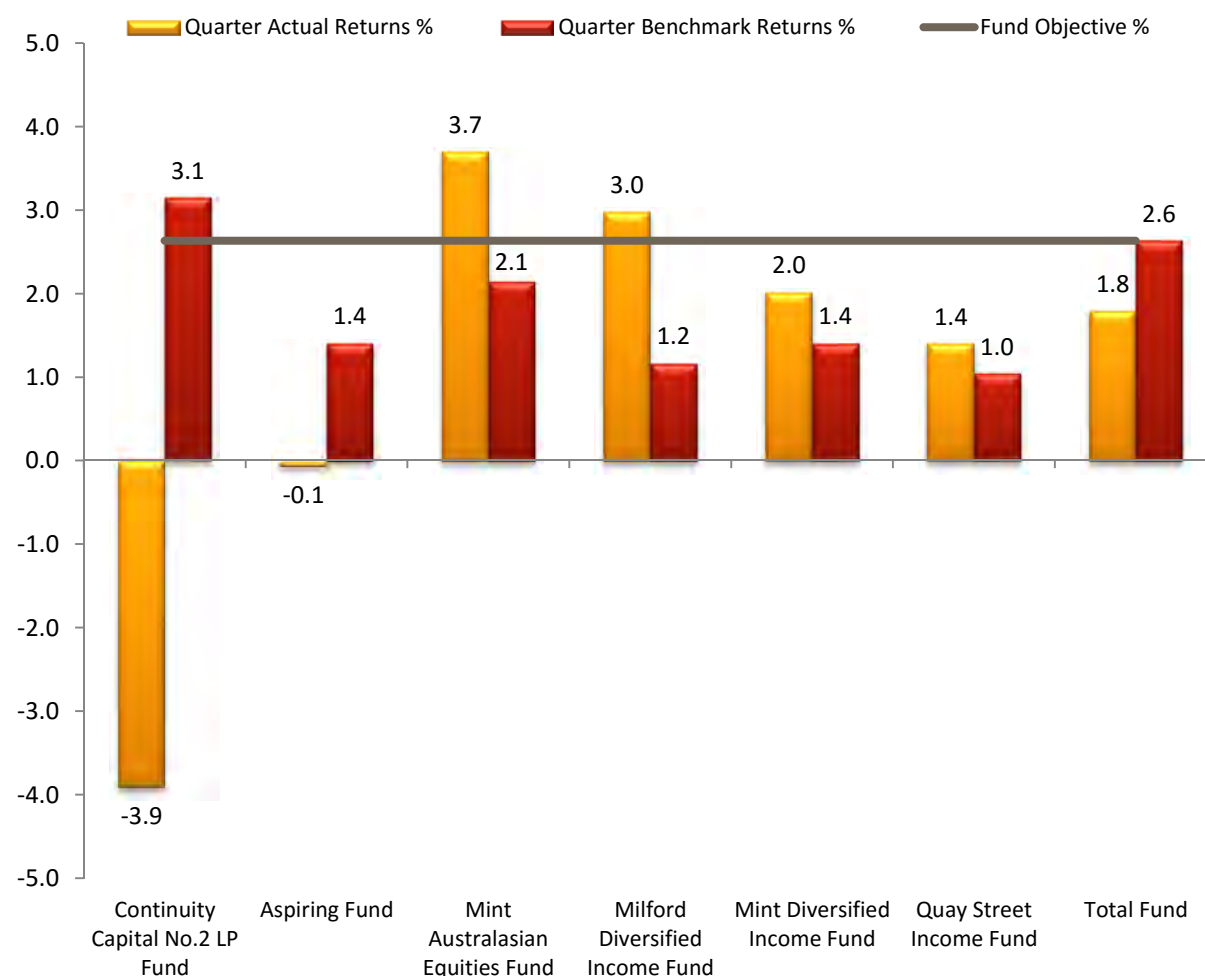
\*Since inception is measured from 30/09/2014

The diversified income assets performed positively in June, while equity assets could not escape the increased volatility in markets following Brexit.

Continuity Capital paid a distribution of \$12,516 in June from the investment in Ironbridge Fund II.

The overall Fund return was -0.5% for the month which underperformed the Fund objective by 1.4%.

## QUARTERLY RETURNS BY INDIVIDUAL MANAGER

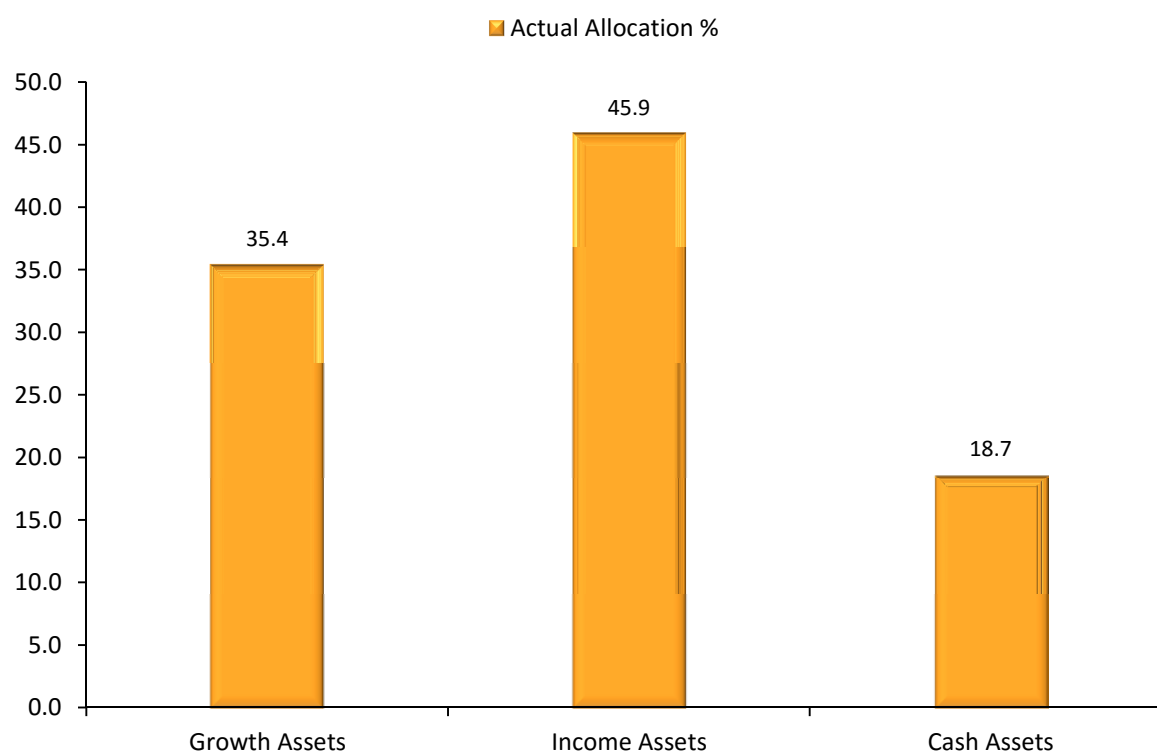


## ASSET ALLOCATIONS

### MANAGER SPLIT

Allocations	Market Value NZ \$	Actual Allocation %	Target Allocation %	Status
Aspiring Fund	2,218,863	12.0	5 < 10 < 15	✓
Mint Australasian Equities Fund	2,272,638	12.2	5 < 10 < 15	✓
<b>Australasian Equities</b>	<b>4,491,501</b>	<b>24.2</b>	<b>20</b>	
Continuity Capital No.2 LP Fund	589,611	3.2	0 < 10 < 30	✓
<b>Australasian Private Equity</b>	<b>589,611</b>	<b>3.2</b>	<b>10</b>	
<b>Growth Assets</b>	<b>5,081,112</b>	<b>27.4</b>	<b>30</b>	
Milford Diversified Income Fund	870,950	4.7	0 < 10 < 20	✓
Mint Diversified Income Fund	9,678,272	52.1	30 < 45 < 60	✓
Quay Street Income Fund	2,915,873	15.7	5 < 15 < 20	✓
Cash	12,516	0.1		
<b>Diversified Income</b>	<b>13,477,612</b>	<b>72.6</b>	<b>70</b>	
<b>Income Assets</b>	<b>13,477,612</b>	<b>72.6</b>	<b>70</b>	
<b>Total Assets</b>	<b>18,558,724</b>	<b>100.0</b>	<b>100</b>	

## UNDERLYING FUND ASSETS SPLIT



### **Growth assets includes:**

- Global shares
- Australasian shares
- Property
- Private Equity

### **Income assets includes:**

- Global bonds
- Australasian bonds
- Other debt instruments

### **Cash assets includes:**

- Cash or short duration bonds.

Over the quarter the allocation to growth assets decreased by 1.0%, cash assets decreased by 5.6% and income assets increased by 6.6%.

**ERIKSEN & ASSOCIATES LTD**

Actuaries &amp; Investment Strategists

**NORTHLAND REGIONAL COUNCIL INFRASTRUCTURE INVESTMENT FUND**

Northland Regional Council has three investments with external fund managers in the Infrastructure Investment Fund. The following reports on their performance to date.

**BENCHMARKS**

Asset Class	Manager	Fund	Benchmark
Diversified Income	Harbour	Income Fund	70% NZX Corporate A Grade / 30% NZX50 Index
	Mint	Diversified Income Fund	NZ CPI + 4% p.a.
	Schroders	Real Return Fund + 3.5%	Australian CPI (trimmed mean) + 3.5% p.a.

The Fund objective as specified in the SIPO prepared in May 2015 is to generate an after fees return in excess of the New Zealand Official Cash Rate plus 3% p.a. over rolling three year periods.

**PERFORMANCE BY INDIVIDUAL MANAGER****OVERALL**

Asset	1 Month %	Quarter %	Inception* %
<b>Diversified Income</b>			
<b>Harbour Income Fund</b>	<b>0.0</b>	<b>1.4</b>	<b>7.3</b>
Benchmark	-0.1	1.7	8.5
Over / Underperformance	0.1	-0.3	-1.2
<b>Mint Diversified Income Fund</b>	<b>0.6</b>	<b>2.1</b>	<b>7.4</b>
Benchmark	0.5	1.4	4.0
Over / Underperformance	0.1	0.7	3.4
<b>Schroders Real Return Fund + 3.5%</b>	<b>-2.8</b>	<b>-4.1</b>	<b>-4.8</b>
Benchmark	0.4	1.1	4.5
Over / Underperformance	-3.2	-5.2	-9.3
<b>Total Assets</b>			
<b>Total Fund</b>	<b>-0.8</b>	<b>-0.5</b>	<b>2.5</b>
Fund Objective	0.4	1.3	4.8
Over / Underperformance	-1.2	-1.8	-2.3

\* Since inception is measured from 31 July 2015

**Auckland**

Eriksen & Associates Ltd  
443 Lake Rd, Takapuna  
Box 33 1318, Auckland, New Zealand  
Ph +64 9 486 3144 Fax +64 9 486 4413  
auckland@eriksensglobal.com

**Wellington**

Eriksen & Associates Ltd  
Level 9, 111 The Terrace  
Box 10 105, Wellington, New Zealand  
Ph +64 4 470 6144 Fax +64 4 470 6145  
wellington@eriksensglobal.com

The tables below show the returns and market value for Schrodgers in New Zealand and Australian dollar terms:

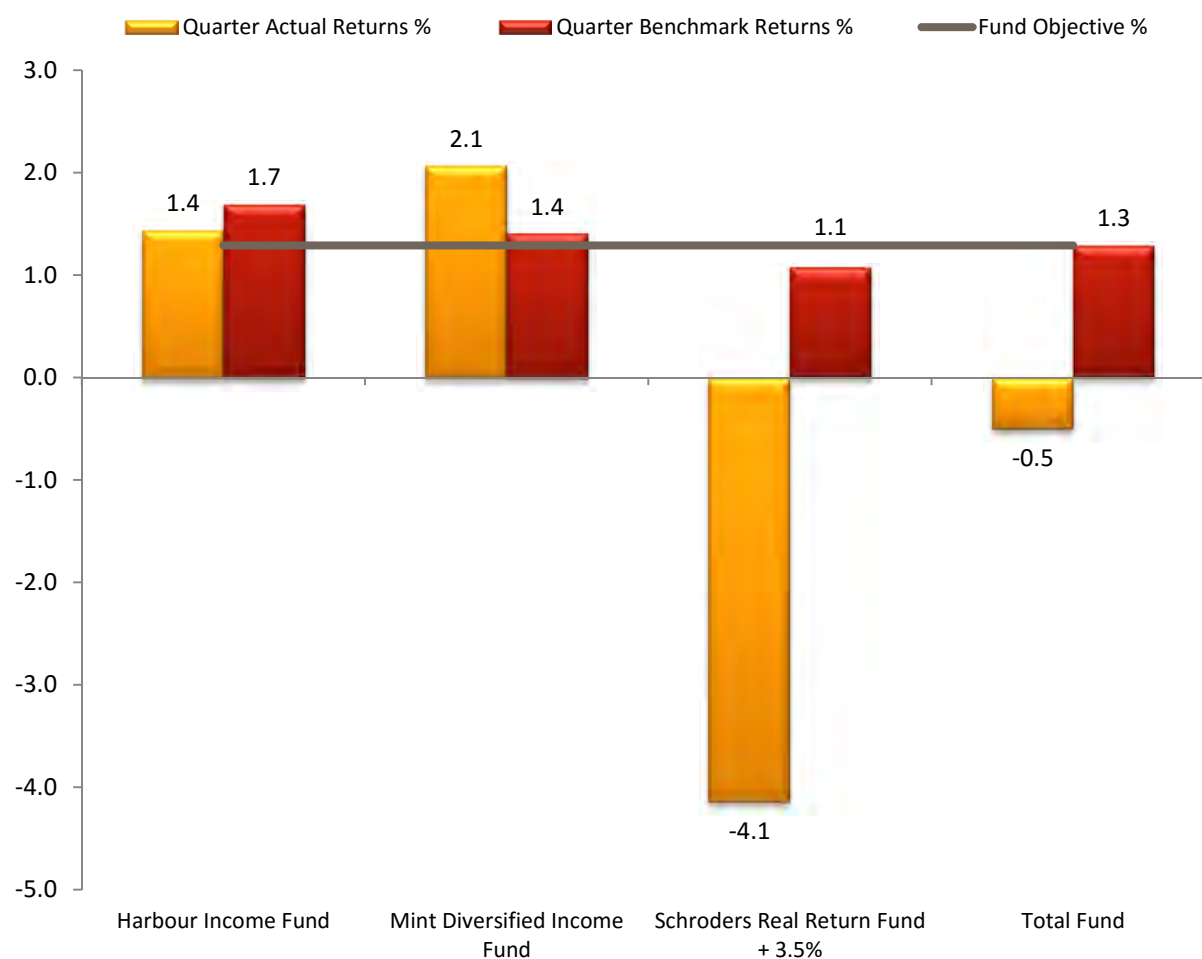
Schrodgers Real Return Fund + 3.5%	1 Month Return			Quarter Return			Inception*		
	%			%			% p.a.		
	Gross	Bench mark	Value Added	Gross	Bench mark	Value Added	Gross	Bench mark	Value Added
NZD Return	-2.8	0.4	<b>-3.2</b>	-4.1	1.1	<b>-5.2</b>	-4.8	4.5	<b>-9.3</b>
AUD Return	-0.4	0.4	<b>-0.8</b>	1.6	1.1	<b>0.5</b>	1.0	4.5	<b>-3.5</b>

\* Since inception is measured from 31 July 2015

Schrodgers Real Return Fund + 3.5%	Market Value
	\$
NZD Market Value	2,380,360
AUD Market Value	2,276,814

The unhedged Schrodgers investment suffered from an appreciation of the New Zealand dollar versus the Australian dollar over the month (2.4%) and quarter (6.0%).

#### QUARTERLY RETURNS BY INDIVIDUAL MANAGER





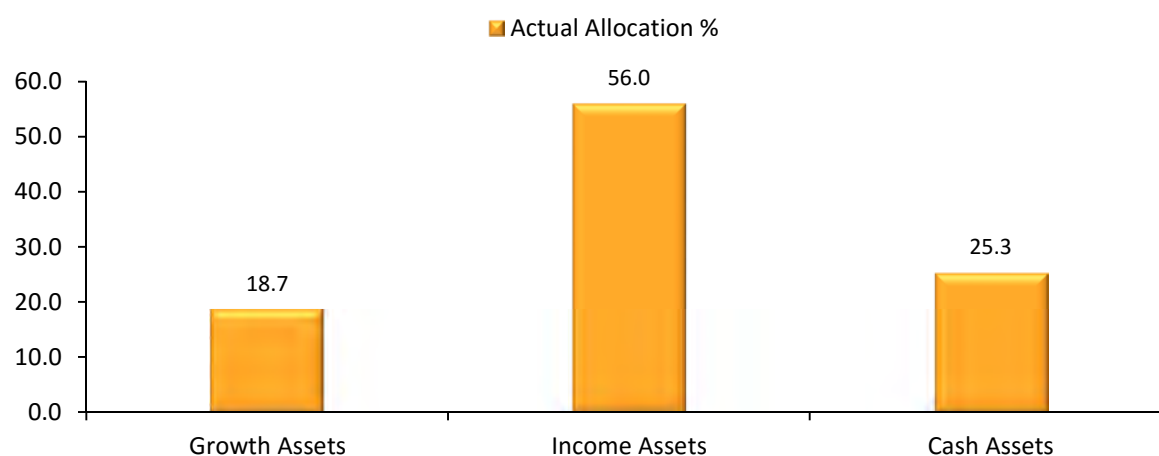
## ASSET ALLOCATIONS

## MANAGER SPLIT

Allocations	Market Value NZ\$	Actual %	Target %	Status
Harbour Income Fund	1,058,261	17.3	10 < 20 < 30	✓
Mint Diversified Income Fund	2,691,208	43.9	30 < 40 < 50	✓
Schroders Real Return Fund + 3.5%	2,380,360	38.8	30 < 40 < 50	✓
<b>Diversified Income</b>	<b>6,129,828</b>	<b>100.0</b>	<b>100</b>	
<b>Income Assets</b>	<b>6,129,828</b>		<b>100</b>	
<b>Total Assets</b>	<b>6,129,828</b>	<b>100.0</b>	<b>100</b>	

All asset allocations are very close to target.

## UNDERLYING FUND ASSETS SPLIT

**Growth assets includes:**

- Global shares
- Australasian shares
- Property
- Private Equity

**Income assets includes:**

- Global bonds
- Australasian bonds
- Other debt instruments

**Cash assets includes:**

- Cash or short duration bonds.

The allocation to growth assets (-1.4%) and cash assets (-5.7%) decreased over the quarter, while income assets increased (+7.2%).



Actuaries & Investment Strategists

**NORTHLAND REGIONAL COUNCIL WORKING CAPITAL FUND**

Northland Regional Council has three investments with external fund managers in the Working Capital Fund as per the SIPO dated 16 February 2016. The following reports on their performance to date.

**BENCHMARKS**

Asset Class	Manager	Fund	Benchmark
Fixed Interest	AMP Capital	NZ Short Duration	NZX Short End Swap Index plus 1% per annum
Diversified Income	BlackRock	Fixed Income Global Opportunities	Bloomberg AusBond Bank Bill Index plus 4% - 6% per annum
	Mint	Diversified Income	NZ CPI plus 4% per annum

The Fund objective as specified in the SIPO prepared in February 2016 is to generate an after fees return in excess of the New Zealand Official Cash Rate plus 2% p.a. over rolling three year periods.

**PERFORMANCE BY INDIVIDUAL MANAGER**

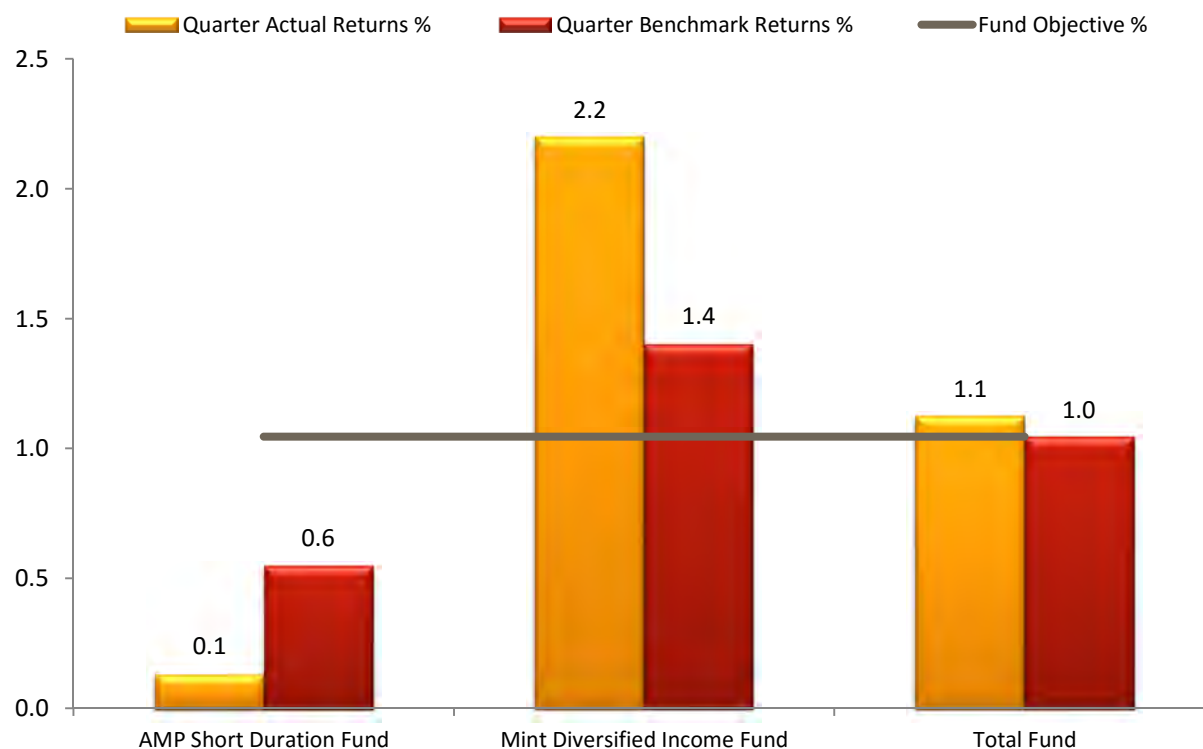
**OVERALL**

During June a net total of \$925,000 was invested in AMP Capital's Short Duration Fund; a net total of \$875,000 was invested in Mint's Diversified Income Fund; and a new investment of AU\$1,140,550 was made in BlackRock's FIGO Fund.

Asset	1 Month %	Quarter %	Inception*
<b>Fixed Interest</b>			
<b>AMP Short Duration Fund</b>	<b>-0.1</b>	<b>0.1</b>	<b>0.1</b>
Benchmark	0.4	0.6	0.6
Over / Underperformance	-0.5	-0.5	-0.5
<b>Diversified Income</b>			
<b>BlackRock Fixed Income Global Opportunities Fund</b>	<b>0.7</b>		
Benchmark	0.5		
Over / Underperformance	0.2		
<b>Mint Diversified Income Fund</b>	<b>0.5</b>	<b>2.2</b>	<b>2.2</b>
Benchmark	0.5	1.4	1.4
Over / Underperformance	0.0	0.8	0.8
<b>Total Assets</b>			
<b>Total Fund</b>	<b>0.3</b>	<b>1.1</b>	<b>1.1</b>
Fund Objective	0.3	1.0	1.0
Over / Underperformance	0.0	0.1	0.1

\* Since inception is measured from 31 March 2016

## QUARTERLY RETURNS BY INDIVIDUAL MANAGER



The BlackRock FIGO investment was only made in June so is not included in the quarterly returns graph.

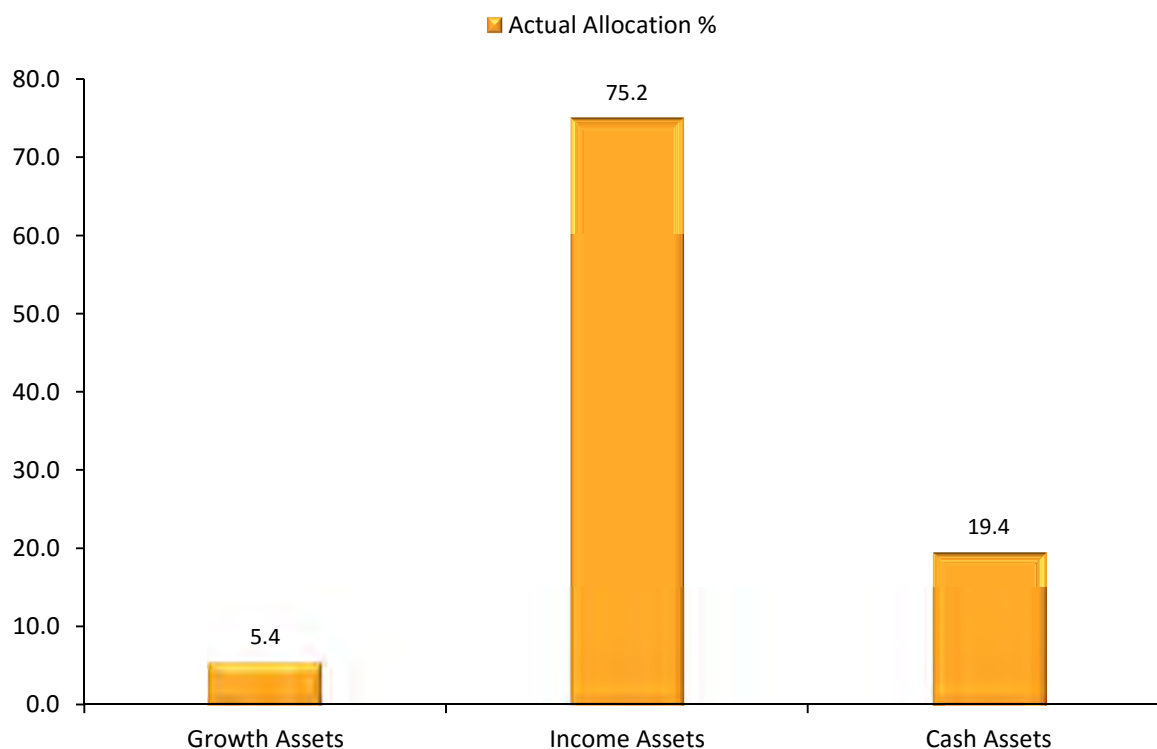
## ASSET ALLOCATIONS

### MANAGER SPLIT

Allocations	Market Value NZ\$	Actual %	Target %	Status
AMP Short Duration Fund	1,627,722	40.0	0 < 40 < 100	✓
<b>Fixed Interest</b>	<b>1,627,722</b>			
BlackRock FIGO Fund	1,196,617	29.4	0 < 30 < 60	✓
Mint Diversified Income Fund	1,246,421	30.6	0 < 30 < 60	✓
<b>Diversified Income</b>	<b>2,443,038</b>	<b>60.0</b>		
<b>Income Assets</b>	<b>4,070,760</b>		<b>100</b>	
<b>Total Assets</b>	<b>4,070,760</b>	<b>60.0</b>	<b>100</b>	

All asset allocations are within their allowable ranges.

## UNDERLYING FUND ASSETS SPLIT



### **Growth assets includes:**

- Global shares
- Australasian shares
- Property
- Private Equity

### **Income assets includes:**

- Global bonds
- Australasian bonds
- Other debt instruments

### **Cash assets includes:**

- Cash or short duration bonds.

The allocation to income assets increased by 5.3% over the month, growth assets decreased by 0.5% and cash decreased by 4.9%.