

NORTHLAND REGIONAL COUNCIL
EXTERNALLY MANAGED
INVESTMENT FUNDS

MONTHLY REPORT 31 OCTOBER 2018

26 NOVEMBER 2018

CONTENTS

Executive Summary	3
Introduction	4
Market Performance.....	5
Community Investment Fund	6
Property Reinvestment Fund.....	9
Infrastructure Investment Fund.....	11
Short Term Investment Fund.....	14
Standard Deviation of Returns.....	16
Economic Commentary.....	17
Appendix 1: Benchmarks	19
Appendix 2: NRC Total Funds Under Management	21

EXECUTIVE SUMMARY

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %
CIF	-2.3	-0.7	-0.1	4.1	6.9	7.5
CIF Objective	0.4	1.3	1.8	5.4	5.4	5.4
Over / Underperformance	-2.7	-2.0	-1.9	-1.3	1.5	2.1
PRF	-3.0	-0.6	-0.5	4.9	7.1	8.1
PRF Objective	0.5	1.5	2.0	6.0	6.0	7.2
Over / Underperformance	-3.5	-2.1	-2.5	-1.1	1.1	0.9
IIF	-1.5	-0.4	0.4	2.4	4.9	4.3
IIF Objective	0.5	1.4	1.9	5.8	5.8	5.8
Over / Underperformance	-2.0	-1.8	-1.5	-3.4	-0.9	-1.5
STIF	-1.2	0.0	0.9	3.4		5.1
STIF Objective	0.3	0.9	1.2	3.8		3.8
Over / Underperformance	-1.5	-0.9	-0.3	-0.4		1.3

- Each NRC Fund underperformed in the short term. With the exception of the IIF, all NRC Funds outperformed their objectives over three years plus. The IIF underperformance is partly due to the increase in its objective and change in growth/income asset split.
- Stock markets around the world fell by between 5%-10% in October. Investor sentiment turned sour because US 10-year interest rates rose suddenly over 3%. Concerns over trade wars and geo-political risks remain elevated. We expect stock markets to fall further through the rest of the year and into the first quarter of next year.
- The PRF is currently overweight in respect of Australasian Equity funds.
- The following transactions were made in October:
 - Redemptions totalling of \$26k from Milford Diversified Income (CIF)
 - Capital call of \$17k to Pioneer Capital III (CIF)
 - Net redemptions/investments of \$10k from/to Milford Diversified Income (PRF)
 - Distribution of \$16k from Continuity Capital (PRF)
 - Capital calls of \$17k to Pioneer Capital III (PRF and CIF)
 - Investment of \$1.5m into T. Rowe Price Global Equity Growth Fund (IIF)
 - Redemptions of \$2.5m from Mint Diversified Income (IIF)
 - Investment of \$1m into Mint Trans-Tasman Equity Fund (IIF)
 - Investment of \$1m into Castle Point 5 Oceans (IIF)
 - Redemption of \$1m from Harbour Income (STF)
 - Redemption of \$1m from Mint Diversified Income (STF)
 - Investment of \$2.2m into QuayStreet Income (STF)
 - Investment of \$1.2m into Castle Point 5 Oceans (STF)

INTRODUCTION

This is the monthly investment report to the Northland Regional Council by Eriksens Global and is based on the following Statement of Investment Policy and Objectives for each separate Fund:

- Community Investment Fund – October 2018
- Property Reinvestment Fund – September 2017
- Infrastructure Investment Fund – October 2018
- Short Term Investment Fund – May 2018

Investment Objective (Net of Fees)
Community Investment Fund
NZ CPI (rolling over three years) plus 4% per annum
Property Reinvestment Fund
Morningstar Unlisted and Direct Property Index plus 1% per annum
Infrastructure Investment Fund
New Zealand Official Cash Rate plus 4% per annum
Short Term Investment Fund
New Zealand Official Cash Rate plus 2% per annum

The NZ CPI (rolling over three years) as at **September 2018 was 1.4% per annum**. The Fund objectives for shorter time periods (e.g. one month, three month) have been calculated from the one-year objectives. For example, one month is 1/12th of the one-year objective return; three months is ¼ of the return etc.

All performance figures are time-weighted returns shown **net** of fees, **gross** of tax and include currency gains and losses associated with conversion back to NZD. Past performance is not necessarily a guarantee of future performance and care should be exercised not to make decisions based on past performance only.

The returns have been calculated from monthly data provided by each asset manager. There may therefore be a discrepancy if the amounts invested in a particular asset have changed during the month. If available, the use of daily rather than monthly data might reduce this.

Each Fund is invested in a multi-manager structure, with the managed products holding their own individual mandate (see Appendix 1).

Underlying Fund allocations are categorised as follows:

- Growth assets: global shares, Australasian shares, property and Australasian private equity
- Income assets: global bonds, Australasian bonds and other debt instruments
- Cash assets: cash or short duration bonds

The financial year-end for the Fund is 30 June, thus year-to-date returns are for **four** months.

MARKET PERFORMANCE

Financial market behaviour over the past year is summarised in the table below:

Index	1 Month %	Quarter %	1 Year %
Global Equities			
MSCI Emerging Markets	-7.8	-9.3	-8.9
S&P 500 (US)	-6.9	-3.7	5.3
Nikkei 225 (Japan)	-9.1	-2.8	-0.4
FTSE 100 (UK)	-5.1	-8.0	-4.9
DAX (Germany)	-6.5	-10.6	-13.5
CAC 40 (France)	-7.3	-7.6	-7.4
Trans-Tasman Equities			
S&P/NZX 50	-6.4	-1.9	7.4
S&P/ASX 300	-6.2	-6.0	2.9
Bonds			
S&P/NZX NZ Government Stock	0.4	1.6	4.8
S&P/NZX A Grade Corporate Bonds	0.4	1.4	4.4
Barclays Global Aggregate Bonds	-0.2	-0.3	0.4
FTSE World Government Bonds	0.0	-0.4	0.7
Oil			
West Texas Intermediate Crude Oil	-10.8	-5.0	20.1
Brent Crude Oil	-11.0	1.1	21.2
NZD Foreign Exchange			
AUD	0.6	0.6	3.1
EUR	1.0	-1.0	-2.0
GBP	0.5	-1.5	-0.9
JPY	-2.1	-3.3	-5.3
CNY	-0.1	-1.8	0.3
USD	-1.5	-4.1	-4.7

Source: Nikko Asset Management

We make the following key observations:

- Large negative returns from all equity markets
- Negative one year returns for equity markets except US, Australia and New Zealand
- Positive returns in NZ bond markets; negative returns for global bonds over month and quarter
- Fall in oil prices over the month – tied to the sell-down of risk assets in October and stronger US dollar
- Appreciation of the NZD against the AUD over each period reported

COMMUNITY INVESTMENT FUND

	1 Month %	3 Month %	YTD** %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %*
NZ Fixed Interest	-0.9	0.3	0.8	4.6	6.4	8.1
Benchmark (Weighted Average)	0.4	1.3	1.7	4.7	4.5	4.0
Value Added	-1.3	-1.0	-0.9	-0.1	1.9	4.1
Harbour Income	-1.1	0.1	0.7	3.6	4.7	
Benchmark (NZ OCR + 3.5% p.a.)	0.4	1.3	1.7	5.3	4.5	
Value Added	-1.5	-1.2	-1.0	-1.7	0.2	
Milford Diversified Income	-1.3	-0.1	0.5	4.7	8.5	
Benchmark (NZ OCR + 2.5% p.a.)	0.3	1.0	1.4	4.2	4.4	
Value Added	-1.6	-1.1	-0.9	0.5	4.1	
Mint Diversified Income	-0.2	0.9	1.2	4.9	4.8	
Benchmark (NZ CPI + 3% p.a.)	0.5	1.6	2.2	5.2	4.6	
Value Added	-0.7	-0.7	-1.0	-0.3	0.2	
Australasian Equities	-4.7	-2.6	-1.8	5.9	9.0	11.8
Benchmark (Weighted Average)	0.8	2.3	3.0	9.0	9.2	9.6
Value Added	-5.5	-4.9	-4.8	-3.1	-0.2	2.2
Aspiring	-4.8	-2.1	-1.8	3.3		
Benchmark (NZ CPI + 4% p.a.)	0.6	1.9	2.5	6.2		
Value Added	-5.4	-4.0	-4.3	-2.9		
Milford Active Growth	-4.6	-2.8	-1.8	6.9	9.5	12.1
Benchmark (10% p.a.)	0.8	2.4	3.2	10.0	10.0	10.0
Value Added	-5.4	-5.2	-5.0	-3.1	-0.5	2.1
Australasian Private Equity	0.3	9.7	9.3	11.3		
Benchmark (Weighted Average)	-4.0	0.4	0.8	12.9		
Value Added	4.3	9.3	8.5	-1.6		
MLC PE II	0.5	14.6	13.9	12.4		
Benchmark (15% p.a.)	1.2	3.6	4.8	15.0		
Value Added	-0.7	11.0	9.1	-2.6		
CC 4	-0.9	2.6	2.6			
Benchmark (NZX50 + 4%)	-6.1	-0.9	-0.8			
Value Added	5.2	3.5	3.4			
PCP III	0.0	0.4	0.4	8.0		
Benchmark (NZX50 + 4% p.a.)	-6.1	-0.9	-0.8	11.7		
Value Added	6.1	1.3	1.2	-3.7		
Global Equities	-2.3	-1.6	-0.9	-0.9	4.8	4.3
Benchmark (Weighted Average)	0.6	1.7	2.3	7.0	6.8	7.0
Value Added	-2.9	-3.3	-3.2	-7.9	-2.0	-2.7
AMP Global Multi-Asset	-2.8	-2.3	-1.8	-0.3	3.2	
Benchmark (NZ CPI + 5% p.a.)	0.7	2.1	2.8	7.3	6.6	
Value Added	-3.5	-4.4	-4.6	-7.6	-3.4	
Schroders Real Return + 5%	-2.1	-1.4	-0.6	-1.0	5.1	4.1
Benchmark (Aus CPI TM + 5% p.a.)	0.5	1.6	2.1	6.9	6.8	7.1
Value Added	-2.6	-3.0	-2.7	-7.9	-1.7	-3.0
Total Fund	-2.3	-0.7	-0.1	4.1	6.9	7.5
Fund Objective	0.4	1.3	1.8	5.4	5.4	5.4
Value Added	-2.7	-2.0	-1.9	-1.3	1.5	2.1

*Inception date was 31 December 2012

** The hedged Fund return for the year-to-date would have been 0.0%, compared to the unhedged return of -0.1%

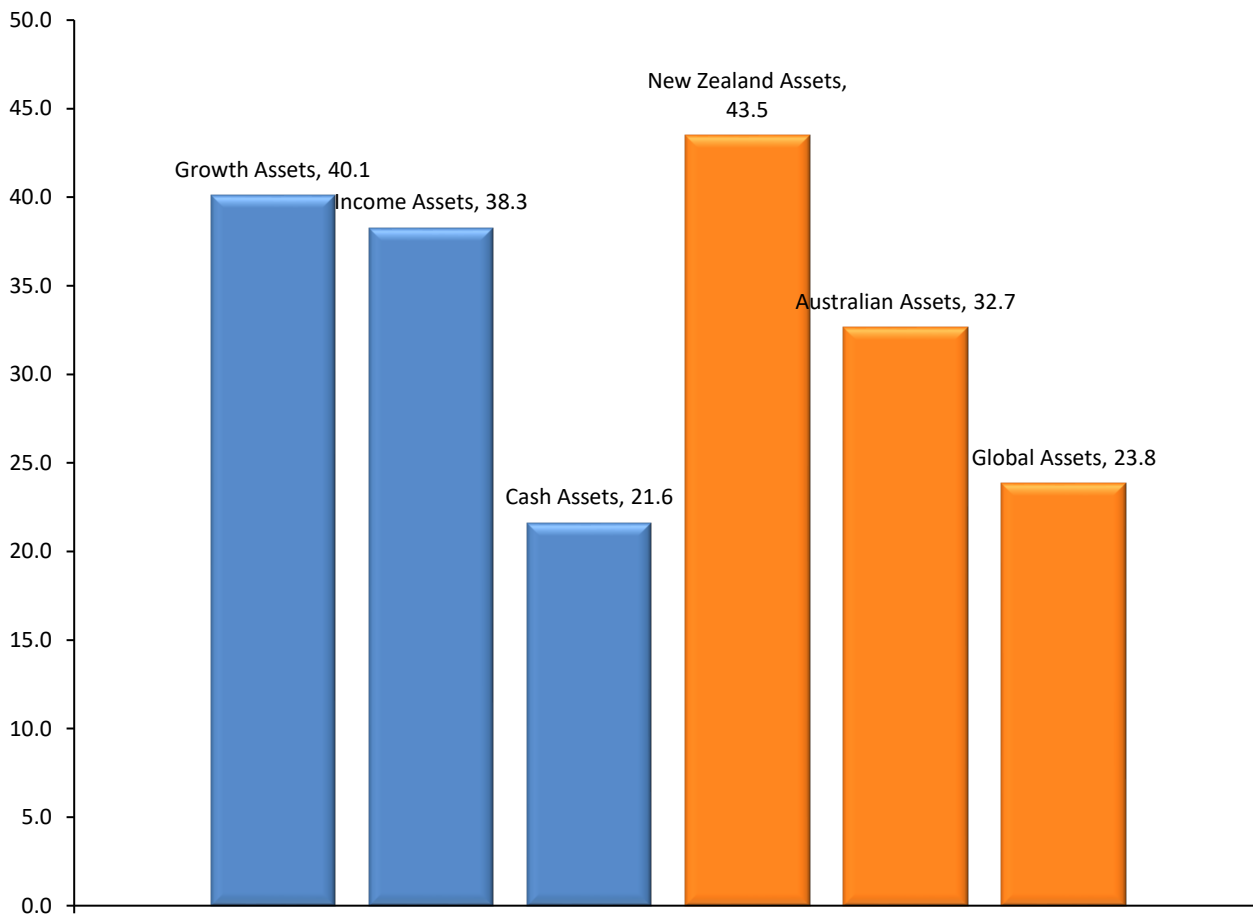
The following table shows the movements of the AUD/NZD cross rate which affect the unhedged Schroders and MLC returns. A negative change in the cross rate is beneficial to the unhedged NZD return, while a positive change is detrimental to the unhedged NZD return.

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %
AUD/NZD Cross Rate	0.6	0.6	0.5	3.1	-1.0
Schroders RRF + 5% (NZD)	-2.1	-1.4	-0.6	-1.0	5.1
Benchmark	0.5	1.6	2.1	6.9	6.8
Value Added	-2.6	-3.0	-2.7	-7.9	-1.7
Schroders RRF + 5% (AUD)	-1.6	-0.8	-0.1	2.1	4.0
Benchmark	0.5	1.6	2.1	6.9	6.8
Value Added	-2.1	-2.4	-2.2	-4.8	-2.8
MLC PE II (NZD)	0.5	14.6	13.9	12.4	
Benchmark	1.2	3.6	4.8	15.0	
Value Added	-0.7	11.0	9.1	-2.6	
MLC PE II (AUD)	1.0	15.3	14.6	16.0	
Benchmark	1.2	3.6	4.8	15.0	
Value Added	-0.2	11.7	9.8	1.0	

CIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Difference %	Status
Cash	0	0.0	0 < 5 < 40	-5.0	✓
Harbour Income	935,849				
Milford Diversified Income	3,126,007				
Mint Diversified Income	2,053,388				
NZ Fixed Interest	6,115,244	43.3	25 < 45 < 65	-1.7	✓
Income Assets	6,115,244	43.3	30 < 50 < 70	-6.7	✓
Milford Active Growth	3,150,818				
Aspiring	1,137,846				
Australasian Equities	4,288,664	30.3	15 < 25 < 35	5.3	✓
Continuity Capital No.4	402,477				
PCP III	137,718				
MLC PE II	219,626				
Australasian Private Equity	759,821	5.4	0 < 5 < 10	0.4	✓
Schroders RRF	2,355,998				
AMP GMAF	616,386				
Global Equities	2,972,384	21.0	10 < 20 < 30	1.0	✓
Growth Assets	8,020,868	56.7	30 < 50 < 70	6.7	✓
Total Assets	14,136,113	100.0			

CIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-2.9	-1.0	3.9
New Zealand Assets	Australian Assets	Global Assets
0.3	1.7	-2.0

PROPERTY REINVESTMENT FUND

Asset	1 Month %	3 Month %	YTD* %	1 Year %	3 Year % p.a.	Inception** % p.a.
Australasian Private Equity						
Continuity Capital	-1.0	0.9	0.9	6.1	6.1	
Benchmark (NZX50 + 4%)	-6.1	-0.9	-0.8	11.7	18.0	
Value Added	5.1	1.8	1.7	-5.6	-11.9	
MLC PE II	0.5	14.6	13.9	12.4		
Benchmark (15% p.a.)	1.2	3.6	4.8	15.0		
Value Added	-0.7	11.0	9.1	-2.6		
PCP III	0.0	-1.9	-1.9	15.5		
Benchmark (NZX50 + 4%)	-6.1	-0.9	-0.8	11.7		
Value Added	6.1	-1.0	-1.1	3.8		
Australasian Equities						
Aspiring	-4.8	-1.8	-1.6	3.5	9.0	
Benchmark (CPI + 4%)	0.6	1.9	2.5	6.2	5.6	
Value Added	-5.4	-3.7	-4.1	-2.7	3.4	
Mint Trans-Tasman Equities	-5.8	-2.0	-2.6	9.6	13.2	
Benchmark (NZX50)	-6.4	-1.9	-2.1	7.4	13.5	
Value Added	0.6	-0.1	-0.5	2.2	-0.3	
QuayStreet Altum	-6.4	-5.4	-6.2	-1.9		
Benchmark (OCR + 6%)	0.6	1.9	2.5	7.8		
Value Added	-7.0	-7.3	-8.7	-9.7		
Salt Long Short	-1.9	-1.6	-0.4	-1.5		
Benchmark (OCR + 5%)	0.5	1.6	2.2	6.8		
Value Added	-2.4	-3.2	-2.6	-8.3		
Diversified Income						
Milford Diversified Income	-1.3	-0.2	0.4	4.6	8.4	8.8
Benchmark (OCR + 2.5%)	0.3	1.0	1.4	4.2	4.4	4.5
Value Added	-1.6	-1.2	-1.0	0.4	4.0	4.3
Mint Diversified Income	-0.2	0.8	1.0	4.6	4.8	5.7
Benchmark (CPI + 3%)	0.5	1.6	2.2	5.2	4.6	4.2
Value Added	-0.7	-0.8	-1.2	-0.6	0.2	1.5
Quay Street Income	-0.2	0.7	0.9	4.1	5.3	
Benchmark (OCR + 2%)	0.3	0.9	1.2	3.8	3.9	
Value Added	-0.5	-0.2	-0.3	0.3	1.4	
Total Assets						
Total Fund	-3.0	-0.6	-0.5	4.9	7.1	8.1
Fund Objective (MStar Prop + 1%)	0.5	1.5	2.0	6.0	6.0	7.2
Value Added	-3.5	-2.1	-2.5	-1.1	1.1	0.9

* The hedged Fund return for the year-to-date would have been -0.5%, compared to the unhedged return of -0.5%

**Inception is measured from 30/09/2014

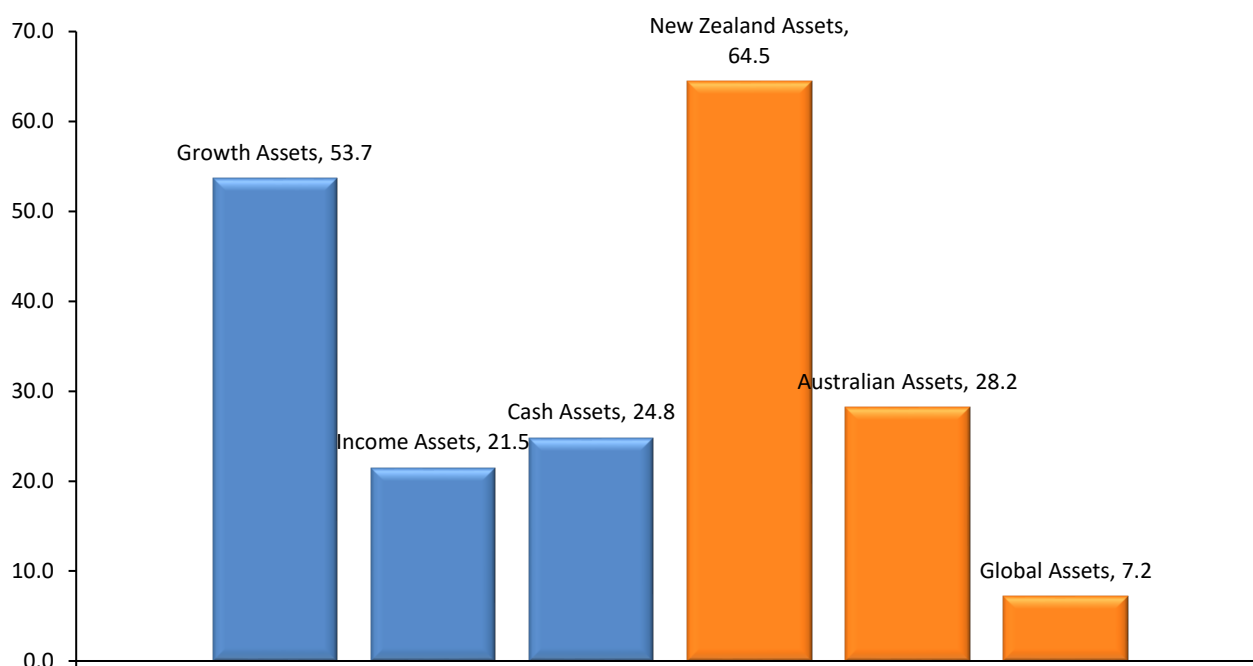
	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %
AUD/NZD Cross Rate	0.6	0.6	0.5	3.1	-1.0
MLC PE II (NZD)	0.5	14.6	13.9	12.4	
Benchmark	1.2	3.6	4.8	15.0	
Value Added	-0.7	11.0	9.1	-2.6	
MLC PE II (AUD)	1.0	15.3	14.6	16.0	
Benchmark	1.2	3.6	4.8	15.0	
Value Added	-0.2	11.7	9.8	1.0	

PRF ASSET ALLOCATIONS

Allocations	Market Value NZ \$	Actual Allocation %	Target Allocation %	Status
Aspiring	3,313,519	20.2	10 < 15 < 20	×
Mint Trans-Tasman Equities	3,482,009	21.3	10 < 15 < 20	×
QuayStreet Altum	902,776	5.5	0 < 5 < 10	✓
Salt Long Short	1,723,544	10.5	0 < 5 < 10	×
Australasian Equities	9,421,848	57.5	40	
Continuity Capital No.2	1,086,116	6.6	0 < 5 < 25	✓
PCP III	137,718	0.8	0 < 2.5 < 25	✓
MLC PE II	219,626	1.3	0 < 2.5 < 25	✓
Australasian Private Equity	1,443,460	8.8	10	
Growth Assets	10,865,308	66.3	50	
Milford Diversified Income	1,386,688	8.5	0 < 10 < 20	✓
Mint Diversified Income	2,905,884	17.7	10 < 25 < 40	✓
Quay Street Income	1,227,995	7.5	5 < 15 < 20	✓
Diversified Income	5,520,566	33.7	50	
Cash	0	0.0		
Income Assets	5,520,566	33.7	50	
Total Assets	16,385,875	100.0	100	

Aspiring, Mint Trans-Tasman Equities and Salt are all above their allowable ranges.

PRF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-2.4	0.7	1.7
New Zealand Assets	Australian Assets	Global Assets
1.3	0.9	-2.2

INFRASTRUCTURE INVESTMENT FUND

Asset	1 Month %	3 Month %	YTD* %	1 Year %	3 Year %	Inception** %
Diversified Growth						
Aspiring	-4.8	-2.3	-2.1			
Benchmark (CPI + 4%)	0.6	1.9	2.5			
Value Added	-5.4	-4.2	-4.6			
Castle Point 5 Oceans	-2.0	-0.5	0.6	3.6		
Benchmark (OCR + 3%)	0.4	1.2	1.6	4.7		
Value Added	-2.4	-1.7	-1.0	-1.1		
Schroders RRF CPI + 5%	-2.1	-1.4	-0.2			
Benchmark (Aus TM CPI + 5%)	0.2	0.5	0.7			
Value Added	-2.3	-1.9	-0.9			
Diversified Income						
BlackRock FIGO	-0.8	-1.0	-0.6	-3.0		
Benchmark (AusBond BB + 4%)	0.5	1.5	2.0	6.0		
Value Added	-1.3	-2.5	-2.6	-9.0		
Harbour Income	-1.1	0.1	0.7	3.5	4.6	5.2
Benchmark (OCR + 3.5%)	0.4	1.3	1.7	5.3	4.5	4.5
Value Added	-1.5	-1.2	-1.0	-1.8	0.1	0.7
Milford Diversified Income	-1.3	-0.1	0.4	4.5		
Benchmark (OCR + 2.5%)	0.3	1.0	1.4	4.2		
Value Added	-1.6	-1.1	-1.0	0.3		
Mint Diversified Income	-0.3	0.7	0.9	2.8	4.2	4.5
Benchmark (CPI + 3%)	0.5	1.6	2.2	5.2	4.6	4.5
Value Added	-0.8	-0.9	-1.3	-2.4	-0.4	0.0
Total Assets						
Total Fund	-1.5	-0.4	0.4	2.4	4.9	4.3
Fund Objective (OCR + 3%)	0.5	1.4	1.9	5.8	5.8	5.8
Value Added	-2.0	-1.8	-1.5	-3.4	-0.9	-1.5

* The hedged Fund return for the year-to-date would have been 0.5%, compared to the unhedged return of 0.4%

** Inception is measured from 31 July 2015

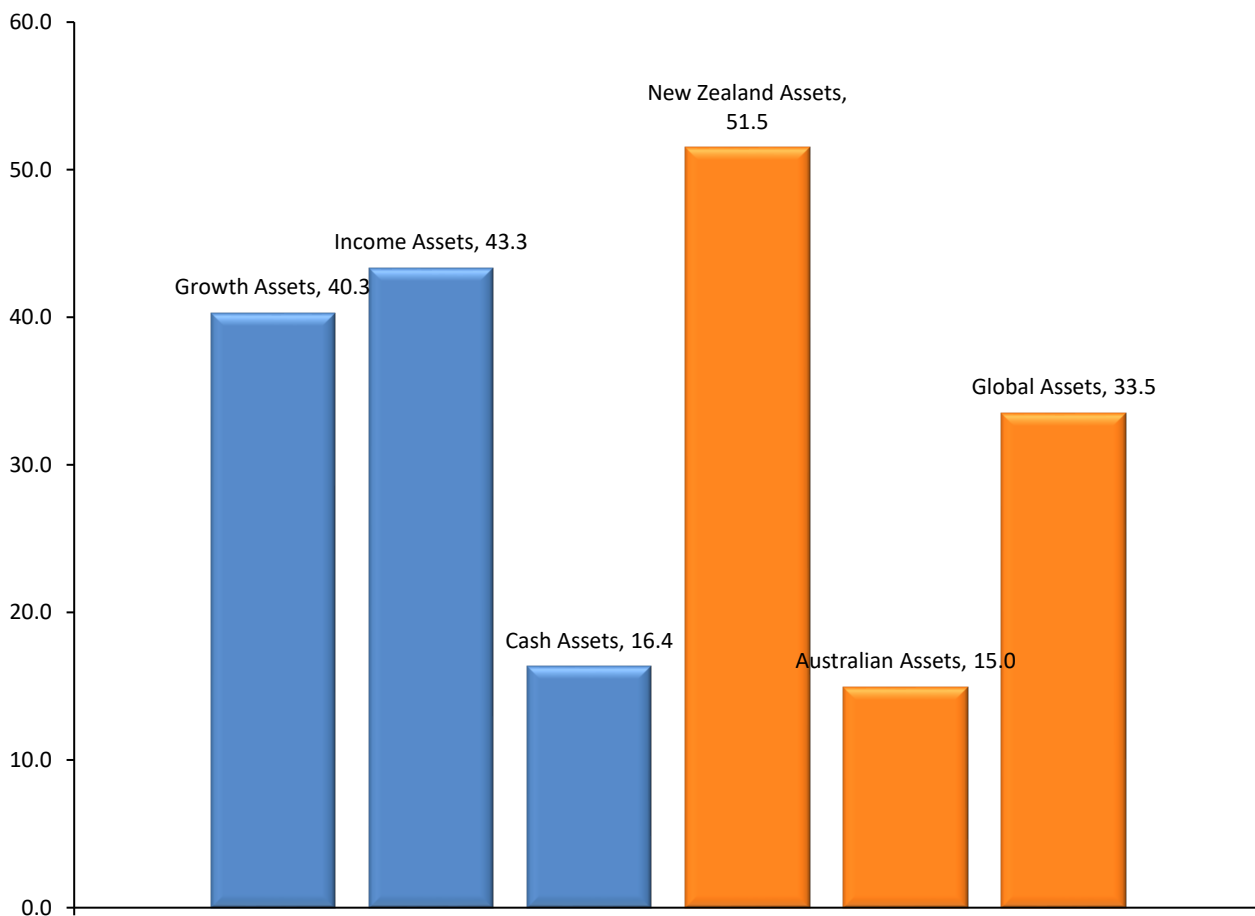
The following table shows the movements of the AUD/NZD cross rate which affect the unhedged returns of the investments in Schroders and BlackRock. A negative change in the cross rate is beneficial, while a positive change is detrimental to the NZD return.

	1 Month %	3 Month %	YTD %	1 Year %
AUD/NZD Cross Rate	0.6	0.6	0.5	3.1
Schroders RRF + 5% (NZD)	-2.1	-1.4	-0.2	
Benchmark	0.2	0.5	0.7	
Value Added	-2.3	-1.9	-0.9	
Schroders RRF + 5% (AUD)	-1.6	-0.8	0.4	
Benchmark	0.2	0.5	0.7	
Value Added	-1.8	-1.3	-0.3	
BlackRock FIGO (NZD)	-0.8	-1.0	-0.6	-3.0
Benchmark	0.5	1.5	2.0	6.0
Value Added	-1.3	-2.5	-2.6	-9.0
BlackRock FIGO (AUD)	-0.3	-0.4	0.0	0.0
Benchmark	0.5	1.5	2.0	6.0
Value Added	-0.8	-1.9	-2.0	-6.0

IIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Aspiring	2,021,831	10.4	0 < 10 < 20	✓
Castle Point 5 Oceans	4,996,281	25.7	20 < 25 < 40	✓
Schroders RRF 5%	1,261,518	6.5	0 < 5 < 20	✓
Mint Trans-Tasman Equities	1,004,859	0.0	0 < 5 < 15	✓
T. Rowe Price Global Equity Growth	1,546,614	0.0	0 < 5 < 15	✓
Diversified Growth	10,831,103	55.8	50	
Growth Assets	10,831,103		50	
BlackRock FIGO	1,131,406	5.8	0 < 10 < 20	✓
Harbour Income	3,235,769	16.7	0 < 15 < 20	✓
Milford Diversified Income	1,781,614	9.2	0 < 10 < 20	✓
Mint Diversified Income	2,444,411	12.6	0 < 15 < 20	✓
Diversified Income	8,593,200	44.2	50	
Income Assets	8,593,200		50	
Total Assets*	19,424,303	100.0	100	
BlackRock FIGO (AUD)	1,042,410			
Schroders RRF 5% (AUD)	1,162,288			

IIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
9.9	-6.7	-3.2
New Zealand Assets	Australian Assets	Global Assets
-4.3	-1.9	6.2

SHORT TERM INVESTMENT FUND

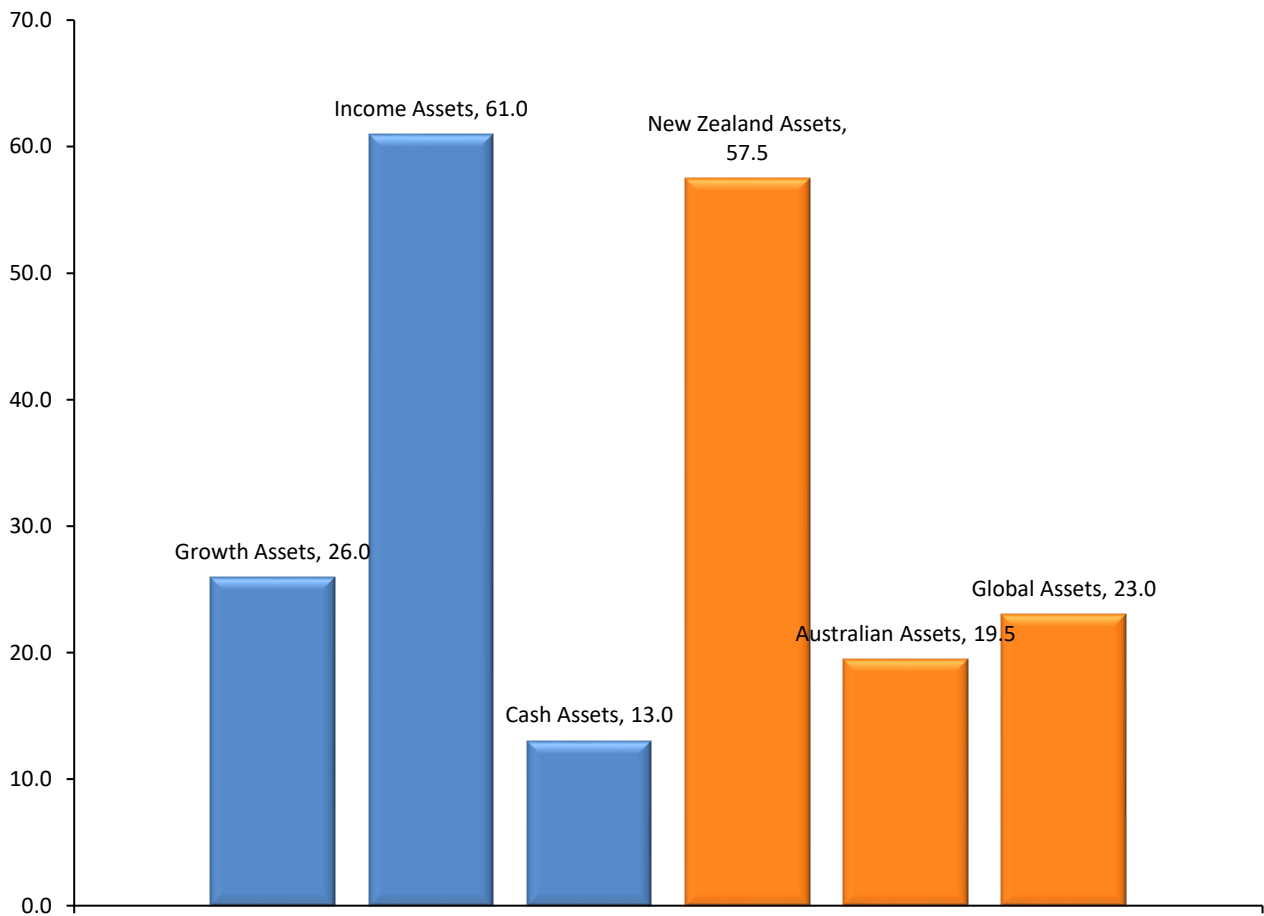
Asset	1 Month %	3 Month %	YTD %	1 Year %	Inception* %
Diversified Income					
Milford Diversified Income	-1.3	-0.3	0.2	3.8	
Benchmark (OCR + 2.5%)	0.3	1.0	1.4	4.2	
Value Added	-1.6	-1.3	-1.2	-0.4	
Mint Diversified Income	-0.3	0.3	0.7	3.3	3.8
Benchmark (CPI + 3%)	0.5	1.6	2.2	5.2	4.9
Value Added	-0.8	-1.3	-1.5	-1.9	-1.1
Harbour Income Fund	-1.5	0.5	1.1		
Benchmark (CPI + 3%)	0.4	1.3	1.7		
Value Added	-1.9	-0.8	-0.6		
Diversified Growth					
Castle Point 5 Oceans	-2.5	-1.1	-0.1	2.9	
Benchmark (OCR + 3%)	0.4	1.2	1.6	4.7	
Value Added	-2.9	-2.3	-1.7	-1.8	
Total Assets					
Total Fund	-1.2	0.0	0.9	3.4	5.1
Fund Objective (OCR + 2%)	0.3	0.9	1.2	3.8	3.8
Value Added	-1.5	-0.9	-0.3	-0.4	1.3

* Inception is measured from 31 March 2016

STIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Harbour Income	1,171,848	13.1	0 < 20 < 40	✓
Milford Diversified Income	2,013,036	22.5	0 < 20 < 40	✓
Mint Diversified Income	1,060,837	11.9	0 < 20 < 40	✓
QuayStreet Income	2,198,801	24.6	0 < 20 < 40	✓
Diversified Income	6,444,522	72.1		
Income Assets	6,444,522	72.1	80	
Castle Point 5 Oceans	2,498,702	27.9	0 < 20 < 40	✓
Diversified Growth	2,498,702	27.9		
Growth Assets	2,498,702	27.9	20	
Total Assets	8,943,225	100.0	100	

STIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-0.3	4.8	-4.5
New Zealand Assets	Australian Assets	Global Assets
-8.2	1.5	6.7

STANDARD DEVIATION OF RETURNS

At the request of the Investment Sub-Committee we have included the table below showing the standard deviation of returns for each NRC Fund. We have also included two Morningstar Category Benchmarks and the NZX50 Index to provide some context.

The Morningstar category benchmarks are defined as below:

- The Multisector Balanced Category consists of funds that invest in a number of sectors and have 41% to 60% of their assets in growth sectors. These are typically defined as equity and property asset classes.
- The Multisector Moderate Category consists of funds that invest in a number of sectors and have between 21% and 40% of their investments exposed to the growth sectors. These are typically defined as equity and property asset classes.

Standard deviation is a measure of variation around an average return. For example, if a fund returned 10% per annum on average over the past three years with a standard deviation of 3%, this means the annual return could have been between 7% and 13%. The higher the standard deviation, the wider the range in returns.

The investment industry has traditionally used standard deviation as one measure of risk. However, risk is complex and has many different sides to it so cannot be condensed into one measure. The use of standard deviation as a measure of risk can give a false impression of confidence, or a false impression of fear. The statistic does not tell us whether the variation in returns is more on the upside, or more on the downside. Neither does it tell us how frequent large falls may occur. We note that the figures below are based on past returns and are not a reliable indicator of the distribution of future returns. The figures are annualised and have been calculated using monthly returns.

Standard Deviation of Returns	1 Year %	3 Year (p.a.) %
CIF	3.6	3.5
PRF	4.6	3.6
IIF	3.0	3.5
STIF	2.5	N/A
NZ Multi-Sector Balanced	5.3	5.2
NZ Multi-Sector Moderate	3.2	3.1
S&P/NZX 50	9.5	9.5

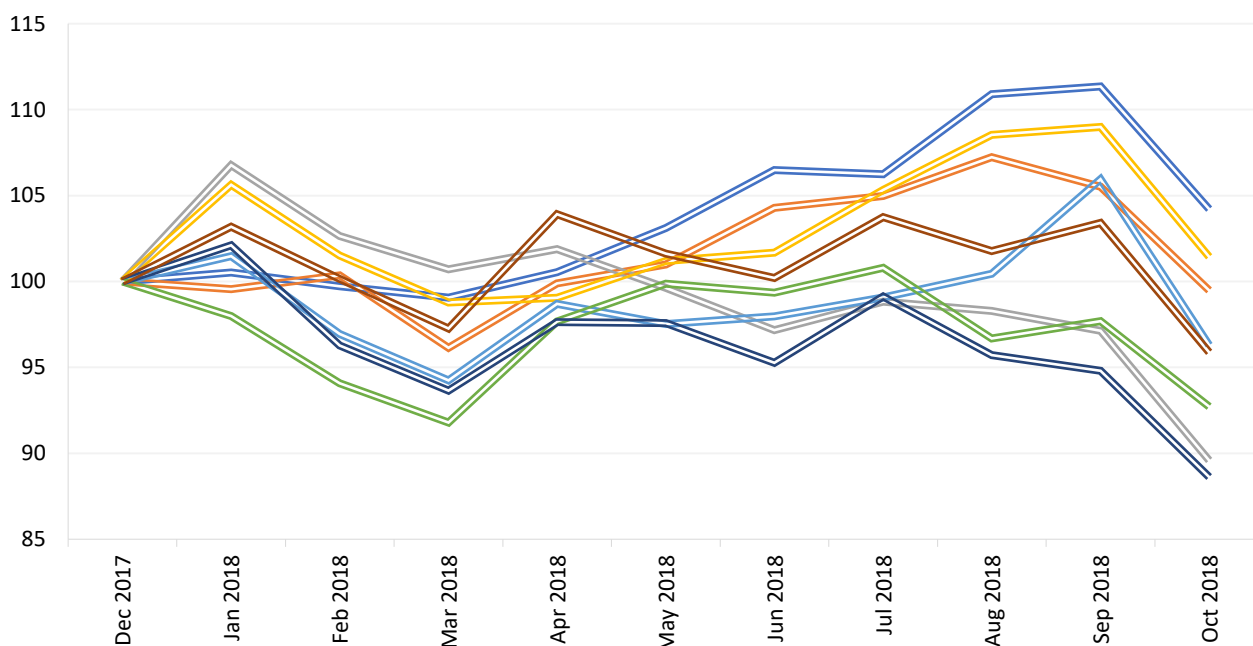
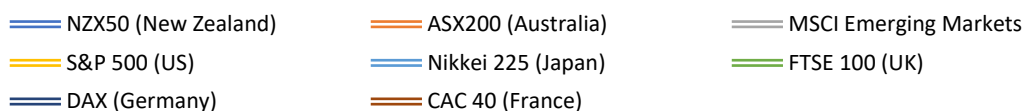
Over the one-year period each NRC Fund had a lower standard deviation than the NZX 50 and Balanced benchmark. The Moderate benchmark was lower than each Fund except the IIF and STIF.

Over the three-year period the CIF, PRF and IIF had a lower standard deviation than the Balanced benchmark and NZX 50, but slightly higher than the Moderate benchmark. The STIF has not been running for three years yet.

ECONOMIC COMMENTARY

- Stock markets around the world fell by between 5%-10% in October.
- Investor sentiment turned sour because US 10-year interest rates rose suddenly over 3%.
- Concerns over trade wars and geo-political risks remain elevated.
- Mid-term Congressional election result cheered stock markets but was short-lived.
- We expect stock markets to fall further through the rest of the year and into the first quarter of next year.
- “Our view is that the October sell-off was driven by a mix of earnings that have peaked and credit conditions that have bottomed. It wasn’t just a flash-in-the pan swing in sentiment.” – Matt Goodson, Portfolio Manager, Salt Funds Management.

2018 YTD EQUITY MARKET PERFORMANCE



Source: data from Nikko Asset Management, Morningstar and MSCI

Inflation Risks?

Since the end of the 80s, we have been in a non-inflationary world. Indeed for at least the last 10 years, it has been a deflationary world. Inflation expectations have been declining for over three decades, and have been rock-bottom since the GFC. Currently all talk is how central banks are struggling to generate inflation and that the inflation rate seems to be bouncing along at the bottom of its target range.

What are today's main risks? A quick look at the media will indicate a number of possibilities. If interest rates are raised too far and/or too fast, it risks causing recession. The possibility of a full-scale trade war with China has not gone away. In Europe, Italy could be another (but much larger) Greece. And that's not forgetting Brexit.

Each of these events, if realised, will create a severe deflationary shock. This is fine in terms of investment strategy, as we've been in a deflationary world for three decades, so nothing new there. But what if there is different risk and it's inflationary? With demographics, fewer children and robots, the consensus is for more continuing low inflation.

If the main risks don't eventuate, or are resolved, then some of the deflationary pressures will be lessened (or removed). Central bankers are looking to declare victory over deflation as well as get some bullets, i.e. lift the cash rate sufficiently to fire the next time there is a recession. Lifting the cash rates will be easier to do with higher inflation. In the US, Trump was looking at boosting the share market to assist with the mid-term elections, and after this, for his re-election in 2020). He's already putting the hard word on the Fed to keep monetary conditions easy.

Since the GFC there has been an extended period of easy money. The goal was to spur more corporate risk taking, but companies did not spend the money on investing in plant, equipment, and technology as the central banks hoped. They didn't anticipate that corporations borrowing at such low interest rates would choose to beat their earnings guidance with a risk-free stock buyback rather than risk investing for real growth.

So what happens when the central bankers take away the punchbowl? Normally you'd expect the tightening to be deflationary. But, contrary to usual expectations, it could accelerate inflation by forcing risk-taking in the real world. The surprise of easy money not spurring inflation could be replaced by tightening not reining in inflation!

In a diversified portfolio, the losses from growth assets (share market drop) in a downturn are normally offset by the capital gains on bonds (reduction in interest rates). Thus the deflationary risks should theoretically be well covered by balanced portfolio settings. What if inflation was to rear its ugly head? Clearly long-dated bonds will not be a diversifier but rather another drag on performance. This is the one asset that will matter between the two possibilities (inflation or deflation). So, instead of being part of the core holding it now needs to be a tactical holding, one that can be sold when (and if) inflation arrives. Maybe inflation-proof bonds should be considered?

APPENDIX 1: BENCHMARKS

COMMUNITY INVESTMENT FUND

The Fund Objective is the annualised three year rolling New Zealand CPI plus 4% per annum.

Asset Class	Manager	Fund	Benchmark
NZ Fixed Interest	Harbour	Income	NZ OCR + 3.5% p.a.
	Milford	Diversified Income	NZ OCR + 2.5% p.a.
	Mint	Diversified Income	NZ CPI + 3% p.a.
Australasian Equities	Milford	Active Growth	10% p.a.
	Mint	Trans-Tasman Equities	NZX 50 Gross Index
	Aspiring	Aspiring	NZ CPI + 4% p.a.
Australasian Private Equity	MLC	PE II	15% p.a.
	Continuity Capital	Private Equity Fund No.4 LP	NZX 50 Gross Index + 4% p.a.
	Pioneer Capital	PCP III	NZX 50 Gross Index + 4% p.a.
Global Equities	Schroders	Real Return + 5%	Australian CPI (trimmed mean) + 5% p.a.
	AMP Capital NZ	Global Multi-Asset	NZ CPI + 5% p.a.

PROPERTY REINVESTMENT FUND

The Fund Objective is the Morningstar Unlisted and Direct Property Index plus 1% p.a. over rolling three-year periods.

Asset Class	Manager	Fund	Benchmark
Diversified Income	Milford	Diversified Income	NZ OCR + 2.5% p.a.
	Mint	Diversified Income	NZ CPI + 3% p.a.
	QuayStreet	Income	NZ OCR + 2% p.a.
Australasian Equity	Aspiring	Aspiring	NZ CPI + 4% p.a.
	Mint	Trans-Tasman Equities	NZX 50 Gross Index
	QuayStreet	Altum	NZ OCR + 6% p.a.
	Salt	Long Short	NZ OCR + 5% p.a.
Australasian Private Equity	Continuity Capital	Private Equity Fund No.2 LP	NZX 50 Gross Index + 4% p.a.
	MLC	PE II	15% p.a.
	Pioneer Capital	PCP III	NZX 50 Gross Index + 4% p.a.

INFRASTRUCTURE INVESTMENT FUND

The Fund Objective is the New Zealand Official Cash Rate plus 4% p.a. over rolling three-year periods.

Asset Class	Manager	Fund	Benchmark
Diversified Growth	Aspiring	Aspiring Fund	NZ CPI + 4% p.a.
	Castle Point	5 Oceans	NZ OCR + 3% p.a.
	Mint	Trans-Tasman Equities	NZX 50 Gross Index
	Schroders	RRF CPI + 5%	Australian CPI (trimmed mean) + 5% p.a.
	T. Rowe Price	Global Equity Growth	MSCI All Country World Index
Diversified Income	BlackRock	Fixed Income Global Opportunities	Bloomberg AusBond Bank Bill Index + 4% - 6% p.a.*
	Harbour	Income	NZ OCR + 3.5% p.a.
	Milford	Diversified Income	NZ OCR + 2.5% p.a.
	Mint	Diversified Income	NZ CPI + 3% p.a.

*Our analysis uses + 4% as the benchmark

SHORT TERM INVESTMENT FUND

The Fund Objective is the New Zealand Official Cash Rate plus 2% p.a. over rolling three-year periods.

Asset Class	Manager	Fund	Benchmark
Diversified Income	Harbour	Income	NZ OCR + 3.5% p.a.
	Milford	Diversified Income	NZ OCR + 2.5% p.a.
	Mint	Diversified Income	NZ CPI + 3% p.a.
	QuayStreet	Income	NZ OCR + 2% p.a.
Diversified Growth	Castle Point	5 Oceans	NZ OCR + 3% p.a.

APPENDIX 2: NRC TOTAL FUNDS UNDER MANAGEMENT

Manager	Fund	CIF	PRF	IIF	STIF	NRC Total FUM	% of NRC Total FUM
AMP Capital NZ	Global Multi-Asset	616,386				616,386	1.0
	NZ Short Duration				0		
Aspiring	Aspiring	1,137,846	3,313,519	2,021,831		6,473,196	11.0
BlackRock	FIGO			1,131,406	0	1,131,406	1.9
Castle Point	5 Oceans			4,996,281	2,498,702	7,494,983	12.7
Continuity Capital	No.2 LP		1,086,116			1,086,116	1.8
	No.4 LP	402,477				402,477	0.7
Harbour	Income	935,849		3,235,769	1,171,848	5,343,466	9.1
Milford	Active Growth	3,150,818				11,458,163	19.5
	Diversified Income	3,126,007	1,386,688	1,781,614	2,013,036		
Mint	Diversified Income	2,053,388	2,905,884	2,444,411	1,060,837	12,951,388	22.0
	Trans-Tasman Equities		3,482,009	1,004,859			
MLC	PE II	219,626	219,626			439,251	0.7
Pioneer Capital	PCP III	137,718	129,957			267,675	0.5
QuayStreet	Altum		902,776			4,329,572	7.4
	Income		1,227,995		2,198,801		
Salt	Long Short		1,723,544			1,723,544	2.9
Schroders	Real Return + 3.5%					3,617,516	6.1
	Real Return + 5%	2,355,998		1,261,518			
Self-managed	Cash		0			0	0.0
T. Rowe Price	Global Equity Growth			1,546,614		1,546,614	2.6
Total FUM		14,136,113	16,378,114	19,424,303	8,943,225	58,881,753	100

Note: all values are in NZD

The exposure to Mint is above the 20% target exposure to any one manager and should be reduced over time.

FUNDS DENOMINATED IN AUD

		CIF	PRF	IIF	STIF	Total AUD
BlackRock	FIGO			1,042,410	0	1,042,410
MLC	PE II	202,350	202,350			404,700
Schroders	Real Return + 3.5%			0		0
Schroders	Real Return + 5%	2,170,676		1,162,288		3,332,963
Total AUD		2,373,026	202,350	2,204,697	0	4,780,073

PRIVATE EQUITY – COMMITTED CAPITAL (CALLED VS UNCALLED)

		Committed Capital \$	Called \$	Uncalled \$
Continuity Capital No.4 (NZD)	CIF	1,000,000	400,000	600,000
Continuity Capital No.2 (NZD)	PRF	2,000,000	1,500,000	500,000
MLC PE II (AUD)	CIF	500,000	175,000	325,000
	PRF	500,000	175,000	325,000
Pioneer Capital III (NZD)	CIF	500,000	160,085	339,915
	PRF	500,000	160,085	339,915

NRC TOTAL UNDERLYING FUND ALLOCATIONS

