

**Investment and Property Subcommittee**  
**Wednesday 26 August 2020 at 1.00pm**

# **AGENDA**

## Investment and Property Subcommittee Agenda

Meeting to be held in the Council Chamber via Zoom  
36 Water Street, Whangārei  
on Wednesday 26 August 2020, commencing at 1.00pm

**Recommendations contained in the agenda are NOT decisions of the meeting. Please refer to minutes for resolutions.**

### MEMBERSHIP OF THE INVESTMENT AND PROPERTY SUBCOMMITTEE

Chairperson, NRC Councillor Rick Stolwerk

Councillor Justin Blaikie

Councillor John Bain

Councillor Colin Kitchen

Ex-Officio Penny Smart

Independent Financial Advisor  
Jonathan Eriksen

Independent Financial Advisor  
Geoff Copstick

Independent Audit & Risk  
Advisor Danny Tuato'o

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<b>5.1</b> Confirmation of Confidential Minutes - 27 May 2020	

**TITLE:** Confirmation of Minutes - Investment and Property Subcommittee 27 May 2020

**ID:** A1350476

**From:** Judith Graham, Corporate Excellence P/A

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### Recommendation

That the minutes of the Investment & Property Subcommittee meeting held on 27 May 2020, be confirmed as a true and correct record.

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### Attachments/Ngā tapirihanga

Attachment 1: Investment & Property Subcommittee meeting unconfirmed minutes- 27 May 2020 [↓](#)



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### Authorised by Group Manager

**Name:** Bruce Howse

**Title:** Group Manager - Corporate Excellence

**Date:**

Investment and Property Subcommittee  
27 May 2020

## Investment and Property Subcommittee Minutes

Meeting held in the Council Chamber  
36 Water Street, Whangārei  
on Wednesday 27 May 2020, commencing at 1.00pm

### Present:

Chair, Councillor Rick Stolwerk  
Councillor John Bain  
Councillor Colin Kitchen  
Ex-Officio Councillor Penny Smart

### In Attendance:

#### Full Meeting

Chief Executive Officer - Malcolm Nicolson  
GM Corporate Excellence - Dave Tams  
Strategic Projects Manager – Phil Heatley  
Property Officer – Nicole Inger  
Finance Manager – Simon Crabb  
Independent Audit & Risk Member -Danny Tuato'o  
Independent Financial Advisor Jonathan Eriksen  
Independent Financial Advisor Geoff Copstick

PA Corporate Excellence – Judy Graham  
Business Support – Robyn Valentine

#### Part Meeting

Jalissa Karena-Lange  
Ian Jenkins

The Chair declared the meeting open at 1.03pm.

### Apologies (Ngā whakapahā) (Item 1.0)

#### Moved (Smart / Bain)

That the apologies from Councillor Blaikie for non-attendance be received.

**Carried**

### Declarations of Conflicts of Interest (Nga whakapuakanga) (Item 2.0)

It was advised that members should make declarations item-by-item as the meeting progressed.

Investment and Property Subcommittee  
27 May 2020

### **Confirmation of Minutes - 26 February 2020 (Item 3.1)**

**ID: A1316638**

**Report from Judith Graham, Corporate Excellence P/A**

**Moved (Smart / Bain)**

That the minutes of the Investment & Property Subcommittee meeting held on 26 February 2020 be confirmed as a true and correct record.

**Carried**

### **Mount Tiger Forest Quarterly Report January - March 2020 (Item 4.1)**

**ID: A1315134**

**Report from Nicole Inger, Property Officer**

**Moved (Bain / Kitchen)**

That the report 'Mount Tiger Forest Quarterly Report January - March 2020' by Nicole Inger, Property Officer and dated 12 May 2020, be received.

**Carried**

Ian Jenkins from Jenksmax consulting gave an update on the Mount Tiger forest and advised that no health and safety matters have arisen in the January to March quarter. Operations running on target and under budget with six weeks to go to the end of financial year.

- Two programmes underway – 1. conifer removal programme underway in Awanui and Kaiwi lakes – 2. Working with arborists to increase labour force to take on more of that work.
- Change the frequency of the Mount Tiger quarterly report to six monthly June and December supported and agreed by the Investment & Property subcommittee. Issues will be brought up as they occur within the 6 month reporting period.

### **Responsible Investment Report - as at 31 December 2019 (Item 4.2)**

**ID: A1314443**

**Report from Simon Crabb, Finance Manager**

**Moved (Bain / Kitchen)**

1. That the report 'Responsible Investment Report - as at 31 December 2019' by Simon Crabb, Finance Manager and dated 11 May 2020, be received.

**Carried**

*Secretarial Note:* 1.17pm Jonathan Eriksen from EriksenGlobal joined the meeting.

Jonathan Eriksen addressed the responsible investment report. The report is on investments lined up with socially responsible ideals/goals.

- Industry norm is extraction/processing fossil fuels that are highest -2% is conceded relatively low but some try to get lower if possible, until recently it was between 3-4% globally.

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ID: A1321202

**2**

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27 May 2020

- Tables on page 3 & 4 in the responsible investment report show percentages, Jonathan Eriksen to add dollar value on the next report that is produced twice a year.
- Renewable energy can be profitable depending on costs of fossil fuel.
- Sustainable forestry depends on supply and demand, China opening up again is fuelling the demand. Council to understand if renewable energy is profitable.
- Councillors need to be able to say we invest ethically.

### **Performance of Councils Externally Managed Funds to 30 April 2020 (Item 4.3)**

**ID: A1317688**

**Report from Simon Crabb, Finance Manager**

**Moved (Bain /Smart)**

That the report 'Performance of Councils Externally Managed Funds to 30 April 2020' by Simon Crabb, Finance Manager and dated 19 May 2020, be received.

**Carried**

Jonathan Eriksen gave an update on Northland Regional Council externally managed investment funds. April showed a significant improvement. Government response including spending on welfare/medical etc. assisted in the improvement to the economy.

- Percentages in red – short term performances for one month and three month figures – February /March stock markets fell further/faster than before; market bonds gave negative returns in March. More positive figures coming in since March
- forecast to year end? Currently looking good but can't guarantee returns – the Australian market is looking good as Chinese are buying iron ore again.
- Short term funds are out-performing long term funds; Short term funds are well positioned – long term funds have a higher risk as we expect higher returns. Managers of funds are performing very well but won't know until later in the year what the final performance at year end will be.
- New Zealand stock market is very well sort after – KiwiSaver Managers investing sizable sums in Australasian markets, currently there are more buyers than sellers in New Zealand market.

### **Business with Public Excluded (Item 5.0) 1.48pm**

**Moved (Kitchen /Smart)**

1. That the public be excluded from the proceedings of this meeting to consider confidential matters.
2. That the general subject of the matters to be considered whilst the public is excluded, the reasons for passing this resolution in relation to this matter, and the specific grounds under the Local Government Official Information and Meetings Act 1987 for the passing of this resolution, are as follows:

Item No.	Item Issue	Reasons/Grounds
5.1	Confirmation of Confidential Minutes - 26 February 2020	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information which is subject to an obligation of

ID: A1321202

**3**

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27 May 2020

		confidence or which any person has been or could be compelled to provide under the authority of any enactment, where the making available of the information would be likely otherwise to damage the public interest s7(2)(c)(ii).
5.2	Kensington Crossing Redevelopment Update	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.3	Leaseholder's Notice of Exit	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.4	Proposed Sale of a Whangarei CBD Property	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.5	Request for Nil or Low Rent	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.6	Tenant Request for Rent Relief	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(b)(ii), the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.7	Land and Lease Holders' Easement and Covenant Requests	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information where the making available of the information would be likely unreasonably to

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27 May 2020

		prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(b)(ii) and the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h).
5.8	Kaipara Service Centre Tenancy	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.9	Proceeds From Land Sale	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h).

3. That the Independent Financial Advisor be permitted to stay during business with the public excluded.

**Carried**

### **Conclusion**

**The meeting concluded at 3.29pm.**

**TITLE:** Mount Tiger Forest Quarterly Report April - June 2020

**ID:** A1351889

**From:** Nicole Inger, Property Officer

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### Executive summary/Whakarāpopototanga

The purpose of this report is to present an update on Council's Mount Tiger Forest by way of the attached report from Ian Jenkins of Jenksmax Consulting Limited, Council's Forestry Consultant. Mr Jenkins will be present at the meeting to answer any questions.

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### Recommendation

That the report 'Mount Tiger Forest Quarterly Report April - June 2020' by Nicole Inger, Property Officer and dated 13 August 2020, be received.

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### Background/Tuhinga

As per the Forestry Management Plan, council's consultant, Jenksmax Consulting Limited, is to report back to Council every quarter providing an update of the Mount Tiger Forest. The significant matters reported in Quarter Four are as follows:

- In this quarter, and for the 2020 year, no Health and Safety issues have arisen.
- Pre-plant desiccant spray of the 1991 area undertaken post Covid-19 lockdown. Further re-establishment works not required. Planting in July/August 2020.
- Maintenance of roads & roadsides, water tables, water control structures, fences, pest control and tree removal recommenced after Covid-19 lockdown.
- The annual valuation of the tree crop at 30 June 2020 is \$3,257,000.
- NRC held carbon units of 17,460 showed a revaluation gain of \$156,267.
- Regular forest checks (5) have been undertaken for checking after storms, maintenance, trespass, operational planning, H&S inductions and general forest inspections, including a post Covid-19 Level 4 lockdown inspection.
- The July 2020 rainfall event resulted in some significant damage with remedial works estimated at \$25,000. Damage is to be addressed on a case by case basis as some roads will not be utilised for harvest for many years so repair is pre-emptive given the possibility of further weather events.

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### Attachments/Ngā tapirihanga

Attachment 1: NRC Q4(end June 2020) 2019-20 FYear Report  

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### Authorised by Group Manager

**Name:** Phil Heatley

**Title:** Strategic Projects and Facilities Manager

**Date:** 13 August 2020

*NORTHLAND REGIONAL COUNCIL - Forestry Report Q4 2019/20 FYear*



## **NRC - MOUNT TIGER FOREST**

### **BRIEF REPORT ON FORESTRY STATUS - For April to June 2020**

#### **1 Background**

- This report is for the period April to June 2020.
- Mt Tiger forest continues to be managed in accordance with the Forest Management Plan (2020-2024) and this quarter sees the completion of the 2019/20 Work Programme and Budget, ending 30 June 2020.
- This report therefore provides a brief update of activities and relevant comments for this quarter - being Q4 of the 2019-20 financial year (FY 30 June 2020). It focuses on physical achievements and operational matters.
- A further report has been prepared this quarter - "Forest Management Plan - Reporting Actual Performance Against Targets 2019/20", which reports the year-end actual performance of Council's forest holding against the prescribed actions of the Forestry Management Plan and budget for the 2019/20 financial year.

#### **2 Health and Safety**

- In this quarter no Health and Safety (H&S) matters have arisen.
- Jenks has continued to take an active role to ensure all visitors and contractors in Mt Tiger forest in the Q4 period were operating in line with H&S legislation, rules, guidelines and forest industry best practice and that NRC's responsibilities as a forest owner/PCBU are being met.
- There is no forest harvesting currently underway in Mt Tiger, hence H&S risks are greatly reduced.
- H&S induction for MRI was done with contractor prior to start up. Inventory completed and no issues noted.
- No other forest H&S matters this month.
- For the YE2020 there were no recorded H&S incidents, no lost time injuries or other issues of significance.
- Jenks will continue to take an H&S overview role with the forest management and activities to ensure NRC's PCBU responsibilities are being met, particularly with respect to the upcoming re-establishment.

#### **3 Forest Harvesting**

- The last harvest at Mt Tiger was the harvest of the 1991 area which was successfully undertaken between January and April 2019 - last financial year. The next harvest scheduled is the very small 1995 area of some 3.9 ha - not until 2023 or thereabouts. This will be the last of the 1<sup>st</sup> rotation harvest.
- After this, the 2<sup>nd</sup> rotation harvest kicks off in around FY 2027/28 with net harvest proceeds of some \$ 0.5M, then \$1.3M in the next year.
- Mid-rotation inventory was undertaken on the 2003 area in June, some 79.3 ha. The results are used for stand records and growth and yield monitoring. The inventory showed the stockings in the 2 pruned stands slightly high but in line with expectations and all stands are growing well.

*NORTHLAND REGIONAL COUNCIL - Forestry Report Q4 2019/20 FYear*



#### 4 Forest Development Programme

- The NRC Mt Tiger silvicultural work and forest development activity planned for the 2019/20 budget year was minimal.
- This is because of the age class distribution of the forest and that all tending works are mostly up-to-date.
- The main 2019/20 silvicultural work was the thin to waste of the 2010 stand of 25.8 ha. This was started in December (11 ha) and completed in January (14.8 ha). Managed by NFML. Outcome was covered in last quarter's report.
- This financial year also saw the pre-plant preparation for the replanting of the 1991 area harvested earlier in 2019. This involved the tree stock deposit, site preparation and pre-plant spraying.
- Due to the Covid-19 lockdown, the pre-plant desiccant spray was not undertaken until 16 May 2020. This was successfully undertaken at a total cost of \$4,581 compared to budget of \$6,000. The total re-establishment budget included a further \$4,000 for landing burning and pre-plant site works and \$3,500 for tree stock deposit - neither of which were required.
- Actual planting will not be undertaken until winter 2020 (programmed for July), therefore in the 2020/2021 financial year.
- Otherwise most of the 2019/20 programme was related to ongoing maintenance and protection activities while the forest continues to grow and add value.
- Forest maintenance and protection for the 2019/20 was budgeted at \$27K (23% total budget) and mostly pertained to activities such as road maintenance, weed control, fencing, forest health, etc. A large part of this budget is contingency to cover for any remedial works required as a result of storm events, such as clearing slips on the forest roads, etc.
- The 2019/20 budget also included some \$8,000 for NRC input and promotion of the KiwiLink CPCA project, for pest weed control, predator and possum control and kiwi development activities. Year end has seen some \$6,500 spent.

#### 5 Other activities undertaken

- Over Q4, regular forest checks (5) have been undertaken for checking after storms, maintenance, trespass, operational planning, H&S inductions and general forest inspections. Including a post Covid-19 Level 4 lockdown inspection.
- In May and June, the annual road pavement, water tables and road clearance weed spray was undertaken by Joe Martin, cost \$2,048, in line with budget.
- A pre-winter full check and maintenance of roads, water control structures and culverts was undertaken as well as additional roadside vegetation clearance.
- June saw the completion of the forest's northern boundary fence work (Franks boundary) with the fencing component now complete. This boundary is now fully stockproof.
- Jenks approached NorthPower in June with regard to some trees within the forest along Wrack road now starting to pose risk to the 11kV powerlines. At no cost to Council NorthPower has now removed the (10-15) trees involved.

*NORTHLAND REGIONAL COUNCIL - Forestry Report Q4 2019/20 FYear*



- The Mt Tiger animal control programme recommenced after the Covid-19 lockdown - with pig hunting and trapping again being undertaken by contractors. Liaison with respect to access and H&S has been very good.
- General administration, liaison with NRC re environmental and animal control, dealing with neighbour issues, other tasks and reporting and meetings as required.
- The annual PBE IPSAS 27 compliant valuation of the Mt Tiger forest tree crop was completed in June for Council's annual financial reporting and insurance cover purposes. The tree crop was valued at \$3,257,000 as at 30 June 2020, a reduction of 3.2% from last year.
- The Council holds a total of 17,460 NZ Units (carbon units) from its pre-1990 forest land under the NZETS. These were also valued for Council's annual financial reporting and showed an increase from 2019 \$23.15/NZU to 2020 at \$32.10/NZU. This resulted in a non-cash revaluation gain of \$156,267.

**6 July Storm**

- Although outside this Q4 2019/20 report, it is relevant to note that Mt Tiger forest suffered some significant damage as a result of the rainfall event that occurred in Northland on 17-19th July 2020.
- An initial inspection was made 21-22 July and brief update (email 23/07/2020) sent to Council (attached).
- Jenks is in the process of sorting out a plan of attack and has already shown contractors the work, with a view to remedial works occurring as soon as possible, once things have dried out sufficiently to allow access and removal of spoil.
- We have a contingency (as we do every year and mostly unused last year) for (some of) this work in the budget. There is \$5K budgeted for 2020/21, but we will clearly require more this year, perhaps a further \$20K.

**7 Upcoming Work**

- Sort out the post-July storm repairs to the Mt Tiger forest roading network.
- Planting of the (ex 1991 stand) cutover area in July 2020 by NFML.
- Ongoing field checks for forest maintenance after storms, trespass, etc.
- Continue work with NRC Biosecurity re pig control initiative/CPCA/trespass issues and animal control for the forest area as a whole, including indigenous areas within the forest land area.
- Commence 2020/21 forest operations, etc. Minimal programme again this year - basically the re-establishment, ongoing maintenance and protection.

Jenks  
(Ian Jenkins)  
Jenksmax Consulting Limited  
9<sup>th</sup> August 2020

*NORTHLAND REGIONAL COUNCIL - Forestry Report Q4 2019/20 FYear*



**From:** Ian Jenkins [mailto:jenksmax@xtra.co.nz]  
**Sent:** Thursday, 23 July 2020 10:03 a.m.  
**To:** 'Nicole Inger'  
**Subject:** RE: Storm results July 2020  
**Importance:** High

Hi Nicole,

I have a bit much on at the moment, to get done before I have an Operation next week and are out of action for a week or so.  
So, please accept my apology for the rough nature of the few notes below.

This should at least provide a heads up.

I am happy to discuss further verbally answer questions, etc, if required.

- The rainfall event that occurred in Northland on 17-19th July 2020 has had a significant impact on Mt Tiger forest.
- Over the past 10+ years, the forest has come through significant rainfall events relatively unscathed.
- We have had the odd winter storm event, a few Cyclones , etc, but this has generally only caused minor slipping and/or road damage.
- The last significant damage was in 2007, which was more extensive than now.
- I am yet to get the rainfall data, but from reports it was likely over 200+ mm. over 1-2 days. Mt Tiger forest (being in the hills above Whangarei) could well have had more rainfall (as evidenced by the amount of flooding in Onerahi).
- There was no harvesting underway at the time of the rainfall event.
- The last harvest was in March 2019, and this area had been pre-plant sprayed and is due for planting. This was probably the most exposed area of forest.
- The forest maintenance programme was right up to date. Roads and tracks were generally in good order and water control structures functional prior to the rain fall event.
- In fact I spent 2 days in late June and early July ensuring culverts, etc were all clear and functional.
- I am yet to fully assess the total impact, but my initial recce (lots of walking!) is as follows.
- The southern access to the forest (Drew's Main road) is now blocked in the main cutting, some 200m in from the entrance gate. There are trees and about 30 t of material blocking the road.
- The rest of this road has actually come through pretty well considering. There are numerous small slips and batter drop-outs, (say 8-10) that have blocked 10%-50% of the road and 1 more that is blocking the whole road. The road structure itself has generally not been compromised.
- There are also about 6 trees across the road that will need clearing. The 1st major stream crossing is blocked, but water flowing over it as designed.
- In the northern forest (Wrack road) the main access road has actually come through pretty well considering.
- There is one main slip which is blocking the road and has also taken out part of the road formation. Fixable.
- On the side road to Stand 1999, the main gulley and culvert crossing has failed. This has now curtailed further access. Potentially more significant cost to repair.
- In addition, this upper area of the forest seems to have had more extensive rainfall, as there are a few more slips on this road and water damage.
- More concerning is that there appear to be 2 gulley heads which although planted in 21 year old trees, have failed and slumped, perhaps

JENKS MAX CONSULTING LIMITED 1 | Page

*NORTHLAND REGIONAL COUNCIL - Forestry Report Q4 2019/20 FYear*



- 100\*50m areas.
- The cutover awaiting replanting has also suffered numerous slipping. I would think maybe 20+ small slips. This is steep and unstable land, that after a drought and now an intense rainfall event, has taken the brunt of it.
  - The good news is that the above impacts appear to be contained within the forest property (ie no Tolaga Bay type situation).
  - I am still assessing and coming up with a repair plan. At this stage with the wetness of everything and trying to source a contractor, it will be a few weeks before we have a better handle on it.
  - At this stage the forest will be closed. It is permanently closed anyway. I have advised all legitimate users of this.
  - Yet to get a handle on cost (as yet to get contractor on site to inspect, scope works , etc )
  - Not only will the damage and slips require sorting, but the overall forest roading will require a thorough going-over with a full tidy up of batter slopes, slumping removed, watertables cleared and reformed, culverts and silt traps repaired and re-instated, water cut-outs reinstated, etc.
  - The pavement will generally require reshaping and compacting to assist in managing run-off.
  - We have (as we do every year and didn't use much last year) a contingency for (some of) this in the budget.
  - In the newly started 2020/21 budget, we have \$5 k. But this year we will likely need more.
  - The actual cost in 2007 was \$25K, but that was worse.
  - I suspect this could be in the order of \$15-20K.

That is a very quick update for now, after my initial recce over the past 2 days and as I work through things.

I will provide more information when I have a better handle on it and scoped and developed an action plan and costs, etc

I will call in midday' ish with some photos.

Regards

Jenks

027 614 0206

**From:** Nicole Inger [mailto:[nicolei@nrc.govt.nz](mailto:nicolei@nrc.govt.nz)]

**Sent:** Wednesday, 22 July 2020 4:07 p.m.

**To:** [jenksmax@xtra.co.nz](mailto:jenksmax@xtra.co.nz)

**Subject:** Storm results

Hi Jenks

Phil and I have a half hour meet with Malcolm tomorrow afternoon and it would be good to have a high level summary of the issues created in the Forest by the storm and the clean up involved. There's a good chance he will ask and if the forest is completely closed he will want to know why. Probably good to get it on file here as well. I hope that is ok, but if you don't have time, give me a call and I can jot down any salient points to report, and tell him a more detailed report will be coming in a week or two.

**Ngā mihi**

Nicole Inger

Property Officer

**TITLE:** Performance of Council Externally Managed Funds to 31 July 2020

**ID:** A1355237

**From:** Simon Crabb, Finance Manager

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### Executive summary/Whakarāpopototanga

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### Recommendation(s)

1. That the report 'Performance of Council Externally Managed Funds to 31 July 2020' by Simon Crabb, Finance Manager and dated 21 August 2020, be received.

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### Background/Tuhinga

Jonathan Eriksen from EriksensGlobal will be joining in via Zoom to answer any questions.

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### Attachments/Ngā tapirihanga

Attachment 1: Performance of Council Externally Managed Funds to 31 July 2020  

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### Authorised by Group Manager

**Name:** Bruce Howse

**Title:** Group Manager - Corporate Excellence

**Date:**

# ERIKSENSGLOBAL

Actuaries & Investment Strategists

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## NORTHLAND REGIONAL COUNCIL EXTERNALLY MANAGED INVESTMENT FUNDS

MONTHLY REPORT 31 JULY 2020

19 AUGUST 2020

STRICTLY PRIVATE & CONFIDENTIAL

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Northland Regional Council  
Monthly Report 31 July 2020

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Northland Regional Council  
Monthly Report 31 July 2020

## EXECUTIVE SUMMARY

	1 Month %	3 Month %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %
<b>LTF</b>	<b>2.1</b>	<b>6.5</b>	<b>6.8</b>	<b>7.4</b>	<b>6.6</b>
Objective	0.5	1.6	6.0	6.0	5.7
Over / Underperformance	1.6	4.9	0.8	1.4	0.9
<b>STF</b>	<b>1.5</b>	<b>3.4</b>	<b>4.3</b>	<b>7.2</b>	<b>7.2</b>
Objective	0.3	0.8	4.1	4.7	5.0
Over / Underperformance	1.2	2.6	0.2	2.5	2.2

Legend: Red = -2% or below; Amber = greater than -2% but less than 0%; Green = 0% or above

- Equity markets rose in August with positive news surrounding a possible vaccination. Australia continued to see a surge in Coronavirus cases in Victoria leading to the state moving back into lockdown. The NZD depreciated against the AUD, EUR, and GBP whilst depreciating against the JPY and USD. Overall this is beneficial to the firms unhedged Australian returns.
- The LTF outperformed against its real objective over all periods. The STF outperformed over all periods against its real objective and is 2.5% below the LTF for the year.
- Multi-asset and growth style funds all performed well over the month with Mint Diversified Growth performing the best, beating its objective by 4.2%. Unhedged assets such as CC No.5 Fund, Schrodgers and BlackRock benefitted from the depreciation of the NZD against the AUD over the three-month period.
- The allocation to cash assets in the STF was above the allowable range. This higher allocation to cash is prudent for the time being given the current market environment. The allocation to QuayStreet Income was also above the allowable range. Future cash needs should be taken from it over the cash pool, depending on liquidity. We have recommended a \$2.5 million redemption from QuayStreet to meet current cash flow needs.
- PCP III was revalued significantly upwards in June following large IRR increases for Laybuy and Agility CIS.
- We expect a cautious approach to be taken by managers over the next couple of months as COVID-19 is seeing a resurgence in NZ and Auckland has been placed into lockdown until the end of August.

## INTRODUCTION

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

- Long Term Fund – 18 February 2020
- Short Term Fund – 18 February 2020

Investment Objective (Net of Fees)
<b>Long Term Fund</b>
NZ CPI (rolling over three years) plus 4.5% per annum
<b>Short Term Fund</b>
90-day Bank Bill Index plus 3% per annum

The NZ CPI (rolling over three years) as at **June 2020 was 1.5% per annum**. The Fund objective for shorter time periods are based on the annualised rolling three-year CPI.

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.

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 **one** month (and are excluded from this report).

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## LONG TERM FUND

### PERFORMANCE SUMMARY

Performance Summary	1 Month %	3 Month %	1 Year %	3 Year (p.a.) %	5 Year (p.a.) %
<b>Growth Assets</b>					
<b>Aspiring</b>	2.2	6.5	5.6	7.6	
Benchmark	0.2	0.5	5.5	5.5	
Over / Underperformance	2.0	6.0	0.1	2.1	
<b>Castle Point 5 Oceans</b>	1.1	4.9	5.1	5.7	
Benchmark	0.3	0.8	3.7		
Over / Underperformance	0.8	4.1	1.4		
<b>Milford Active Growth</b>	3.1	9.6	6.2	10.2	9.7
Benchmark	0.8	2.4	10.0	10.0	10.0
Over / Underperformance	2.3	7.2	(3.8)	0.2	(0.3)
<b>Mint Div. Growth</b>	4.4	12.0			
Benchmark	0.2	0.6			
Over / Underperformance	4.2	11.4			
<b>Schroders RRF</b>	1.2	3.8	3.8	3.9	3.0
Benchmark	0.4	1.1	6.2	6.5	6.2
Over / Underperformance	0.8	2.7	(2.4)	(2.6)	(3.2)
<b>T. Rowe Price</b>	4.0	13.5	23.4		
Benchmark	3.9	11.0	4.7		
Over / Underperformance	0.1	2.5	18.7		
<b>Continuity Capital No.2</b>	3.1	1.1	5.8		
Benchmark	1.2	3.6	15.0		
Over / Underperformance	1.9	(2.5)	(9.2)		
<b>Continuity Capital No.4</b>	0.2	-7.4	-7.3		
Benchmark	1.2	3.6	15.0		
Over / Underperformance	(1.0)	(11.0)	(22.3)		
<b>Continuity Capital No.5</b>	0.0	1.5			
Benchmark	1.2	3.6			
Over / Underperformance	(1.2)	(2.1)			
<b>MLC PE II</b>	-0.2	-5.7	10.1		
Benchmark	1.2	3.6	15.0	15.0	
Over / Underperformance	(1.4)	(9.3)	(4.9)		
<b>PCP III</b>	0.0	35.2	64.1	34.0	
Benchmark	0.6	1.9	8.0	8.0	
Over / Underperformance	(0.6)	33.3	56.1	26.0	
<b>Income Assets</b>					
<b>BlackRock FIGO</b>	2.5	6.2	6.2	3.4	
Benchmark	0.3	1.0	4.8	5.5	
Over / Underperformance	2.2	5.2	1.4	(2.1)	
<b>Harbour Income</b>	1.4	3.6	3.1	5.6	5.4
Benchmark	0.3	0.9	4.2	4.8	4.6
Over / Underperformance	1.1	2.7	(1.1)	0.8	0.8
<b>Milford Div. Income</b>	1.4	3.7	0.3	6.3	7.7
Benchmark	0.2	0.7	3.2	3.9	4.2
Over / Underperformance	1.2	3.0	(2.9)	2.4	3.5
<b>Mint Div. Income</b>	2.0	4.9	2.4	5.2	5.2
Benchmark	0.1	0.3	4.5	4.5	4.4
Over / Underperformance	1.9	4.6	(2.1)	0.7	0.8
<b>Total Fund</b>	2.1	6.5	6.8	7.4	6.6
Fund Objective	0.5	1.6	6.0	6.0	5.7
Over / Underperformance	1.6	4.9	0.8	1.4	0.9

Legend: Red = -2% or below; Amber = greater than -2% but less than 0%; Green = 0% or above

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#### CONTINUITY CAPITAL PE FUND NO.2 (HISTORICAL RETURN)

The table below shows the returns of Continuity Capital No.2, including the period before it was transferred from the old PRF to the CIF.

	1 Month %	3 Month %	1 Year %	3 Year % p.a.
<b>Continuity Capital PE Fund No.2</b>	<b>3.1</b>	<b>1.1</b>	<b>5.8</b>	<b>10.9</b>
Benchmark	1.2	3.6	15.0	15.0
Value Added	1.9	(2.5)	(9.2)	(4.1)

Legend: Red = -2% or below; Amber = greater than -2% but less than 0%; Green = 0% or above

#### AUSTRALIAN DOLLAR-DENOMINATED FUND RETURNS

The following table shows the movements of the AUD/NZD cross rate which affect the unhedged Schroders, MLC and BlackRock 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 %	1 Year %	3 Year (p.a.) %	5 Year (p.a.) %
<b>AUD/NZD</b>	<b>-0.6</b>	<b>-1.5</b>	<b>-3.0</b>	<b>-0.4</b>	<b>0.5</b>
<b>Schroders RRF + 5% (NZD)</b>	<b>1.2</b>	<b>3.8</b>	<b>3.8</b>	<b>3.9</b>	<b>3.0</b>
Benchmark	0.4	1.1	6.2	6.5	6.2
Over / Underperformance	0.8	2.7	(2.4)	(2.6)	(3.2)
<b>Schroders RRF + 5% (AUD)</b>	<b>0.6</b>	<b>2.3</b>	<b>0.4</b>	<b>3.4</b>	<b>3.5</b>
Benchmark	0.4	1.1	6.2	6.5	6.2
Over / Underperformance	0.2	1.2	(5.8)	(3.1)	(2.7)
<b>MLC PE II (NZD)</b>	<b>-0.2</b>	<b>-5.7</b>	<b>10.1</b>		
Benchmark	1.2	3.6	15.0		
Over / Underperformance	(1.4)	(9.3)	(4.9)		
<b>MLC PE II (AUD)</b>	<b>-0.8</b>	<b>-7.0</b>	<b>6.9</b>		
Benchmark	1.2	3.6	15.0		
Over / Underperformance	(2.0)	(10.6)	(8.1)		
<b>BlackRock FIGO (NZD)</b>	<b>2.5</b>	<b>6.2</b>	<b>6.2</b>	<b>3.4</b>	
Benchmark	0.3	1.0	4.8	5.5	
Over / Underperformance	2.2	5.2	1.4	(2.1)	
<b>BlackRock FIGO (AUD)</b>	<b>1.9</b>	<b>4.6</b>	<b>3.0</b>	<b>3.0</b>	
Benchmark	0.3	1.0	4.8	5.5	
Over / Underperformance	1.6	3.6	(1.8)	(2.5)	
<b>Continuity Capital No.5 (NZD)</b>	<b>0.0</b>	<b>1.5</b>			
Benchmark	1.2	3.6			
Over / Underperformance	(1.2)	(2.1)			
<b>Continuity Capital No.5 (AUD)</b>	<b>-0.6</b>	<b>0.1</b>			
Benchmark	1.2	3.6			
Over / Underperformance	(1.8)	(3.5)			

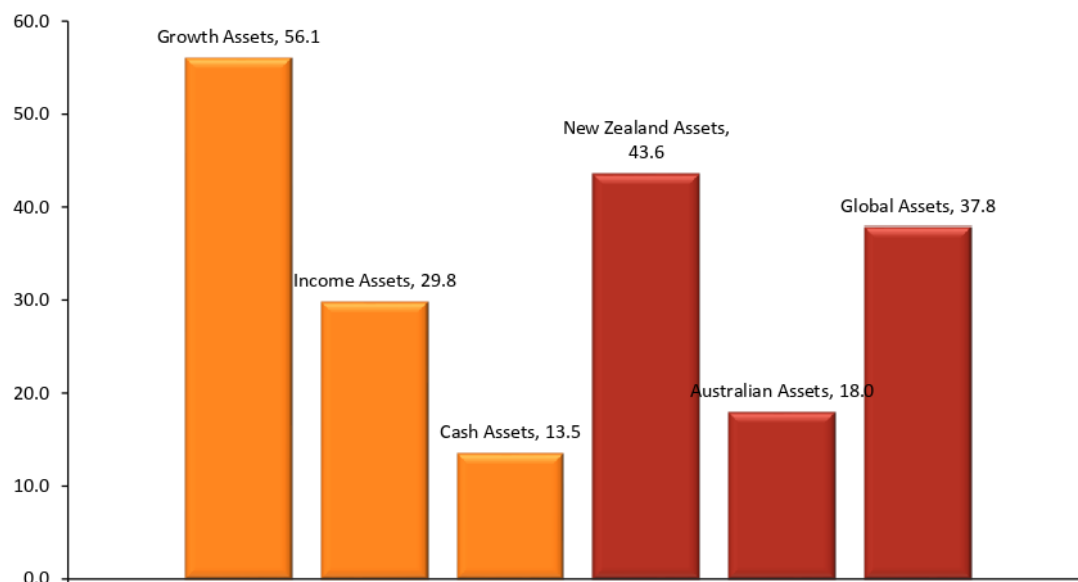
Legend: Red = -2% or below; Amber = greater than -2% but less than 0%; Green = 0% or above

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#### LTF OVERALL FUND ASSET ALLOCATION

Overall Fund Asset Allocation	Market Value		Target	Target Range	Status
	\$	%	%	%	
<b>Growth Assets</b>	<b>28,638,012</b>	<b>64.8</b>	<b>67</b>	<b>50 - 85</b>	✓
<b>Diversified Growth</b>	<b>24,360,812</b>	<b>55.1</b>	<b>47</b>	<b>30 - 70</b>	✓
Aspiring	4,896,004	11.1	7	5 - 15	✓
Castle Point 5 Oceans	5,488,593	12.4	10	5 - 15	✓
Milford Active Growth	3,965,632	9.0	10	5 - 15	✓
Mint Diversified Growth	2,041,670	4.6	5	0 - 10	✓
Schroders Real Return Fund + 5%	3,107,972	7.0	5	0 - 10	✓
T. Rowe Price Global Equity Growth	4,860,941	11.0	10	0 - 15	✓
<b>Private Equity</b>	<b>4,277,200</b>	<b>9.7</b>	<b>20</b>	<b>0 - 35</b>	✓
Continuity Capital PE Fund No.2 LP	1,234,067	2.8	3	0 - 8	✓
Continuity Capital PE Fund No.4 LP	448,480	1.0	3	0 - 8	✓
Continuity Capital PE Fund No.5 LP	461,074	1.0	4	0 - 8	✓
Direct Capital VI	265,625	0.6	4	0 - 8	✓
MLC PE II	986,451	2.2	3	0 - 8	✓
PCP III	881,503	2.0	3	0 - 8	✓
<b>Income Assets</b>	<b>15,561,937</b>	<b>35.2</b>	<b>33</b>	<b>15 - 50</b>	✓
<b>Diversified Income</b>	<b>15,561,937</b>	<b>35.2</b>	<b>33</b>	<b>15 - 50</b>	✓
BlackRock FIGO	1,212,648	2.7	3	0 - 10	✓
Harbour Income	4,737,187	10.7	10	0 - 15	✓
Milford Diversified Income	4,904,974	11.1	10	0 - 15	✓
Mint Diversified Income	4,707,127	10.6	10	0 - 15	✓
<b>Cash</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0 - 5</b>	✓
Self-Managed	0	0.0	0	0 - 5	✓
<b>Total Assets</b>	<b>44,199,949</b>	<b>100.0</b>			

#### LTF UNDERLYING FUND ASSET ALLOCATION



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## SHORT TERM FUND

### PERFORMANCE SUMMARY

Performance Summary	1 Month %	3 Month %	1 Year %	3 Year (p.a.) %	5 Year (p.a.) %
<b>Growth Assets</b>					
<b>Castle Point 5 Oceans</b>	<b>1.1</b>	<b>4.6</b>	<b>3.7</b>		
Benchmark	0.3	0.8	3.7		
Value Added	0.8	3.8	0.0		
<b>Milford Active Growth</b>	<b>3.1</b>	<b>9.6</b>			
Benchmark	0.8	2.4			
Over / Underperformance	2.3	7.2			
<b>Milford Diversified Growth</b>	<b>4.4</b>				
Benchmark	0.2				
Over / Underperformance	4.2				
<b>Income Assets</b>					
<b>Harbour Income</b>	<b>1.4</b>	<b>4.7</b>	<b>1.9</b>		
Benchmark	0.3	0.9	4.2		
Value Added	1.1	3.8	(2.3)		
<b>Milford Diversified Income</b>	<b>1.4</b>	<b>3.7</b>	<b>0.1</b>	<b>6.2</b>	<b>7.6</b>
Benchmark	0.2	0.7	3.2	3.9	4.2
Over / Underperformance	1.2	3.0	(3.1)	2.3	3.4
<b>Mint Diversified Income</b>	<b>1.9</b>	<b>4.5</b>	<b>3.0</b>	<b>5.3</b>	<b>5.2</b>
Benchmark	0.1	0.3	4.5	4.5	4.6
Value Added	1.8	4.2	(1.5)	0.8	0.6
<b>QuayStreet Income</b>	<b>1.0</b>	<b>3.3</b>	<b>2.8</b>	<b>5.0</b>	
Benchmark	0.2	0.6	2.7	3.4	
Value Added	0.8	2.7	0.1	1.6	
<b>Self-Managed Cash</b>	<b>0.1</b>	<b>0.3</b>			
Benchmark	0.0	0.1			
Value Added	0.1	0.2			
<b>Total Fund</b>	<b>1.5</b>	<b>3.4</b>	<b>4.3</b>	<b>7.2</b>	<b>7.2</b>
Fund Objective	0.3	0.8	4.1	4.7	5.0
Value Added	1.2	2.6	0.2	2.5	2.2

Legend: Red = -2% or below; Amber = greater than -2% but less than 0%; Green = 0% or above

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#### STF OVERALL FUND ASSET ALLOCATION

Overall Fund Asset Allocation	Market Value		Target	Target Ranges	Status
	\$	%	%	%	
<b>Growth Assets</b>	<b>3,319,008</b>	<b>17.3</b>	<b>20</b>	<b>0 - 40</b>	✓
<b>Diversified Growth</b>	<b>3,319,008</b>	<b>17.3</b>	<b>20</b>	<b>0 - 40</b>	✓
Castle Point 5 Oceans	1,533,808	8.0	10	0 - 20	✓
Milford Active Growth	1,040,676	5.4	5	0 - 20	✓
Mint Diversified Growth	744,523	3.9	5	0 - 20	✓
<b>Income Assets</b>	<b>15,840,596</b>	<b>82.7</b>	<b>80</b>	<b>60 - 100</b>	✓
<b>Diversified Income</b>	<b>14,826,565</b>	<b>77.4</b>	<b>80</b>	<b>60 - 100</b>	✓
Harbour Income	3,351,214	17.5	20	0 - 30	✓
Milford Diversified Income	1,362,599	7.1	20	0 - 30	✓
Mint Diversified Income	3,869,205	20.2	20	0 - 30	✓
QuayStreet Income	6,243,548	32.6	20	0 - 30	x
<b>Cash</b>	<b>1,014,030</b>	<b>5.3</b>	<b>0</b>	<b>0 - 5</b>	x
Self-Managed	1,014,030	5.3	0	0 - 5	x
<b>Total Assets</b>	<b>19,159,603</b>	<b>100.0</b>			

The allocation to cash is above the allowable range, though this is prudent for the time being given the current market environment. The allocation to QuayStreet Income is also above the allowable range.

#### STF UNDERLYING FUND ASSET ALLOCATION



## 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.) %
LTF	10.1	6.4
STF	4.7	3.9
NZ Multi-Sector Balanced	5.3	5.2
NZ Multi-Sector Moderate	6.9	4.7
S&P/NZX 50	18.5	12.3

Over the one-year period the LTF had a higher standard deviation than the Balanced and Moderate benchmarks and a lower standard deviation than the NZX 50. The STF had a lower standard deviation than the NZX 50, Balanced benchmark and the Moderate benchmark.

Over the three-year period the LTF had a higher standard deviation than the Balanced and Moderate benchmarks and a lower standard deviation than the NZX 50. The STF had a lower standard deviation than the NZX 50, Balanced benchmark and the Moderate benchmark.

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## MARKET PERFORMANCE AND ECONOMIC COMMENTARY

### MARKET PERFORMANCE

Index	Index Level/ Price	1 Month %	3 Month %	1 Year %	3 Year % p.a.	5 Year % p.a.
Global Equities						
MSCI Emerging Markets	638.51	8.1	16.0	10.7	5.5	7.7
MSCI All Country World Index	264.88	4.0	11.5	6.2	7.4	7.4
S&P 500 (US)	3,271.12	5.5	12.3	9.8	9.8	9.2
Nikkei 225 (Japan)	21,710.00	-2.6	7.5	0.9	2.9	1.1
FTSE 100 (UK)	5,897.76	-4.4	-0.1	-22.3	-7.2	-2.5
DAX (Germany)	12,313.36	0.0	13.4	1.0	0.5	1.7
CAC 40 (France)	4,783.69	-3.1	4.6	-13.3	-2.1	-1.2
Trans-Tasman Equities						
S&P/NZX 50	11,727.63	2.4	11.4	8.0	15.1	14.6
S&P/ASX 300	64,488.29	0.6	7.8	-9.7	5.4	5.2
Bonds						
Bloomberg NZBond Govt NZD	4,626.16	0.9	0.4	5.8	6.2	5.1
Bloomberg NZBond Composite NZD	1,667.93	0.7	0.7	5.3	5.7	4.9
BBGBarc Global Aggregate Hdg NZD	444.82	1.0	1.9	6.0	5.3	5.1
FTSE WGBI Hdg NZD	3,746.97	1.0	1.1	6.8	5.7	5.3
Oil						
West Texas Intermediate Crude	40.27	2.4	66.4	-55.6	-20.0	-19.4
Brent Crude	42.81	5.2	71.3	-33.6	-6.3	-3.7
NZD Foreign Exchange						
AUD	0.9289	-0.7	-1.4	-3.0	-3.2	-4.1
EUR	0.5633	-1.7	0.0	-5.0	-6.3	4.3
GBP	0.5075	-2.6	3.8	-5.8	-0.3	6.2
JPY	70.4321	1.4	6.8	-1.7	-3.9	10.0
CNY	4.6479	2.2	6.7	2.2	-1.1	10.6
USD	0.6662	3.5	8.0	0.9	-1.3	12.4

Source: Morningstar, Nikko

We make the following key observations:

- Geopolitical risks in China, US, Lebanon
- Reintroduction of Covid-19 to New Zealand
- Upcoming elections in NZ, US creating uncertainty
- Unemployment and jobless claims figures in US reducing although the headline numbers don't tell the whole story

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## ECONOMIC COMMENTARY

### COVID

A second wave of COVID is perhaps the largest risk to economies in the near term. It is currently sweeping through Victoria, Australia where the state went back into lockdown in July and Auckland had its first case of community transmission from an unknown source after 102 days. A second wave to economies could be devastating for businesses that were only just able to get through the first wave of COVID lockdowns. The focus on a vaccine will therefore continue to be at the forefront of any market-moving news in the months ahead. Until there is any effective vaccine it is likely that technology stocks and quality stocks will continue to outperform other parts of the equity market that are more closely tied to the “real” or “tangible” economy.

Getting COVID-free bubbles with our Pacific Island neighbours would stimulate tourism, boost the airline industry, and support short-term migrant workers for the next fruit picking season. However the time frame for this is likely to be extended given NZ has stepped back up the Alert Level ladder.

### Elections

In the US, the democrats look to have a strong hold on polling numbers for this presidential campaign. Democratic candidate Joe Biden’s quest for higher taxes and closing the ever-increasing wealth gap is charging ahead. The evolution of the pandemic will shape the process ahead of the presidential election.

The risk of changing governments is high, despite tensions continuing to rise with President Trump’s anti-China rhetoric in full swing, pandering to voters in the hope it will help his bid for re-election. The US closed the Houston Chinese consulate in July amidst fears of spying. Beijing retaliated by ordering the close of the US consulate in Chengdu.

In New Zealand, Labour lead the polls with over 50% of the votes at present. This would be the first time since 1951 that a party achieved a 50% majority. The need for a coalition is still real under MMP. The Greens and NZ First polling numbers are not encouraging for either party. This is a critical election because of COVID and the resulting recession. Individual voters need to decide whether they want to see jobs be created or see them go overseas: whether we want a hand-out or a hand-up.

Over the next few months in both New Zealand and the US we will see if politicians play too much politics, overshadowing the needs and well-being of each respective countries inhabitants, or will they keep their country’s best interests at heart?

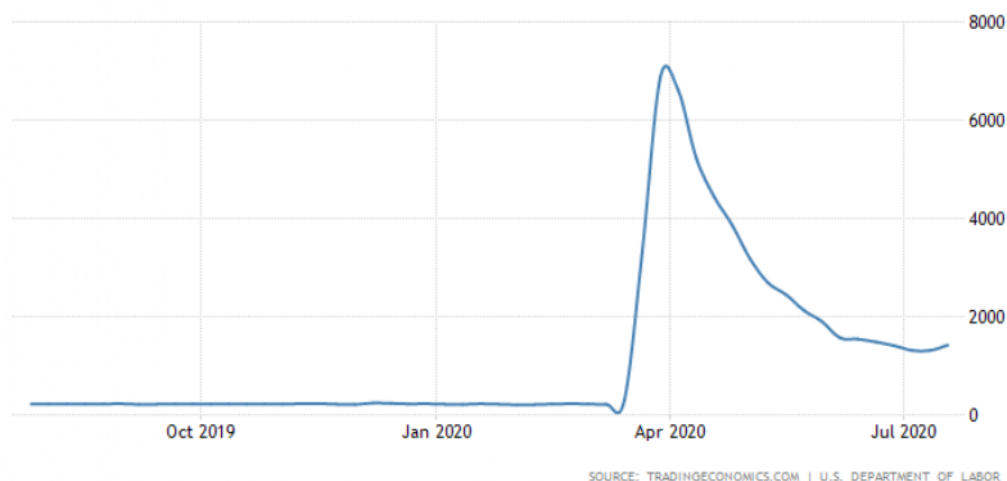
### Markets

The US initial jobless claims data released in mid-July showed an increase in claims for the first time since March. This follows the increase in cases across the US as some states reopened their economies earlier than they perhaps should have. The US Manufacturing PMI figure increased to 49.8 in June which is almost neutral and a significant increase from 39.8 in May. These are only a couple of data points but should be a

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reminder that the economic recovery will not be a smooth one and will most likely be prolonged and largely dependent on containment of the pandemic, medical treatments and potential vaccines.

Figure: US Initial Jobless Claims



A relief package was passed in Europe, impressive since there is no fiscal union there. The €750 billion package shows solidarity within the Eurozone, notably the UK was absent from meeting. The next few months of uncertainty will show the Brits' resilience. The future trajectory the UK will be decided by the pandemic resurgence, a flood of business failures and redundancies, and a no-deal Brexit.

### Geopolitical Risks

Although the financial stability of the Eurozone was strengthened, other parts of the world are volatile. The Government in Lebanon has fallen of the tragic explosion at the port. China is exercising its new powers in Hong Kong and threatening the sovereignty of Taiwan and the South China Seas. President Trump is sanctioning Chinese officials and disrupting Chinese tech companies who use US technology.

### New Zealand

Rio Tinto announced the closing of the New Zealand Aluminium Smelter in just over a years' time, causing large sell offs in the energy sector. The closing of the smelter will result in the direct loss of around 1,000 jobs and a further 1,600 indirectly connected to the smelter. The move to more renewable energy sources will see many families, schools and small businesses suffer because of the decision. With global supply chains at risk, New Zealand has the opportunity to broaden and deepen its manufacturing capacity. This will have the effect of retaining and/or generating jobs and broadening the economy, thus it makes sense to keep essential manufacturing going in NZ.

The NZ CPI index fell during Q2 and unemployment fell from 4.2% to 4.0%. Despite this the number of people not in the labour force rising by 37,000, the number of people employed fell 11,000 and the number of hours worked fell 10.3%. These latter figures give a better picture of how the economy has reacted to the

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COVID-19 pandemic than unemployment percentages alone. We are effectively underutilising our workforce.

This should not come as a surprise as the Treasury anticipated that we would be seeing 8.5% unemployment at this point of the year given our lockdown scenario. This points to NZ having a better recovery than anticipated, but we still have a very long way to go. We need to stay vigilant.

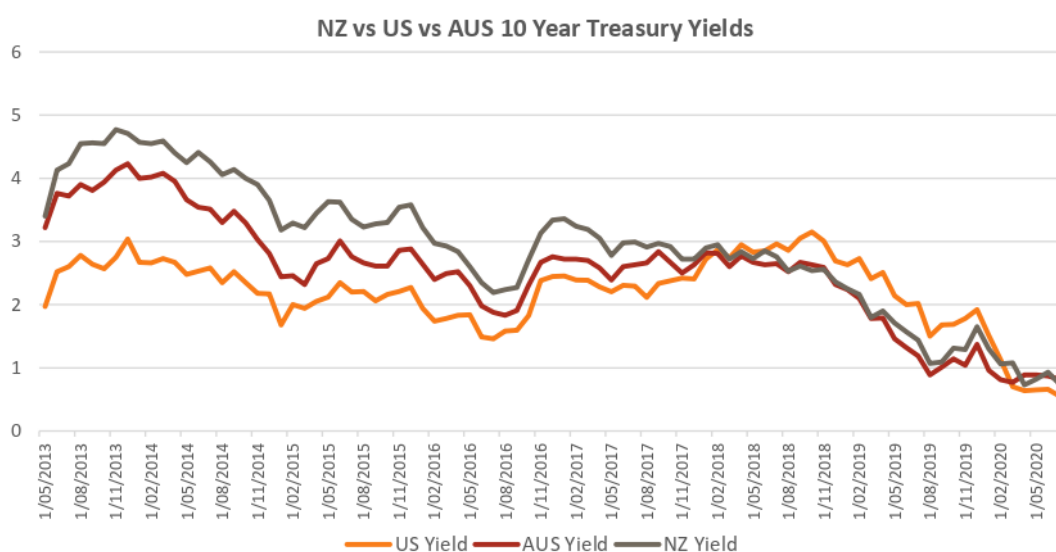
The end of the fiscal and monetary support packages in New Zealand may see this unstable and volatile bullish run of equities come to a halt.

### Long Term Interest Rates in NZ

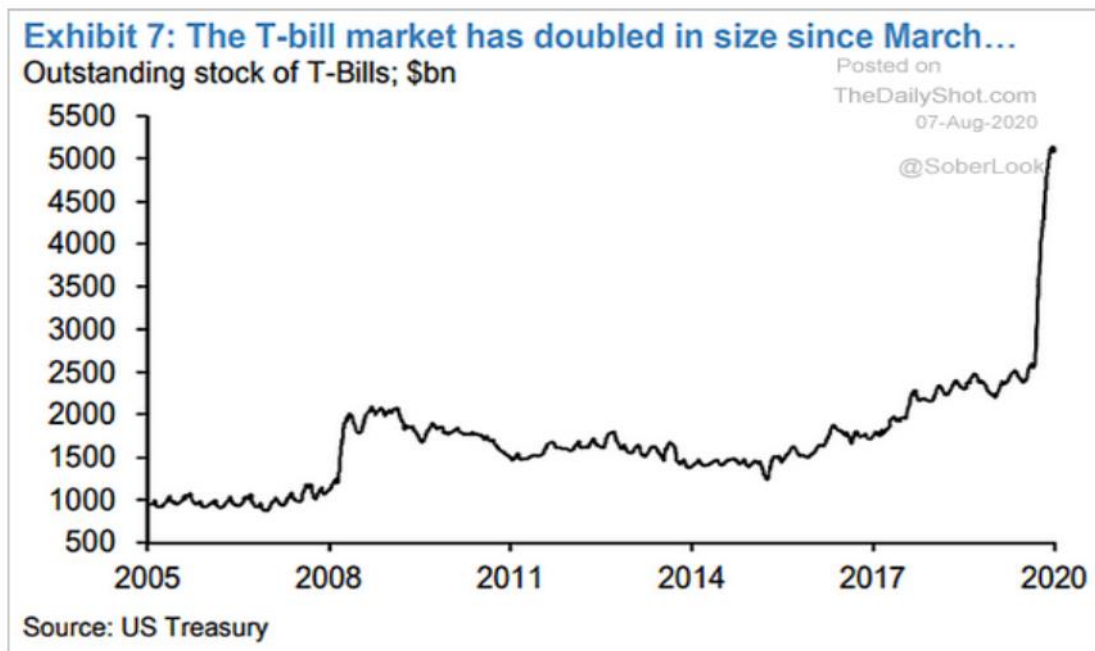
Although the current ultra-low interest rates could well continue for years, they are causing difficulties for conservative investors and financial modellers alike. How can you quantify the risk premium?

In our view the 20-year plus duration Government nominal bond yields should be between 4% - 5% per annum. This would imply a cash rate of 2% - 2.5%, inflation around 2% p.a. and a 10-year yield of 3.5% - 4%. Doesn't that remind you of the good old days?!

Contrast these expected returns with US 30-year mortgages at 2.98% interest rate; the lowest they have been since 1971. The Treasury Bill market in the US has doubled in size since March because of quantitative easing. This gives a good indication of the extent of the Fed's intervention.



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Source: TheDailyShoot.com

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## APPENDIX 1: BENCHMARKS

### LONG TERM FUND

Asset	Benchmark
<b>Growth Assets</b>	
<b>Diversified Growth</b>	
Aspiring	NZ CPI + 4% p.a.
Castle Point 5 Oceans	NZ OCR + 3% p.a.
Milford Active Growth	10% p.a.
Mint Diversified Growth	NZ CPI + 4.5% p.a.
Schroders Real Return Fund + 5%	Australian CPI (trimmed mean) + 5% p.a.
T. Rowe Price Global Equity Growth	MSCI All Country World Index
<b>Private Equity</b>	
Continuity Capital PE Fund No.2 LP	15% p.a.
Continuity Capital PE Fund No.4 LP	15% p.a.
Continuity Capital PE Fund No.5 LP	15% p.a.
Direct Capital VI	12% p.a.
MLC PE II	15% p.a.
PCP III	8% p.a.
<b>Income Assets</b>	
<b>Diversified Income</b>	
BlackRock FIGO	Bloomberg AusBond Bank Bill Index + 4% - 6% p.a. (we use 4%)
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.
<b>Total Assets</b>	<b>NZ CPI + 4.5% p.a.</b>

### SHORT TERM FUND

Asset	Benchmark
<b>Growth Assets</b>	
<b>Diversified Growth</b>	
Castle Point 5 Oceans	NZ OCR + 3% p.a.
Milford Active Growth	10% p.a.
Mint Diversified Growth	NZ CPI + 4.5% p.a.
<b>Income Assets</b>	
<b>Diversified Income</b>	
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.
<b>Total Assets</b>	<b>90-day Bank Bill Index plus 3% p.a.</b>

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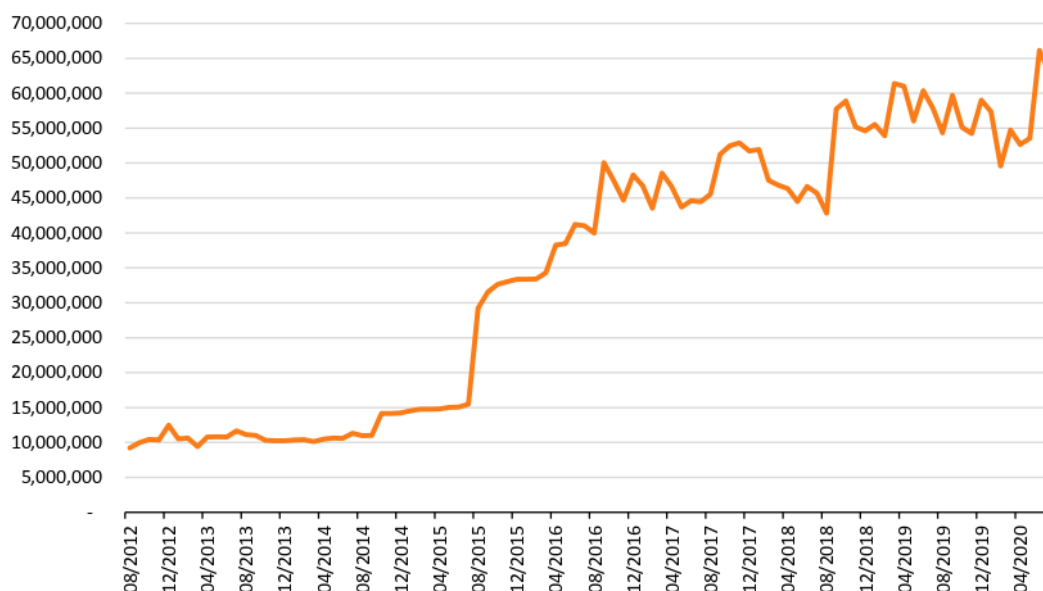
## APPENDIX 2: NRC TOTAL FUNDS UNDER MANAGEMENT

### FUNDS UNDER MANAGEMENT: BREAKDOWN

Manager	Fund	LTF	STF	NRC Total FUM \$	NRC Manager % of Total FUM
Aspiring	Aspiring	4,896,004		4,896,004	7.8
BlackRock	FIGO	1,212,648		1,212,648	1.9
Castle Point	5 Oceans	5,488,593	1,533,808	7,022,402	11.1
Continuity Capital	No.2	1,234,067		1,234,067	3.4
	No.4	448,480		448,480	
	No.5	461,074		461,074	
Direct Capital	DC VI	0		0	0.0
Harbour	Income	4,737,187	3,351,214	8,088,401	12.8
Milford	Active Growth	3,965,632	1,040,676	5,006,308	17.9
	Diversified Income	4,904,974	1,362,599	6,267,573	
Mint	Diversified Income	4,707,127	3,869,205	8,576,332	18.0
	Diversified Growth	2,041,670	744,523	2,786,193	
MLC	PE Co-investment Fund II	986,451		986,451	1.6
Pioneer Capital	PCP III	881,503		881,503	1.4
QuayStreet	Income		6,243,548	6,243,548	9.9
Schroders	Real Return + 5%	3,107,972		3,107,972	4.9
Self-managed Cash	N/A	0	1,014,030	1,014,030	1.6
T. Rowe Price	Global Growth Equity	4,860,941		4,860,941	7.7
<b>NRC Total FUM</b>		<b>43,934,324</b>	<b>19,159,603</b>	<b>63,093,927</b>	<b>100</b>

Note: all values are in NZD

### FUNDS UNDER MANAGEMENT: ROLLING MONTHLY TIME SERIES



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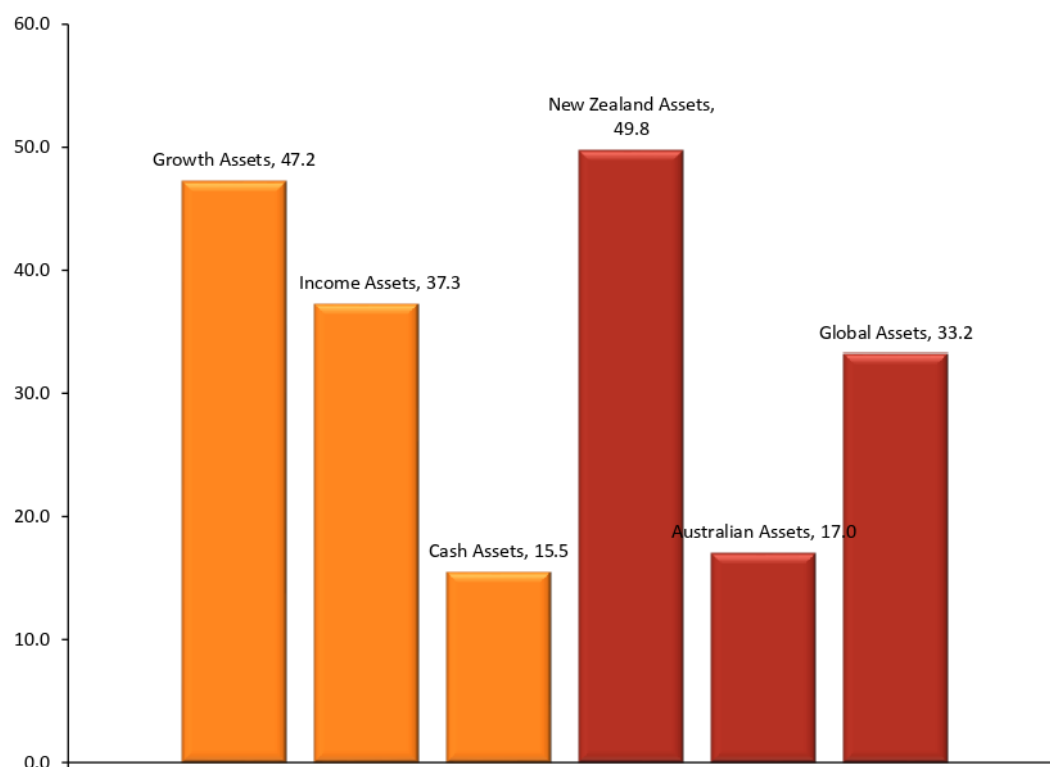
#### FUNDS DENOMINATED IN AUD

Funds Denominated in AUD		LTF	NRC Total AUD
BlackRock	FIGO	1,126,411	1,126,411
Continuity Capital	Fund No.5	428,285	428,285
MLC	PE Co-investment Fund II	916,300	916,300
Schroders	Real Return + 5%	2,886,949	2,886,949
<b>NRC Total AUD</b>		<b>5,357,945</b>	<b>5,357,945</b>

#### PRIVATE EQUITY – COMMITTED CAPITAL (CALLED VS UNCALLED)

Private Equity Fund	NRC Fund	Committed Capital \$	Called \$	Uncalled \$
Continuity Capital No.2 (NZD)	LTF	2,000,000	1,720,000	280,000
Continuity Capital No.4 (NZD)	LTF	1,000,000	500,000	500,000
Continuity Capital No. 5 (AUD)	LTF	3,000,000	450,000	2,550,000
Direct Capital VI (NZD)	LTF	2,000,000	265,625	1,734,375
MLC PE II (AUD)	LTF	1,000,000	810,000	190,000
Pioneer Capital III (NZD)	LTF	1,000,000	595,923	404,077

#### NRC TOTAL UNDERLYING FUND ALLOCATIONS



**TITLE: Strategy to De-Risk the Long Term Investment Fund**

**ID:** A1354947

**From:** Simon Crabb, Finance Manager

---

**Executive summary/Whakarāpopototanga**

In an endeavour to de-risk the managed fund portfolio and further preserve Councils capital, EriksensGlobal has recommended that the asset mix of the Long-Term Investment Fund is amended:

**From:** 64.8% growth assets and 35.2% income assets  
**To:** 60.4% growth assets and 39.6% income assets  
**By:** transferring \$1,588,399 from Diversified Growth Fund Managers to Diversified Income Fund Managers, and  
Withdrawing \$911,601 from Diversified Growth Fund Managers.

**Risk:Return** LTF expected return will reduce slightly from 5.4%pa to 5.2%pa  
The LTF risk profile will remain unchanged as a one year in seven chance of a negative return

Refer to Attachment One for the full EriksensGlobal recommendation.

The proposed amendment is within the target asset allocation range specified in councils Statement of Investment Policy and Objectives (SIPO).

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**Recommendation(s)**

1. That the report 'Strategy to De-Risk the Long Term Investment Fund' by Simon Crabb, Finance Manager and dated 20 August 2020, be received.
2. That the Long-Term Fund asset mix is amended to 60.4% growth assets and 39.6% income assets (broadly 60:40), in line with the attached EriksensGlobal recommendation.

---

**Background/Tuhinga**

In light of the economic impacts of COVID-19 and the approaching NZ and US elections, council's independent investment advisor, EriksensGlobal, has reviewed the asset allocations of the Long-term Investment Fund (LTF) and proposed a strategy to de-risk the LTF in an endeavour to further preserve Councils capital. The proposed recommendation resets the actual asset mix of the Long-Term Fund as follows:

Long Term Investment Fund	Recommendation	Target Range	Benchmark
Growth Assets	60.4%	50% - 85%	67%
Income Assets	39.6%	15% - 50%	33%

As a result of the proposed amendment the expected return of the LTF will reduce slightly from 5.4% pa to 5.2% pa and the LTF risk profile will remain unchanged at a one year in seven chance of a negative return.

The proposed amendment is within the target asset allocation range specified in councils Statement of Investment Policy and Objectives (SIPO):

To achieve the recommended asset mix, \$1,588,399 will be transferred from LTF Diversified Growth Fund Managers (Aspiring, Milford and T Rowe Price) to Diversified Income Managers (Milford and Mint), and a further \$911,601 will be physically withdrawn from the Milford Growth Fund Manager.

The withdrawal from Milford Growth is a combination of the August 2020 funding requirement for the Kaipara and Kensington development projects, and the 2019/20 depreciation and investment advisor fee transactions that were approved at the August Council meeting.

At this stage of the year, it is forecast that \$2M of the Kiwi rail sale proceeds will be required to fund the remaining development project costs. If there are investment property sales, or greater than budget gains during the year then the \$2M requirement can be reduced. There is no debt funding associated with either development project to date, and no future debt funding for these projects is planned.

Once the EriksensGlobal recommended transactions are processed, the structure of council's investment funds will be as follows:

At 20 August 2020 Inclusive of EriksensGlobal Recommendation	Long Term Fund	Short Term Fund	Total
Community Investment Fund Reserve	\$15,410,679	-	\$15,410,679
Property Reinvestment Fund Reserve	\$7,391,031	\$13,561,081	\$20,952,112
Infrastructure Investment Fund Reserve	\$20,486,638	-	\$20,486,638
Working Capital	-	\$2,370,168	\$2,370,168
<b>Total</b>	<b>\$43,288,348</b>	<b>\$15,931,249</b>	<b>\$59,219,597</b>

The \$13.6M balance in the STF (PRF portion) is aligned to the remaining budgeted cost of the Kensington and Kaipara development projects. When the sale proceeds from Kensington Childcare site are received, it is intended they will be invested into the LTF (PRF portion).

The performance of council's investment portfolio and the status of local and global economies and financial markets will be continually monitored to evaluate the need for further refinement of the asset mix of council's investment funds.

The Treasury Management Policy and the Subcommittees Terms of Reference delegate the responsibility to invest and withdraw between fund managers (in line with SIPO), and manage the mix of managed fund investments, to the Investment and Property Subcommittee.

## Considerations

### Options

No.	Option	Advantages	Disadvantages
1	Amend the asset mix of the Long-Term investment fund to 60.4% growth assets and 39.6% income assets.	Execute a strategy that enhances capital preservation in a volatile economic climate.	The expected return of the Long-Term Fund will reduce from 5.4%pa to 5.2% pa

<b>2</b>	Do not adjust the current asset mix of the Long-Term Fund.	Maintain a higher expected level of return (5.4% pa as opposed 5.2% pa)	Remain exposed to market volatility and a potential economic slowdown
<b>3</b>	Amend the asset mix of the Long-Term investment fund to a ratio setting different to that recommended by EriksensGlobal.	Potentially achieve a Risk:Return setting that is more suitable than that recommended by EriksensGlobal – however with continued monitoring a more conservative or aggressive asset mix can be employed when deemed necessary.	Potentially move to a Risk:Return setting that is inappropriate to the current and future economic climate.

The staff's recommended option is 1, in line with the advice of Council's independent investment advisor.

## 2. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance when assessed against council's Significance and Engagement Policy because it is part of the normal day to day treasury operations of council.

## 3. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with council's Treasury Management Policy, the 2018–28 Long Term Plan both of which were approved in accordance with council's decision-making requirements of sections 76–82 of the Local Government Act 2002. The recommendation is in accordance with council's Statement of Investment Policy and Objectives (SIPO).


## 4. Financial implications

Investment strategies carry different risk profiles and are subject to different return volatilities. The returns from Managed Funds can fluctuate over a given time period and historical returns do not necessarily form the basis for forecasted future returns

Being a purely administrative matter, Community Views, Māori Impact Statement, and Implementation Issues are not applicable.

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## Attachments/Ngā tapirihanga

Attachment 1: August 2020- EriksensGlobal recommendation to ammend the asset mix of the Long-Term Investment Fund [↓](#) 

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## Authorised by Group Manager

**Name:** Bruce Howse  
**Title:** Group Manager - Corporate Excellence  
**Date:** 21 August 2020

## Simon Crabb

**From:** EriksensGlobal [mailto:j.eriksen@eriksensglobal.com]  
**Sent:** Thursday, 20 August 2020 2:54 PM  
**To:** Simon Crabb <simonc@nrc.govt.nz>  
**Subject:** LTF Withdrawal/Rebalancing

Simon

We recommend rebalancing the LTF portfolio as follows:

Overall Fund Asset Allocation	Market Value		Target	Target Range	Movement	New Market Value	New %
	\$	%	%	%			
<b>Growth Assets</b>	<b>28,638,012</b>	<b>64.8</b>	<b>67</b>	<b>50 - 85</b>		<b>26,138,012</b>	<b>60.4</b>
Diversified Growth	24,360,812	55.1	47	30 - 70		21,860,812	50.5
Aspiring	4,896,004	11.1	7	5 - 15	-	3,896,004	9.0
Castle Point 5 Oceans	5,488,593	12.4	10	5 - 15		5,488,593	12.7
Milford Active Growth	3,965,632	9.0	10	5 - 15	-	2,965,632	6.9
Mint Diversified Growth	2,041,670	4.6	5	0 - 10		2,041,670	4.7
Schroders Real Return Fund + 5%	3,107,972	7.0	5	0 - 10		3,107,972	7.2
T. Rowe Price Global Equity Growth	4,860,941	11.0	10	0 - 15	-	4,360,941	10.1
<b>Private Equity</b>	<b>4,277,200</b>	<b>9.7</b>	<b>20</b>	<b>0 - 35</b>		<b>4,277,200</b>	<b>9.9</b>
Continuity Capital PE Fund No.2 LP	1,234,067	2.8	3	0 - 8		1,234,067	2.9
Continuity Capital PE Fund No.4 LP	448,480	1.0	3	0 - 8		448,480	1.0
Continuity Capital PE Fund No.5 LP	461,074	1.0	4	0 - 8		461,074	1.1
Direct Capital VI	265,625	0.6	4	0 - 8		265,625	0.6
MLC PE II	986,451	2.2	3	0 - 8		986,451	2.3
PCP III	881,503	2.0	3	0 - 8		881,503	2.0
<b>Income Assets</b>	<b>15,561,937</b>	<b>35.2</b>	<b>33</b>	<b>15 - 50</b>		<b>17,150,336</b>	<b>39.6</b>
Diversified Income	15,561,937	35.2	33	15 - 50		17,150,336	39.6
BlackRock FIGO	1,212,648	2.7	3	0 - 10		1,212,648	2.8
Harbour Income	4,737,187	10.7	10	0 - 15		4,737,187	10.9
Milford Diversified Income	4,904,974	11.1	10	0 - 15	1,088,399	5,993,373	13.8
Mint Diversified Income	4,707,127	10.6	10	0 - 15	500,000	5,207,127	12.0
<b>Cash</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0 - 5</b>		<b>0</b>	<b>0.0</b>
Self-Managed	0	0.0	0	0 - 5		0	0.0
<b>Total Assets</b>	<b>44,199,949</b>	<b>100.0</b>			<b>911,601</b>	<b>43,288,348</b>	<b>100.0</b>

The growth/income asset split will reduce to 60.4/39.6 and the expected return for the LTF portfolio will reduce from 5.4% to 5.2% due to these changes. The probability of loss will not be affected.

Warm regards

Jonathan

**ERIKSENSGLOBAL**  
Actuaries & Investment Strategists

eriksensglobal.com

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Auckland

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## **TITLE: Business with the Public Excluded**

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### **Executive Summary**

The purpose of this report is to recommend that the public be excluded from the proceedings of this meeting to consider the confidential matters detailed below for the reasons given.

---

### **Recommendations**

1. That the public be excluded from the proceedings of this meeting to consider confidential matters.
2. That the general subject of the matters to be considered whilst the public is excluded, the reasons for passing this resolution in relation to this matter, and the specific grounds under the Local Government Official Information and Meetings Act 1987 for the passing of this resolution, are as follows:

Item No.	Item Issue	Reasons/Grounds
5.1	Confirmation of Confidential Minutes - 27 May 2020	The public conduct of the proceedings would be likely to result in disclosure of information, as stated in the open section of the meeting -.

3. That the Independent Financial Advisor be permitted to stay during business with the public excluded.
- 

### **Considerations**

#### **1. Options**

Not applicable. This is an administrative procedure.

#### **2. Significance and Engagement**

This is a procedural matter required by law. Hence when assessed against council policy is deemed to be of low significance.

#### **3. Policy and Legislative Compliance**

The report complies with the provisions to exclude the public from the whole or any part of the proceedings of any meeting as detailed in sections 47 and 48 of the Local Government Official Information Act 1987.

#### **4. Other Considerations**

Being a purely administrative matter; Community Views, Māori Impact Statement, Financial Implications, and Implementation Issues are not applicable.