

Investment Subcommittee
Wednesday 29 August 2018 at 8.30am

AGENDA

Investment Subcommittee Agenda

Meeting to be held in the Whale Bay Room
36 Water Street, Whangārei
on Wednesday 29 August 2018, commencing at 8.30am

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

MEMBERSHIP OF THE INVESTMENT SUBCOMMITTEE

Cr John Bain (Chair) Cr Bill Shepherd Cr Penny Smart
Mr Geoff Copstick Cr Rick Stolwerk (Alternate)

Item	Page
1.0 APOLOGIES	
Cr Bill Shepherd	
GM, Corporate Excellence	
2.0 DECLARATIONS OF CONFLICTS OF INTEREST	
3.0 CONFIRMATION OF MINUTES	
3.1 Confirmation of Minutes	3
4.0 REPORTS	
4.1 Refund the PRF from the IIF for Kaitaia Flood control properties	6
4.2 Performance of council's externally managed funds to July 2018	9

TITLE: Confirmation of Minutes
ID: A1100092
From: Dave Tams, Group Manager, Corporate Excellence

Executive Summary

The purpose of this report is to present for confirmation the minutes of the Investment SubCommittee meeting held on 31 July 2018.

Councils are required to keep minutes of proceedings in accordance with the *Local Government Act 2002*.

Recommendation

That the minutes of the Investment SubCommittee meeting held on 31 July 2018 be confirmed as a true and correct record.

Attachments

Attachment 1: Investment SubCommittee Minutes - 31 July 2018 [↓](#)

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 21 August 2018

Investment Subcommittee
31 July 2018

Investment Subcommittee Minutes

Meeting held in the Whale Bay Room
36 Water Street, Whangārei
on Tuesday 31 July 2018, commencing at 8.30am

Present:

Councillor Penny Smart (Acting Chair)
Independent Financial Member, Mr Geoff Copstick
Councillor Bill Shepherd (Ex-Officio)
Councillor Rick Stolwerk

In Attendance:

Full Meeting

NRC Chief Executive
GM, Corporate Excellence
PA/Team Admin Governance and Engagement
Finance Manager
Accounting Assistant – Treasury & Projects, Finance

Part Meeting

Managing Director, EriksensGlobal

The Acting Chair, Councillor Penny Smart, declared the meeting open at 8.35am.

Apologies (Item 1.0)

Councillor John Bain's apologies were accepted by all members present.

Declarations of Conflicts of Interest (Item 2.0)

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

Performance of council's externally managed funds to June 2018 and transfer of PRF funds (Item 4.1)

ID: A1089225

Report from Simon Crabb, Finance Manager

Moved (Shepherd/Stolwerk)

1. That the report 'Performance of council's externally managed funds to June 2018 and transfer of PRF funds' by Simon Crabb, Finance Manager and dated 20 July 2018, be received.

ID: A1092667

1

Investment Subcommittee
31 July 2018

2. That \$1,000,000 is withdrawn from PRF Aspiring Fund and that, on receipt, the withdrawn funds are put into Mint Diversified Income Fund. Any monies required for property settlements for the remainder of August shall be redeemed initially from the Mint Diversified Income Fund or as advised by Eriksens Global.

Carried

Conclusion

The meeting concluded at 9.29am.

TITLE: Refund the PRF from the IIF for Kaitaia Flood control properties

ID: A1100503

From: Simon Crabb, Finance Manager

Executive Summary

In June 2018 council purchased 17-29 Dunn Street and 28-34 Empire Street in Kaitaia for \$683,363 inclusive of site investigation costs and legal fees.

These 2 properties were purchased for flood control works, and were approved by council (24 October 2017) to be ultimately funded from the Infrastructure Investment fund (IIF).

At the time of purchase, council had not undertaken its Long-Term Plan (LTP) deliberation process, nor officially approved the flood control project. Thus, the funding of \$683,363 was initially withdrawn from the Property Reinvestment Fund (PRF) with a view to refunding the PRF from the IIF upon council adopting its LTP.

The Eriksen Global recommendation (contained in Attachment One) to complete this refund is:

- \$683,363 be withdrawn from the IIF Milford Diversified Income Fund:
- \$683,363 be invested into the PRF Mint Diversified Income Fund:

The \$683,363 will be repaid over time from the Flood Infrastructure targeted rate and the Awanui Flood Infrastructure targeted rate.

Recommendations

1. That the report 'Refund the PRF from the IIF for Kaitaia Flood control properties' by Simon Crabb, Finance Manager and dated 20 August 2018, be received.
2. That \$683,363 is redeemed from the IIF Milford Diversified Income fund and invested into the PRF Mint Diversified Income Fund to repay the PRF for the purchase of the Empire and Dunn Street properties

Considerations

Options

No.	Option	Advantages	Disadvantages
1	Redeem and Invest funds as recommended	Aligns the purpose of the property transaction with the appropriate funding mechanism, and generates a larger balance in the PRF dedicated to funding future investment properties	The balance of the IIF is reduced by \$683,363.
2	Status quo	The balance of the IIF is maintained at current levels.	The PRF balance remains \$683,363 lower than projected due to funding an operational project.

The staff's recommended option is 1.

2. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance because it is part of council's day-to-day activities and is in accordance with the approved Treasury Management Policy.

3. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with council's Treasury Management Policy and 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.

Other Considerations

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

Attachments

Attachment 1: NRC Flood Protection Works Refund Recommendation [↓](#)

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 22 August 2018

ERIKSENSGLOBAL

Actuaries & Investment Strategists

21 August 2018

Mr Simon Crabb
Finance Manager
Northland Regional Council
36 Water Street
Whangarei 0110

Dear Simon

\$683,363 RECOMMENDATION – FLOOD PROTECTION WORKS

With respect to your need to transfer \$683,363 from the Infrastructure Investment Fund (IIF) to the Property Reinvestment Fund (PRF) for flood protection works, we recommend the following money movements:

- Redeem \$683,363 from Milford Diversified Income (IIF)
- Invest \$683,363 into Mint Diversified Income Fund (PRF)

Yours sincerely



Jonathan Eriksen
Eriksens Global

ERIKSENSGLOBAL.com

Auckland

443 Lake Road Takapuna
PO Box 33-1318 Takapuna 0740
p: +64 9 486 3144
auckland@eriksensglobal.com

Wellington

Level 9, 111 The Terrace
PO Box 10-105 Wellington 6143
p: +64 4 470 6144
wellington@eriksensglobal.com

TITLE: Performance of council's externally managed funds to July 2018

ID: A1100524

From: Simon Crabb, Finance Manager

Executive Summary

A summary of the returns and target objectives for the month of July 2018 for each externally managed fund is presented below, with the supporting detail and fund performance for longer periods contained in Attachment 1.

Each fund outperformed their objective over three-month, one year, and three year timeframes (where applicable).

1 Month to 31-July-18	CIF	PRF	IIF	STF
Fund Return %	0.6%	0.2%	0.8%	0.9%
Fund Objective	0.4%	0.5%	0.5%	0.3%
Fund Over / Under Performance	0.2%	-0.3%	0.3%	0.6%

Recommendation

That the report 'Performance of council's externally managed funds to July 2018' by Simon Crabb, Finance Manager and dated 20 August 2018, be received.

Background

Community Investment Fund (CIF)

At 31 July 2018, the CIF had a market value of \$14.2M and had performed as follows:

CIF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	0.6%	0.4%	3.0%	1.2%	0.6%	0.4%	9.3%	5.0%	8.0%	5.0%

Property Reinvestment Fund (PRF)

At 31 July 2018, the PRF had a market value of \$18.4M and performed as follows:

PRF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	0.2%	0.5%	3.2%	1.5%	0.2%	0.5%	9.7%	6.0%	8.9%	7.8%

Infrastructure Investment Fund (IIF)

At 31 July 2018, the IIF had a market value of \$11.1M and performed as follows:

IIF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	0.8%	0.5%	2.5%	1.4%	0.8%	0.5%	6.8%	5.8%	4.8%	5.8%

Short Term Investment Fund (STF)

At 31 July 2018, the STF had a market value of \$1.9M and performed as follows:

STF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	0.9%	0.3%	2.3%	0.9%	0.9%	0.3%	8.0%	3.8%	5.7%	3.8%

Attachments

Attachment 1: Northland Regional Council Externally Managed Investment Funds - Eriksen Global
Monthly Report July 2018 [↓](#)

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 22 August 2018

ERIKSENSGLOBAL

Actuaries & Investment Strategists

NORTHLAND REGIONAL COUNCIL EXTERNALLY MANAGED INVESTMENT FUNDS

MONTHLY REPORT 31 JULY 2018

21 AUGUST 2018

ERIKSENSGLOBAL.com

Auckland

443 Lake Road Takapuna
PO Box 33-1318 Takapuna 0740
p: +64 9 486 3144
auckland@eriksensglobal.com

Wellington

Level 9, 111 The Terrace
PO Box 10-105 Wellington 6143
p: +64 4 470 6144
wellington@eriksensglobal.com

Northland Regional Council
Monthly Report 31 July 2018

CONTENTS

Executive Summary	3
Introduction.....	5
Market Performance	6
Community Investment Fund	7
Property Reinvestment Fund.....	10
Infrastructure Investment Fund.....	12
Short Term Investment Fund.....	15
Economic Commentary.....	17
Appendix 1: Benchmarks.....	20
Appendix 2: NRC Total Funds Under Management	22
Appendix 3: Private Equity	24

Northland Regional Council
Monthly Report 31 July 2018

EXECUTIVE SUMMARY

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %
CIF	0.6	3.0	0.6	9.3	7.3	8.0
CIF Objective	0.4	1.2	0.4	5.0	5.0	5.0
Over / Underperformance	0.2	1.8	0.2	4.3	2.3	3.0
PRF	0.2	3.2	0.2	9.7	8.0	8.9
PRF Objective	0.5	1.5	0.5	6.0	6.0	7.8
Over / Underperformance	-0.3	1.7	-0.3	3.7	2.0	1.1
IIF	0.8	2.5	0.8	6.8		4.8
IIF Objective	0.5	1.4	0.5	5.8		5.8
Over / Underperformance	0.3	1.1	0.3	1.0		-1.0
STIF	0.9	2.3	0.9	8.0		5.7
STIF Objective	0.3	0.9	0.3	3.8		3.8
Over / Underperformance	0.6	1.4	0.6	4.2		1.9

- Each Fund outperformed their objective over three months, one year and three years (where applicable). For the inception period only the IIF underperformed. The IIF underperformance is partly due to the increase in its objective and change in growth/income asset split.
- Key drivers over the month were as follows:
 - CIF was positive, driven by Australasian equities and global equities and supported by NZ Fixed Interest assets
 - PRF was positive, with Salt Long Short Fund driving returns
 - IIF was positive, driven by Schroders and Castle Point 5 Oceans
 - STIF was positive, each underlying fund met or outperformed its benchmark, Castle Point was the main driver
- The STIF is currently overweight in respect of growth assets (Castle Point 5 Oceans). This will need to be rebalanced with the next inflow of cash.
- The following transactions were made in July:
 - Redemption of \$0.24 million from Milford Diversified Income (CIF)
 - Capital call of \$0.2 million to Continuity Capital No. 4 (CIF)
 - Redemption of \$0.11 million from Milford Diversified Income (PRF)
 - Capital call of \$0.2 million to Continuity Capital No. 2 (PRF)
 - Distribution of \$0.02 million from Continuity Capital No. 2 (PRF)
 - Redemption of \$0.18 million from QuayStreet Income (PRF)
 - Redemption of \$0.7 million from Mint Diversified Income (STIF)
 - Redemption of \$1.4 million from Milford Diversified Income (STIF)
 - Investment of \$1.0 million into Castle Point 5 Oceans (STIF)

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	3.0	3.2
PRF	2.6	3.1
IIF	3.2	N/A
STIF	3.5	N/A
NZ Multi-Sector Balanced	4.8	5.1
NZ Multi-Sector Moderate	2.7	3.0
S&P/NZX 50	4.8	9.6

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 PRF.

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

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 – September 2017
- Property Reinvestment Fund – September 2017
- Infrastructure Investment Fund – November 2017
- 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 June 2018 was 1.2% 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 guide to 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 **one** month.

Northland Regional Council
Monthly Report 31 July 2018

MARKET PERFORMANCE

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

Index	1 Month %	3 Month %	1 Year %
Global Equities			
MSCI Emerging Markets	1.7	-3.0	7.1
S&P 500 (US)	3.6	6.4	14.0
Nikkei 225 (Japan)	1.1	0.4	13.2
FTSE 100 (UK)	1.5	3.2	5.1
DAX (Germany)	4.1	1.5	5.7
CAC 40 (France)	3.5	-0.2	8.2
Trans-Tasman Equities			
S&P/NZX 50	-0.2	5.7	16.0
S&P/ASX 300	1.3	5.8	14.7
Bonds			
S&P/NZX NZ Government Stock	0.4	1.7	4.3
S&P/NZX A Grade Corporate Bonds	0.3	1.3	4.2
Barclays Global Aggregate Bonds	0.0	0.6	1.8
FTSE World Government Bonds	-0.2	0.4	2.2
Oil			
West Texas Intermediate Crude Oil	-7.3	0.3	37.1
Brent Crude Oil	-7.0	-2.4	40.1
NZD Foreign Exchange			
AUD	-0.1	-1.9	-2.5
EUR	0.3	-0.2	-8.5
GBP	1.2	1.5	-8.7
JPY	1.6	-1.2	-8.0
CNY	3.4	4.2	-8.1
USD	0.6	-3.4	-9.2

Source: Nikko Asset Management

We make the following key observations:

- Fall in NZ equity market over the month but rise in global equity markets
- Drop in Emerging markets over three months
- Bond returns positive but low except for the FTSE World Government Bonds over the month
- Drop in oil prices over the month following a potential increase in supply from Russia and Gulf countries
- Bounce upwards in NZD over the month except against the AUD, but weaker NZD over the year

Northland Regional Council
Monthly Report 31 July 2018

COMMUNITY INVESTMENT FUND

	1 Month %	3 Month %	YTD** %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %*
NZ Fixed Interest	0.5	2.3	0.5	6.7	6.9	8.5
Benchmark (Weighted Average)	0.4	1.1	0.4	4.5	4.4	3.9
Value Added	0.1	1.2	0.1	2.2	2.5	4.6
Harbour Income	0.6	3.0	0.6	5.3	5.2	
Benchmark (NZ OCR + 3.5% p.a.)	0.4	1.3	0.4	5.1	4.5	
Value Added	0.2	1.7	0.2	0.2	0.7	
Milford Diversified Income	0.6	2.3	0.6	8.0	9.2	
Benchmark (NZ OCR + 2.5% p.a.)	0.3	1.0	0.3	4.2	4.5	
Value Added	0.3	1.3	0.3	3.8	4.7	
Mint Diversified Income	0.2	1.9	0.2	5.3	5.1	
Benchmark (NZ CPI + 3% p.a.)	0.4	1.1	0.4	4.5	4.3	
Value Added	-0.2	0.8	-0.2	0.8	0.8	
Australasian Equities	0.8	4.7	0.8	15.2	10.8	12.9
Benchmark (Weighted Average)	0.7	2.1	0.7	8.8	9.3	9.6
Value Added	0.1	2.6	0.1	6.4	1.5	3.3
Aspiring	0.3	5.2	0.3	12.0		
Benchmark (NZ CPI + 4% p.a.)	0.5	1.4	0.5	5.5		
Value Added	-0.2	3.8	-0.2	6.5		
Milford Active Growth	0.9	4.6	0.9	16.5	11.5	13.2
Benchmark (10% p.a.)	0.8	2.4	0.8	10.0	10.0	10.0
Value Added	0.1	2.2	0.1	6.5	1.5	3.2
Australasian Private Equity	0.0	1.8	0.0	27.5		
Benchmark (Weighted Average)	0.4	5.6	0.4	18.9		
Value Added	-0.4	-3.8	-0.4	8.6		
MLC PE II	0.1	1.9	0.1			
Benchmark (15% p.a.)	1.2	3.6	1.2			
Value Added	-1.1	-1.7	-1.1			
CC 4	0.0	1.5	0.0			
Benchmark (NZX50 + 4%)	0.1	6.7	0.1			
Value Added	-0.1	-5.2	-0.1			
PCP III	0.0	1.6	0.0	34.8		
Benchmark (NZX50 + 4% p.a.)	0.1	6.7	0.1	20.5		
Value Added	-0.1	-5.1	-0.1	14.3		
Global Equities	0.7	2.3	0.7	7.0	3.8	4.7
Benchmark (Weighted Average)	0.6	1.7	0.6	6.9	6.8	7.0
Value Added	0.1	0.6	0.1	0.1	-3.0	-2.3
AMP Global Multi-Asset	0.6	0.4	0.6	4.4	4.0	
Benchmark (NZ CPI + 5% p.a.)	0.5	1.6	0.5	6.5	6.3	
Value Added	0.1	-1.2	0.1	-2.1	-2.3	
Schroders Real Return + 5%	0.8	2.8	0.8	7.6	3.7	4.5
Benchmark (Aus CPI TM + 5% p.a.)	0.6	1.7	0.6	7.0	6.9	7.2
Value Added	0.2	1.1	0.2	0.6	-3.2	-2.7
Total Fund	0.6	3.0	0.6	9.3	7.3	8.0
Fund Objective	0.4	1.2	0.4	5.0	5.0	5.0
Value Added	0.2	1.8	0.2	4.3	2.3	3.0

*Inception date was 31 December 2012

** The hedged Fund return for the year-to-date would have been 0.6%, compared to the unhedged return of 0.6%

Northland Regional Council
Monthly Report 31 July 2018

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	-0.1	-1.9	-0.1	-2.5	0.4
Schroders RRF + 5% (NZD)	0.8	2.8	0.8	7.6	3.7
Benchmark	0.6	1.7	0.6	7.0	6.9
Value Added	0.2	1.1	0.2	0.6	-3.2
Schroders RRF + 5% (AUD)	0.7	0.8	0.7	4.9	4.0
Benchmark	0.6	1.7	0.6	7.0	6.9
Value Added	0.1	-0.9	0.1	-2.1	-2.9
MLC PE II (NZD)	0.1	1.9	0.1		
Benchmark	1.2	3.6	1.2		
Value Added	-1.1	-1.7	-1.1		
MLC PE II (AUD)	0.0	0.3	0.0		
Benchmark	1.2	3.6	1.2		
Value Added	-1.2	-3.3	-1.2		

CIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Difference %	Status
Cash	0	0.0	0 < 5 < 40	-5.0	✓
Harbour Income	934,554				
Milford Diversified Income	3,173,013				
Mint Diversified Income	2,034,174				
NZ Fixed Interest	6,141,741	43.2	25 < 45 < 65	-1.8	✓
Income Assets	6,141,741	43.2	30 < 50 < 70	-6.8	✓
Milford Active Growth	3,240,120				
Aspiring	1,162,000				
Australasian Equities	4,402,120	31.0	15 < 25 < 35	6.0	✓
Continuity Capital No.4	392,390				
PCP III	94,398				
MLC PE II	157,459				
Australasian Private Equity	644,247	4.5	0 < 5 < 10	-0.5	✓
Schroders RRF	2,389,834				
AMP GMAF	631,125				
Global Equities	3,020,958	21.3	10 < 20 < 30	1.3	✓
Growth Assets	8,067,326	56.8	30 < 50 < 70	6.8	✓
Total Assets	14,209,067	100.0			

Northland Regional Council
Monthly Report 31 July 2018

CIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-2.9	0.1	2.7
New Zealand Assets	Australian Assets	Global Assets
3.0	-3.0	0.0

Northland Regional Council
Monthly Report 31 July 2018

PROPERTY REINVESTMENT FUND

Asset	1 Month %	3 Month %	YTD* %	1 Year %	3 Year % p.a.	Inception** % p.a.
Australasian Private Equity						
Continuity Capital	0.0	1.9	0.0	6.7	4.5	
Benchmark (NZX50 + 4%)	0.1	6.7	0.1	20.5	19.2	
Value Added	-0.1	-4.8	-0.1	-13.8	-14.7	
MLC PE II	0.1	1.9	0.1			
Benchmark (15% p.a.)	1.2	3.6	1.2			
Value Added	-1.1	-1.7	-1.1			
PCP III	0.0	5.2	0.0	47.5		
Benchmark (NZX50 + 4%)	0.1	6.7	0.1	20.5		
Value Added	-0.1	-1.5	-0.1	27.0		
Australasian Equities						
Aspiring	0.3	5.0	0.3	12.1	11.4	
Benchmark (CPI + 4%)	0.5	1.4	0.5	5.5	5.3	
Value Added	-0.2	3.6	-0.2	6.6	6.1	
Mint Trans-Tasman Equities	-0.5	5.0	-0.5	18.9	14.8	
Benchmark (NZX50)	-0.2	5.7	-0.2	16.0	14.6	
Value Added	-0.3	-0.7	-0.3	2.9	0.2	
QuayStreet Altum	-0.9	2.6	-0.9	16.9		
Benchmark (OCR + 6%)	0.6	1.9	0.6	7.8		
Value Added	-1.5	0.7	-1.5	9.1		
Salt Long Short	1.2	0.9	1.2	-0.5		
Benchmark (OCR + 5%)	0.5	1.6	0.5	6.8		
Value Added	0.7	-0.7	0.7	-7.3		
Diversified Income						
Milford Diversified Income	0.6	2.3	0.6	7.9	9.1	9.4
Benchmark (OCR + 2.5%)	0.3	1.0	0.3	4.2	4.5	4.5
Value Added	0.3	1.3	0.3	3.7	4.6	4.9
Mint Diversified Income	0.2	1.7	0.2	5.2	5.1	5.9
Benchmark (CPI + 3%)	0.4	1.1	0.4	4.5	4.3	4.0
Value Added	-0.2	0.6	-0.2	0.7	0.8	1.9
Quay Street Income	0.3	2.1	0.3	4.6		
Benchmark (OCR + 2%)	0.3	0.9	0.3	3.8		
Value Added	0.0	1.2	0.0	0.8		
Total Assets						
Total Fund	0.2	3.2	0.2	9.7	8.0	8.9
Fund Objective (MStar Prop + 1%)	0.5	1.5	0.5	6.0	6.0	7.8
Value Added	-0.3	1.7	-0.3	3.7	2.0	1.1

* The hedged Fund return for the year-to-date would have been 0.2%, compared to the unhedged return of 0.2%

**Inception is measured from 30/09/2014

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %
AUD/NZD Cross Rate	-0.1	-1.9	-0.1	-2.5	0.4
MLC PE II (NZD)	0.1	1.9	0.1		
Benchmark	1.2	3.6	1.2		
Value Added	-1.1	-1.7	-1.1		
MLC PE II (AUD)	0.0	0.3	0.0		
Benchmark	1.2	3.6	1.2		
Value Added	-1.2	-3.3	-1.2		

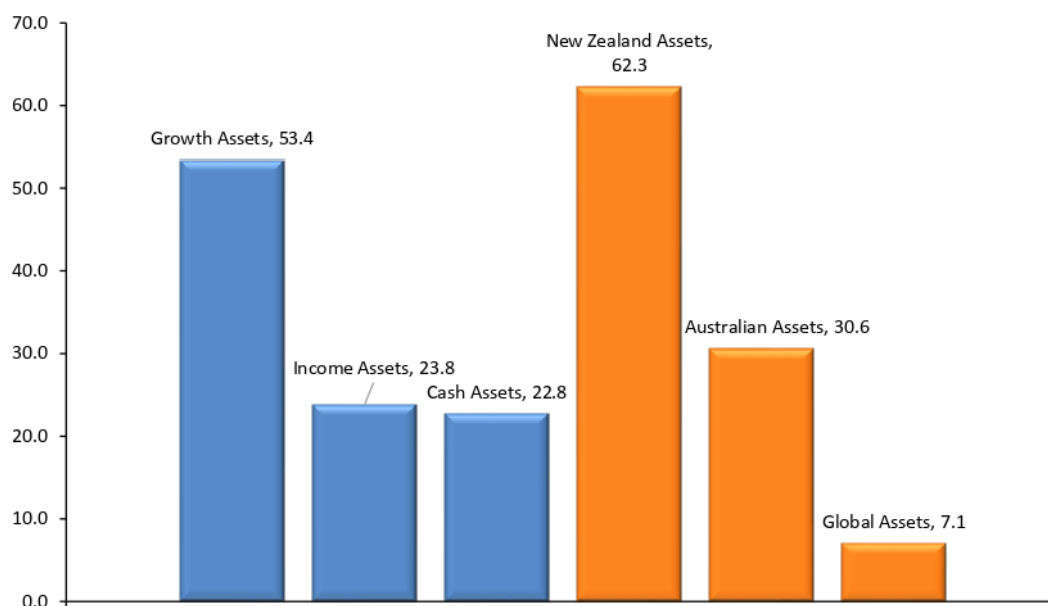
Northland Regional Council
Monthly Report 31 July 2018

PRF ASSET ALLOCATIONS

Allocations	Market Value NZ \$	Actual Allocation %	Target Allocation %	Status
Aspiring	4,364,072	23.7	10 < 15 < 20	x
Mint Trans-Tasman Equities	3,554,024	19.3	10 < 15 < 20	✓
QuayStreet Altum	954,521	5.2	0 < 5 < 10	✓
Salt Long Short	1,751,396	9.5	0 < 5 < 10	✓
Australasian Equities	10,624,013	57.7	40	
Continuity Capital No.2	1,117,577	6.1	0 < 5 < 25	✓
PCP III	94,398	0.5	0 < 2.5 < 25	✓
MLC PE II	157,459	0.9	0 < 2.5 < 25	✓
Australasian Private Equity	1,369,435	7.4	10	
Growth Assets	11,993,447	65.2	50	
Milford Diversified Income	1,918,124	10.4	0 < 10 < 20	✓
Mint Diversified Income	1,897,835	10.3	10 < 25 < 40	✓
Quay Street Income	2,588,220	14.1	5 < 15 < 20	✓
Diversified Income	6,404,179	34.8	50	
Cash	0	0.0		
Income Assets	6,404,179	34.8	50	
Total Assets	18,397,626	100.0	100	

Aspiring is outside of its allowable range. This is getting redeemed 31 August (\$1m).

PRF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-9.5	0.1	9.4
New Zealand Assets	Australian Assets	Global Assets
4.1	-1.1	-3.1

Northland Regional Council
Monthly Report 31 July 2018

INFRASTRUCTURE INVESTMENT FUND					
Asset	1 Month %	3 Month %	YTD* %	1 Year %	Inception** %
Diversified Growth					
Aspiring	0.3	5.2	0.3		
Benchmark (CPI + 4%)	0.5	1.4	0.5		
Value Added	-0.2	3.8	-0.2		
Castle Point 5 Oceans	1.2	1.9	1.2	8.2	
Benchmark (OCR + 3%)	0.4	1.2	0.4	4.7	
Value Added	0.8	0.7	0.8	3.5	
Schroders RRF CPI + 5%	1.3	3.4	1.3		
Benchmark (Aus TM CPI + 5%)	0.2	0.5	0.2		
Value Added	1.1	2.9	1.1		
Diversified Income					
BlackRock FIGO	0.4	1.8	0.4	4.1	
Benchmark (AusBond BB + 4%)	0.5	1.5	0.5	5.9	
Value Added	-0.1	0.3	-0.1	-1.8	
Harbour Income	0.6	3.0	0.6	5.1	5.6
Benchmark (OCR + 3.5%)	0.4	1.3	0.4	5.1	4.5
Value Added	0.2	1.7	0.2	0.0	1.1
Milford Diversified Income	0.6	2.3	0.6	7.7	
Benchmark (OCR + 2.5%)	0.3	1.0	0.3	4.2	
Value Added	0.3	1.3	0.3	3.5	
Mint Diversified Income	0.2	1.7	0.2	3.3	4.6
Benchmark (CPI + 3%)	0.4	1.1	0.4	4.5	4.3
Value Added	-0.2	0.6	-0.2	-1.2	0.3
Total Assets					
Total Fund	0.8	2.5	0.8	6.8	4.8
Fund Objective (OCR + 3%)	0.5	1.4	0.5	5.8	5.8
Value Added	0.3	1.1	0.3	1.0	-1.0

* The hedged Fund return for the year-to-date would have been 0.8%, compared to the unhedged return of 0.8%

** Inception is measured from 31 July 2015

Northland Regional Council
Monthly Report 31 July 2018

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	-0.1	-1.9	-0.1	-2.5
Schroders RRF + 5% (NZD)	1.3	3.4	1.3	
Benchmark	0.2	0.5	0.2	
Value Added	1.1	2.9	1.1	
Schroders RRF + 5% (AUD)	1.2	1.4	1.2	
Benchmark	0.2	0.5	0.2	
Value Added	1.0	0.9	1.0	
BlackRock FIGO (NZD)	0.4	1.8	0.4	4.1
Benchmark	0.5	1.5	0.5	5.9
Value Added	-0.1	0.3	-0.1	-1.8
BlackRock FIGO (AUD)	0.3	-0.1	0.3	1.5
Benchmark	0.5	1.5	0.5	5.9
Value Added	-0.2	-1.6	-0.2	-4.4

IIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Aspiring	1,092,993	9.9	0 < 10 < 20	✓
Castle Point 5 Oceans	4,028,192	36.4	10 < 30 < 40	✓
Schroders RRF 5%	1,279,636	11.6	0 < 10 < 20	✓
Diversified Growth	6,400,820	57.8	50	
Growth Assets	6,400,820		50	
BlackRock FIGO	1,142,634	10.3	0 < 10 < 20	✓
Harbour Income	1,300,504	11.7	0 < 10 < 20	✓
Milford Diversified Income	1,289,332	11.6	0 < 10 < 20	✓
Mint Diversified Income	943,404	8.5	0 < 10 < 20	✓
Schroders RRF 3.5%	0	0.0	0 < 10 < 20	✓
Diversified Income	4,675,874	42.2	50	
Income Assets	4,675,874		50	
Total Assets*	11,076,693	100.0	100	
BlackRock FIGO (AUD)	1,046,415			
Schroders RRF 5% (AUD)	1,171,881			

Northland Regional Council
Monthly Report 31 July 2018

IIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-1.9	0.0	1.9
New Zealand Assets	Australian Assets	Global Assets
2.4	-1.0	-1.5

Northland Regional Council
Monthly Report 31 July 2018

SHORT TERM INVESTMENT FUND

Asset	1 Month %	3 Month %	YTD* %	1 Year %	Inception** %
Diversified Income					
Milford Diversified Income	0.4	1.7	0.4		
Benchmark (OCR + 2.5%)	0.3	1.0	0.3		
Value Added	0.1	0.7	0.1		
Mint Diversified Income	0.4	1.6	0.4	5.1	4.1
Benchmark (CPI + 3%)	0.4	1.1	0.4	4.5	4.7
Value Added	0.0	0.5	0.0	0.6	-0.6
Harbour Income Fund	0.6		0.6		
Benchmark (CPI + 3%)	0.4		0.4		
Value Added	0.2		0.2		
Diversified Growth					
Castle Point 5 Oceans	1.1	3.0	1.1		
Benchmark (OCR + 3%)	0.4	1.2	0.4		
Value Added	0.7	1.8	0.7		
Total Assets					
Total Fund	0.9	2.3	0.9	8.0	5.7
Fund Objective (OCR + 2%)	0.3	0.9	0.3	3.8	3.8
Value Added	0.6	1.4	0.6	4.2	1.9

* The hedged Fund return for the year-to-date would have been 0.9%, compared to the unhedged return of 0.9%

** Inception is measured from 31 March 2016

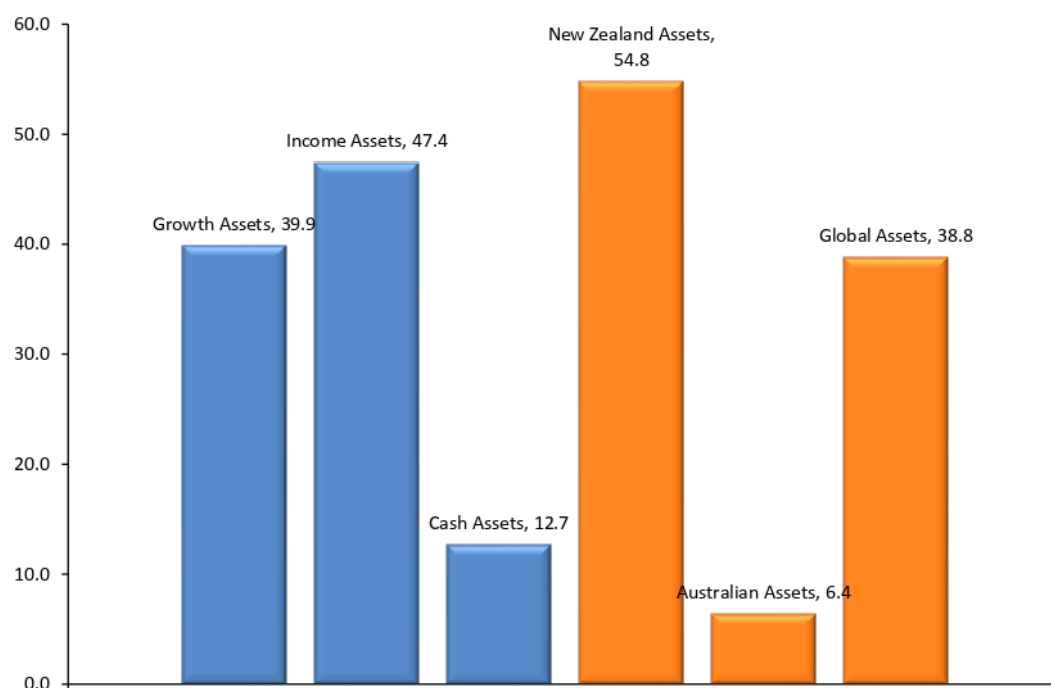
STIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Harbour Income	503,045	25.8	0 < 20 < 40	✓
Milford Diversified Income	39,013	2.0	0 < 20 < 40	✓
Mint Diversified Income	75,760	3.9	0 < 20 < 40	✓
QuayStreet Income		0.0	0 < 20 < 40	✓
Diversified Income	617,818	31.7		
Income Assets	617,818	31.7	80	
Castle Point 5 Oceans	1,328,802	68.3	0 < 20 < 40	×
Diversified Growth	1,328,802	68.3		
Growth Assets	1,328,802	68.3	20	
Total Assets	1,946,620	100.0	100	

Growth assets are currently overweight. This will need to be rebalanced with the next inflow of cash.

Northland Regional Council
Monthly Report 31 July 2018

STIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
8.7	-10.2	1.5
New Zealand Assets	Australian Assets	Global Assets
1.4	-25.9	24.5

ECONOMIC COMMENTARY

The Turkish lira dropped sharply against the USD in early August, down around 15% in one day. This move followed threats of US sanctions on Turkish ministers in protest of the imprisonment of an American who was linked to a movement that opposes the Turkish government. Trump also announced that tariffs on steel and aluminium imports would be doubled.

There was already concern in the months prior around the Turkish economy and the independence of its central bank. With inflation around 16%, the central bank was expected to lift interest rates in July to help stabilise the economy and the lira. Instead the central bank held rates at 17.75% with President Erdogan stating that "...interest rates are the mother and father of all evil". Erdogan's son-in-law was appointed finance minister in July which has added to the view that Turkey's central bank is not independent and will not increase rates further to stabilise the lira. Figure 1 illustrates the where inflation and rates are currently at.

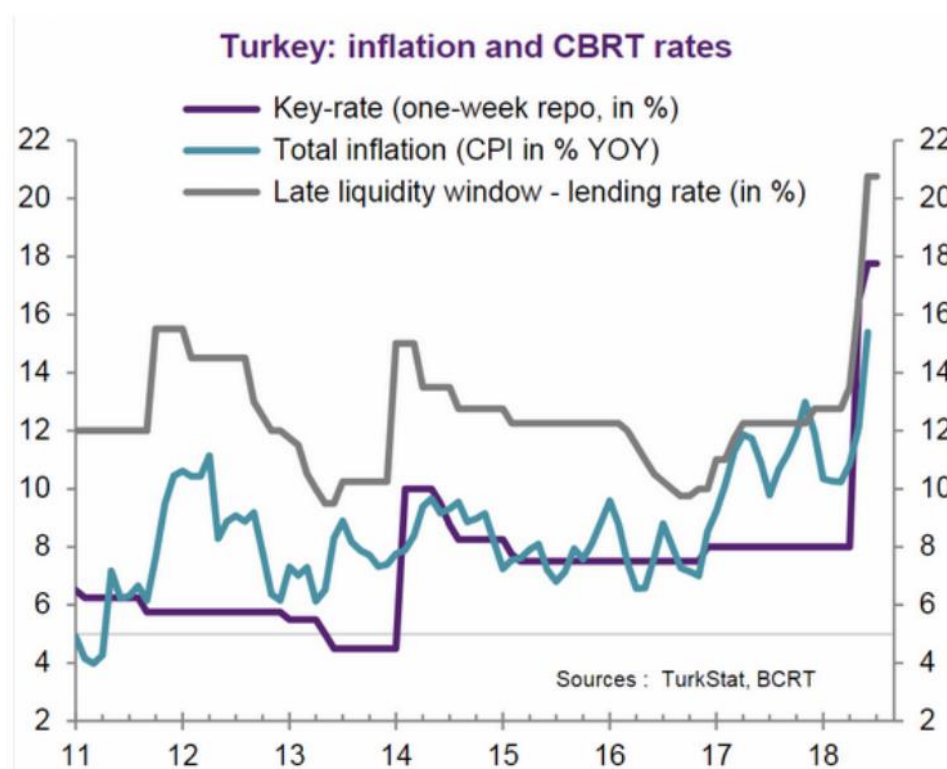


Figure 1: Source - Natixis, WSJ Daily Shot Letter

The fall in the lira flowed through to other emerging market currencies such as the South African rand, Mexican peso and Russian ruble (-2.7%, -1.5% and -1.5%). Global equity markets also fell between 0.4% - 2.0%. There was a definite flight to safety by investors which was evident by the drop in bond yields across the board, the key one being the 10-year US Treasury which moved from 2.92% to 2.87%. It is possible the depreciation of the lira could have an effect on the eurozone banking sector as there are tens of billions lent

to Turkish borrowers from Spanish, Italian and French banks according to the Bank for International Settlements.

Trade tensions have risen significantly since early March, when the Trump administration announced tariffs on imports of steel and aluminium for most trading partners. Tensions escalated further in early June with the possibility of tariffs on EU auto exports to the US. However, the latest meeting of Juncker and Trump seems to have alleviated that risk, at least for now.

Although those talks supported the removal of trade barriers, it should be noted that the steel and aluminium tariffs still remain in place. Mind you, in a \$17 trillion-sized economy, the current tariffs are not substantial. The proposed auto tariffs are also modest as Europe produces mostly cars and the US market is currently weighted towards light trucks (that currently have a higher tariff than cars).

The Fed remained on hold this month whilst moving its view of the economy to strong from solid and noting the strengthening labour market. They reiterated that policy accommodative with their forward guidance remaining unchanged. The cash rate is now 2%, compared to 1.75% in New Zealand. Figure 2 illustrates the difference in cash rates and the resulting NZD/USD exchange rate. Figure 3 shows a decline in economic confidence in New Zealand, which suggests the cash rate will need to remain low for an extended time. This supports the outlook of the RBNZ following the August monetary policy statement that the OCR will remain at 1.75% through 2019 and into 2020.

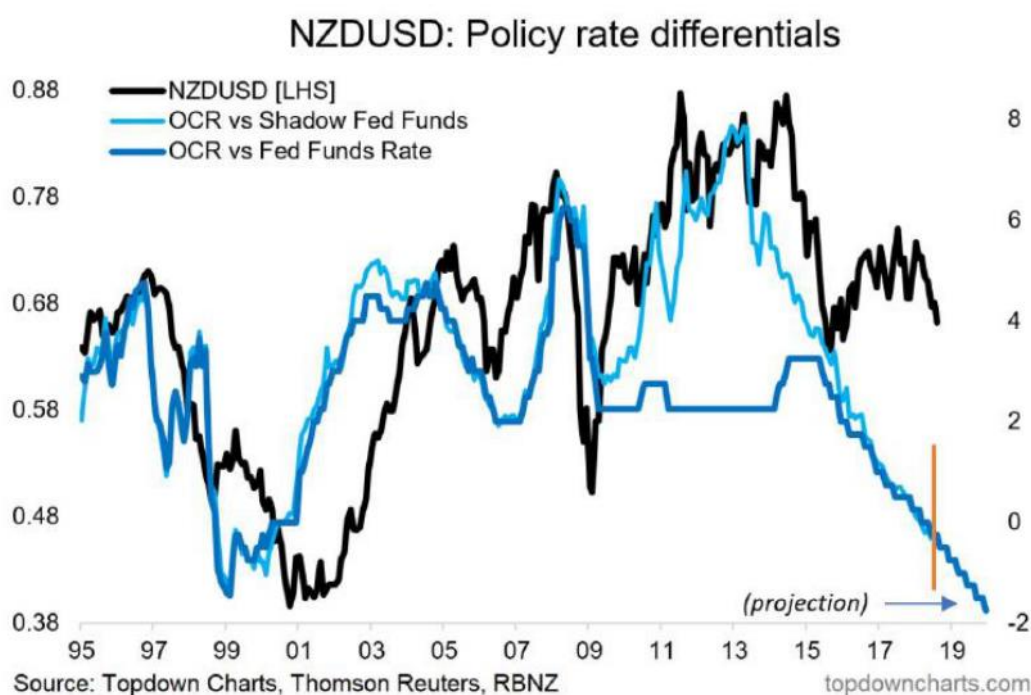


Figure 2: Source – Topdown Charts

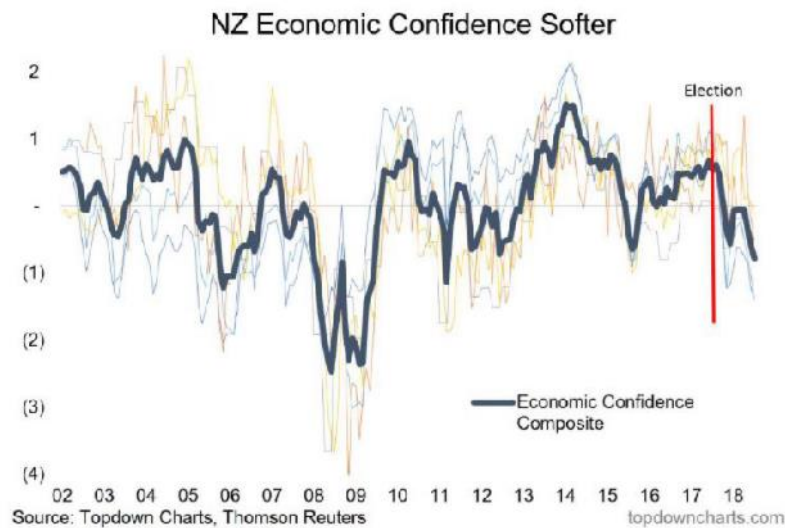


Figure 3: Source – Topdown Charts

Governor Kuroda of the Japanese Central Bank widened the range they were managing the 10 year yield on JGB's from 0 – 10 bps to 0 – 20 bps at the end of July. They also widened the range of JGB's they were buying from 7-10 year duration to 7 – 12 years and continued to purchase Japanese ETF's. This caused a brief ripple in global longer term bond yields which then subsided. The following graph suggests the yield on the Japanese 10-Year bond (black line) can move as high as 1% to be in line with GDP growth (blue lines).

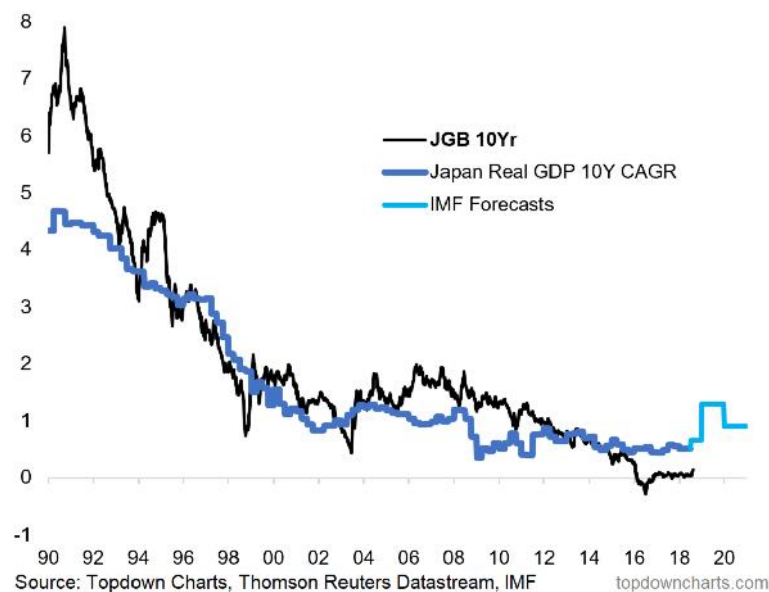


Figure 4: Source – Topdown Charts

In summary, we expect volatility to continue in markets and returns to be lower. New Zealand's equity market valuations remain stretched and the risk of a correction has increased in recent months.

Northland Regional Council
Monthly Report 31 July 2018

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.
	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.

Northland Regional Council
Monthly Report 31 July 2018

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.
	Schroders	RRF CPI + 5%	Australian CPI (trimmed mean) + 5% p.a.
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.
	Schroders	RRF CPI + 3.5%	Australian CPI (trimmed mean) + 3.5% 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.
Diversified Growth	Castle Point	5 Oceans	NZ OCR + 3% p.a.

Northland Regional Council
Monthly Report 31 July 2018

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	631,125				631,125	1.4
	NZ Short Duration				0		
Aspiring	Aspiring	1,162,000	4,364,072	1,092,993		6,619,065	14.5
BlackRock	FIGO			1,142,634	0	1,142,634	2.5
Castle Point	5 Oceans			4,028,192	1,328,802	5,356,994	11.7
Continuity Capital	No.2 LP		1,117,577			1,117,577	2.4
	No.4 LP	392,390				392,390	0.9
Harbour	Income	934,554		1,300,504	503,045	2,738,103	6.0
Milford	Active Growth	3,240,120				9,659,602	21.2
	Diversified Income	3,173,013	1,918,124	1,289,332	39,013		
Mint	Diversified Income	2,034,174	1,897,835	943,404	75,760	8,505,196	18.6
	Trans-Tasman Equities		3,554,024				
MLC	PE II	157,459	157,459			314,918	0.7
Pioneer Capital	PCP III	94,398	94,398			188,796	0.4
QuayStreet	Altum		954,521			3,542,741	7.8
	Income		2,588,220				
Salt	Long Short		1,751,396			1,751,396	3.8
Schroders	Real Return + 3.5%					3,669,470	8.0
	Real Return + 5%	2,389,834		1,279,636			
Self-managed	Cash		0			0	0.0
Total FUM		14,209,067	18,397,626	11,076,693	1,946,620	45,630,007	100

Note: all values are in NZD

The exposure to Milford is above the 20% target exposure to any one manager and will need to be reduced.

FUNDS DENOMINATED IN AUD

		CIF	PRF	IIF	STIF	Total AUD
BlackRock	FIGO			1,046,415	0	1,046,415
MLC	PE II	144,200	144,200			288,400
Schroders	Real Return + 3.5%			0		0
Schroders	Real Return + 5%	2,188,592		1,171,881		3,360,473
Total AUD		2,332,792	144,200	2,218,296	0	4,695,288

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	142,500	357,500
	PRF	500,000	142,500	357,500
Pioneer Capital III (NZD)	CIF	500,000	101,600	398,400
	PRF	500,000	101,600	398,400

Northland Regional Council
Monthly Report 31 July 2018

NRC TOTAL UNDERLYING FUND ALLOCATIONS



APPENDIX 3: PRIVATE EQUITY

Private equity is a different kind of investment from listed shares (equities) in that the businesses are owned by a small number of people or organisations.

Large companies list their shares on stock markets where investors can buy or sell them regularly. The shares are thus valued daily. Whereas private business shares are closely held and rarely traded. The businesses get revalued quarterly based on their earnings.

Private equity managers get alongside the business owners and help them grow their business and make it more profitable. The business is then either sold to a competitor (trade sale), listed on the stock market (IPO, initial public offering), or sold/taken over by management (management buyout). That is when an investor receives a return generally around 15% - 25% per annum over the life of a fund (5 - 10 years).

Private equity managers charge higher fees because their work is complex. However, the returns are higher than most investments net of fees to compensate for the investment risks and lack of liquidity.

The following graph illustrates investor cash flows for a typical private equity fund, otherwise known as the 'J' curve. An initial amount of capital is 'committed' to the private equity fund manager, from there capital calls are made early on for investments. The private equity fund manager will progressively seek to add value over the life of the fund. Later on in the cycle the managers will exit the underlying investments when they decide they have a viable exit strategy.

The timing of capital calls and exiting of investments is uncertain because these will depend on the manager finding the right opportunities to invest or exit – management of cash is therefore important through the life of the fund.

A key point to take from the graph is that the managers aim to extract value from the underlying investments over a long time horizon, usually 5 - 10 years. Pioneer Capital and MLC will exhibit more of a 'J' curve as compared to Continuity Capital which invests in multiple private equity funds, both at the beginning of the cycle and later on which will help to reduce the 'J' curve.

So what role does private equity play in the NRC Externally Managed Investment Funds? The investment in private equity addresses the long term objectives of the CIF and PRF whilst providing further diversification. These investments are not supposed to provide NRC with short-term funds for projects. Rather they are there to provide capital growth and maintain the real value of the Funds over the long term.

Northland Regional Council
Monthly Report 31 July 2018

TYPICAL PRIVATE EQUITY INVESTOR CASH FLOWS - THE 'J' CURVE

