

Investment Subcommittee
Tuesday 25 September 2018 at 8.30am

AGENDA

Investment Subcommittee Agenda

Meeting to be held in the Whale Bay Room
36 Water Street, Whangārei
on Tuesday 25 September 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)

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TITLE: Confirmation of Minutes
ID: A1108976
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 29 August 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 29 August 2018 be confirmed as a true and correct record.

Attachments

Attachment 1: Investment SubCommittee Minutes - 29 August 2018 [↓](#)

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 14 September 2018

Investment Subcommittee
29 August 2018

Investment Subcommittee Minutes

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

Present:	Cr John Bain	(Chair)
	Cr Penny Smart	
	Cr Rick Stolwerk	(Alternate)
	Geoff Copstick	(Independent Financial Member)
In Attendance:	Full Meeting	NRC Chief Executive Finance Manager Accounting Assistant, Treasury & Projects Governance Manager PA, Corporate Excellence (minutes)
	Part Meeting	Jonathan Eriksen, EriksensGlobal (via phone) Cr David Sinclair

The Chair declared the meeting open at 8.32am.

1.0 APOLOGIES

The apologies from Councillor Shepherd and GM, Corporate Excellence for non-attendance were received.

2.0 DECLARATIONS OF CONFLICTS OF INTEREST

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

3.0 CONFIRMATION OF MINUTES

3.1 Confirmation of Minutes

ID: A1100092

Report from Dave Tams, Group Manager, Corporate Excellence

Moved (Copstick / Smart)

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

Carried

Investment Subcommittee
29 August 2018

4.0 REPORTS

4.1 Refund the Property Reinvestment Fund (PRF) from the Infrastructure Investment Fund (IIF) for Kaitaia Flood control properties

ID: A1100503

Report from Simon Crabb, Finance Manager

Moved (Bain / Stolwerk)

1. That the report 'Refund the Property Investment Fund (PRF) from the Infrastructure Investment Fund (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.

Carried

Summary of Discussion

- Discussion took place regarding the fact that money is being moved into a lower performing fund
- The rationale for the move relates to the discipline of having funds in the correct place and not exceeding the percentage cap set for each fund
- Discussion took place regarding the benefits of looking at the funds from a performance perspective vs an accounting perspective

8.49am - Jonathan Eriksen joined the meeting (via phone)

4.2 Performance of council's externally managed funds to July 2018

ID: A1100524

Report from Simon Crabb, Finance Manager

Moved (Bain / Sharp)

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.

Carried

9.02am - Cr David Sinclair joined the meeting

Summary of Discussion

- Jonathan Eriksen advised that he had met with Jonathan Windust from Milford Funds recently
- Eriksen's Global are expecting a correction in the markets in late 2018 / early 2019
- Geoff Copstick queried whether the report could be amended to reflect actual performance, or why there is continued investment in "underperforming funds"
- The CEO indicated that further discussion will be required regarding a reset of the three funds (CIF, IIF, PRF) in the near future

ID: A1104063

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29 August 2018

- Jonathan Eriksen advised that he is happy to visit and hold a strategy session with the committee

9.34am - Jonathan Eriksen left the meeting

Agreed Actions:

- | | |
|---|------------|
| 1. Jonathan Eriksen to email report from Continuity received last week for distribution | JE, RK |
| 2. Jonathan Eriksen to email paper on private equity for distribution | JE, RK |
| 3. Next meeting to be shifted to 24 October - Jonathan Eriksen to attend | RK |
| 4. Council workshop on investment to follow on from October committee meeting | RK |
| 5. Meet to discuss Investment Review prior to September meeting | MC, DT, SC |

Meeting closed at 9.55am

UNCONFIRMED

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

ID: A1109362

From: Simon Crabb, Finance Manager

Executive Summary

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

Month to 31-August-18	CIF	PRF	IIF	STF
Fund Return %	1.2%	2.0%	0.9%	1.0%
Fund Objective	0.4%	0.7%	0.5%	0.3%
Fund Over / Under Perfo	0.8%	1.3%	0.4%	0.7%

The CIF, PRF and STIF outperformed their objectives over all the periods reported. The IIF underperformed its objective over the 1-year, 3-year and since inception periods partly due to the increase in its objectives and change in growth/income splits.

Recommendation

That the report 'Performance of council's externally managed funds to August 2018' by Simon Crabb, Finance Manager and dated 17 September 2018, be received.

Background

Community Investment Fund (CIF)

At 31 August 2018, the CIF had a market value of \$14.4M and had performed as follows:

CIF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	1.2%	0.4%	3.0%	1.3%	1.8%	0.9%	8.7%	5.2%	8.1%	5.2%

Property Reinvestment Fund (PRF)

At 31 August 2018, the PRF had a market value of \$15.1M and performed as follows:

PRF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	2.0%	7.0%	3.8%	2.0%	2.1%	1.3%	10.6%	8.0%	9.2%	8.3%

Infrastructure Investment Fund (IIF)

At 31 August 2018, the IIF had a market value of \$11.6M and performed as follows:

IIF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	0.9%	0.5%	2.7%	1.4%	1.7%	0.9%	5.6%	5.8%	4.9%	5.8%

Short Term Investment Fund (STF)

At 31 August 2018, the STF had a market value of \$1.7M and performed as follows:

STF	1 month		Quarter		YTD		1 year		Since inception	
	Return	Objective	Return	Objective	Return	Objective	Return	Objective	Return	Objective
	1.0%	0.3%	2.3%	0.9%	1.9%	0.6%	5.8%	3.8%	5.9%	3.8%

Attachments

Attachment 1: Northland Regional Council Externally Managed Investment Fund - Monthly Report to 31 August 2018 [↓](#)

Authorised by Group Manager

Name: Dave Tams
Title: Group Manager, Corporate Excellence
Date: 19 September 2018

ERIKSENSGLOBAL

Actuaries & Investment Strategists

NORTHLAND REGIONAL COUNCIL EXTERNALLY MANAGED INVESTMENT FUNDS

MONTHLY REPORT 31 AUGUST 2018

18 SEPTEMBER 2018

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EXECUTIVE SUMMARY

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %
CIF	1.2	3.0	1.8	8.7	7.8	8.1
CIF Objective	0.4	1.3	0.9	5.2	5.2	5.2
Over / Underperformance	0.8	1.7	0.9	3.5	2.6	2.9
PRF	2.0	3.8	2.1	10.6	9.1	9.2
PRF Objective	0.7	2.0	1.3	8.0	8.0	8.3
Over / Underperformance	1.3	1.8	0.8	2.6	1.1	0.9
IIF	0.9	2.7	1.7	5.6	4.9	4.9
IIF Objective	0.5	1.4	0.9	5.8	5.8	5.8
Over / Underperformance	0.4	1.3	0.8	-0.2	-0.9	-0.9
STIF	1.0	2.3	1.9	5.8		5.9
STIF Objective	0.3	0.9	0.6	3.8		3.8
Over / Underperformance	0.7	1.4	1.3	2.0		2.1

- The CIF, PRF and STIF outperformed their objectives over all periods analysed. The IIF underperformed the objective over the 1 year, 3 year and since inception periods. 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, MLC and supported by NZ Fixed Interest assets
 - PRF was positive, with Aspiring, Mint Trans-Tasman Equities and QuayStreet Altum driving returns
 - IIF was positive, each underlying fund met or outperformed its benchmark except BlackRock, Aspiring was the main driver
 - STIF was positive, each underlying fund outperformed its benchmark, Harbour Income was the main driver
- The STIF and the PRF are currently overweight in respect of growth assets.
- The following transactions were made in August:
 - Redemption of \$18.5 thousand from Milford Diversified Income (CIF)
 - Capital call of \$18.5 thousand to Pioneer Capital III (CIF)
 - Capital call of \$32.5 thousand to MLC Private Equity (CIF)
 - Redemption of \$0.5 million from Milford Diversified Income (PRF)
 - Redemption of \$20.9 thousand from Milford Diversified Income (PRF)
 - Capital call of \$20.9 thousand to Pioneer Capital III (PRF)
 - Redemption of \$0.71 million from Mint Diversified Income (PRF)
 - Redemption of \$1.0 million from Aspiring (PRF)
 - Redemption of \$1.3 million from QuayStreet Income (PRF)
 - Redemption of \$34.9 thousand from QuayStreet Income (PRF)
 - Capital call of \$32.5 thousand to MLC Private Equity (PRF)
 - Investment of \$0.45 million into Harbour Income (IIF)
 - Redemption of \$0.3 million from Harbour Income (STIF)

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 **two** months.

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	-0.5	-1.4	4.3
S&P 500 (US)	3.0	7.3	17.4
Nikkei 225 (Japan)	1.4	3.0	16.4
FTSE 100 (UK)	-4.1	-3.2	0.0
DAX (Germany)	-3.4	-1.9	2.6
CAC 40 (France)	-1.9	0.2	6.3
Trans-Tasman Equities			
S&P/NZX 50	4.4	7.6	19.1
S&P/ASX 300	1.4	6.0	15.4
Bonds			
S&P/NZX NZ Government Stock	1.3	2.3	5.1
S&P/NZX A Grade Corporate Bonds	1.0	1.7	4.7
Barclays Global Aggregate Bonds	1.1	2.0	4.7
FTSE World Government Bonds	0.3	0.5	1.1
Oil			
West Texas Intermediate Crude Oil	1.5	4.1	47.8
Brent Crude Oil	5.6	0.0	47.2
NZD Foreign Exchange			
AUD	0.2	-1.1	1.6
EUR	-2.0	-5.1	-5.3
GBP	-1.6	-3.2	-8.2
JPY	-3.5	-3.5	-6.7
CNY	-2.3	0.9	-4.1
USD	-2.5	-5.4	-7.4

Source: Nikko Asset Management

We make the following key observations:

- Negative returns in European equity markets and emerging markets
- Double digit one year returns of Trans-Tasman equity markets, the US and Japan
- Positive but low bond returns
- Continued rise in oil prices
- Further drop in NZD over the month and year against all currencies except against the AUD

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COMMUNITY INVESTMENT FUND

	1 Month %	3 Month %	YTD** %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %*
NZ Fixed Interest	0.9	2.2	1.4	6.6	7.4	8.5
Benchmark (Weighted Average)	0.4	1.1	0.7	4.5	4.4	3.9
Value Added	0.5	1.1	0.7	2.1	3.0	4.6
Harbour Income	1.2	2.6	1.8	5.7	5.7	
Benchmark (NZ OCR + 3.5% p.a.)	0.4	1.3	0.9	5.3	4.5	
Value Added	0.8	1.3	0.9	0.4	1.2	
Milford Diversified Income	0.9	2.3	1.4	7.5	9.9	
Benchmark (NZ OCR + 2.5% p.a.)	0.3	1.0	0.7	4.2	4.5	
Value Added	0.6	1.3	0.7	3.3	5.4	
Mint Diversified Income	0.8	1.8	1.1	5.3	5.6	
Benchmark (NZ CPI + 3% p.a.)	0.4	1.1	0.8	4.5	4.3	
Value Added	0.4	0.7	0.3	0.8	1.3	
Australasian Equities	1.8	4.2	2.6	15.2	11.7	13.1
Benchmark (Weighted Average)	0.7	2.1	1.4	8.8	9.2	9.6
Value Added	1.1	2.1	1.2	6.4	2.5	3.5
Aspiring	2.0	4.0	2.3	11.6		
Benchmark (NZ CPI + 4% p.a.)	0.5	1.4	0.9	5.5		
Value Added	1.5	2.6	1.4	6.1		
Milford Active Growth	1.7	4.2	2.7	16.5	12.3	13.4
Benchmark (10% p.a.)	0.8	2.4	1.6	10.0	10.0	10.0
Value Added	0.9	1.8	1.1	6.5	2.3	3.4
Australasian Private Equity	9.2	11.0	8.8	38.7		
Benchmark (Weighted Average)	3.6	6.9	4.1	21.0		
Value Added	5.6	4.1	4.7	17.7		
MLC PE II	13.9	15.9	13.3			
Benchmark (15% p.a.)	1.2	3.6	2.4			
Value Added	12.7	12.3	10.9			
CC 4	0.2	1.8	0.2			
Benchmark (NZX50 + 4%)	4.7	8.6	4.8			
Value Added	-4.5	-6.8	-4.6			
PCP III	0.0	1.6	0.0	34.8		
Benchmark (NZX50 + 4% p.a.)	4.7	8.6	4.8	23.8		
Value Added	-4.7	-7.0	-4.8	11.0		
Global Equities	0.2	2.4	0.9	3.5	3.8	4.7
Benchmark (Weighted Average)	0.6	1.7	1.1	6.9	6.8	7.0
Value Added	-0.4	0.7	-0.2	-3.4	-3.0	-2.3
AMP Global Multi-Asset	0.1	1.0	0.7	4.0	4.4	
Benchmark (NZ CPI + 5% p.a.)	0.5	1.6	1.1	6.5	6.3	
Value Added	-0.4	-0.6	-0.4	-2.5	-1.9	
Schroders Real Return + 5%	0.2	2.8	1.0	3.4	3.6	4.5
Benchmark (Aus CPI TM + 5% p.a.)	0.6	1.7	1.2	7.0	6.9	7.2
Value Added	-0.4	1.1	-0.2	-3.6	-3.3	-2.7
Total Fund	1.2	3.0	1.8	8.7	7.8	8.1
Fund Objective	0.4	1.3	0.9	5.2	5.2	5.2
Value Added	0.8	1.7	0.9	3.5	2.6	2.9

*Inception date was 31 December 2012

** The hedged Fund return for the year-to-date would have been 1.8%, compared to the unhedged return of 1.8%

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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.

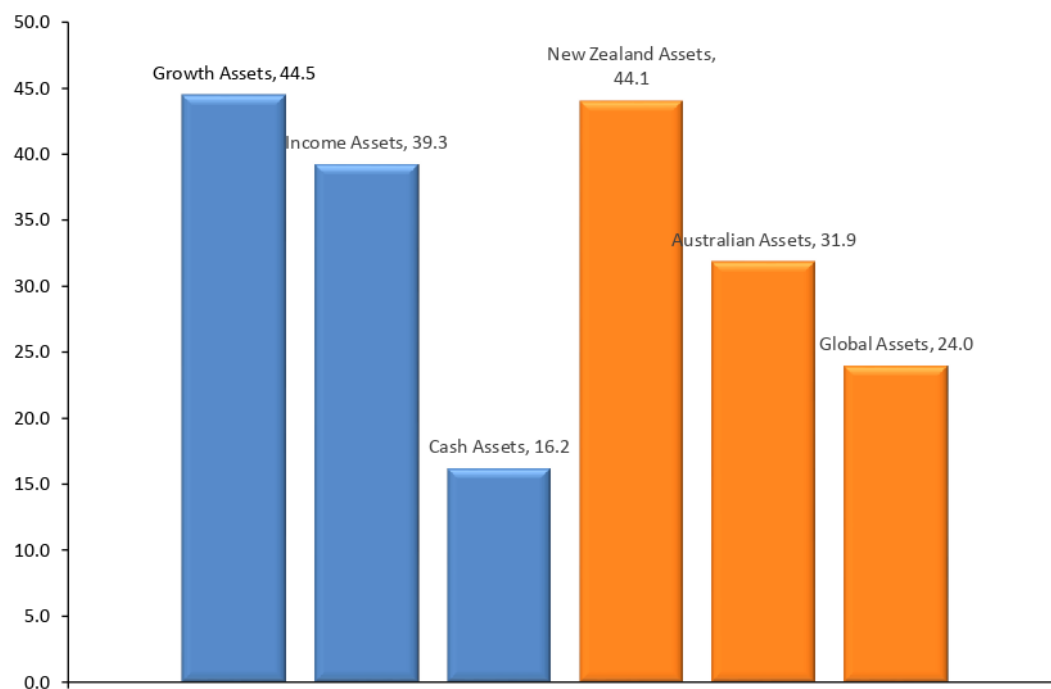
	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %
AUD/NZD Cross Rate	0.2	-1.1	0.1	1.6	0.9
Schroders RRF + 5% (NZD)	0.2	2.8	1.0	3.4	3.6
Benchmark	0.6	1.7	1.2	7.0	6.9
Value Added	-0.4	1.1	-0.2	-3.6	-3.3
Schroders RRF + 5% (AUD)	0.4	1.7	1.1	5.0	4.4
Benchmark	0.6	1.7	1.2	7.0	6.9
Value Added	-0.2	0.0	-0.1	-2.0	-2.5
MLC PE II (NZD)	13.9	15.9	13.3		
Benchmark	1.2	3.6	2.4		
Value Added	12.7	12.3	10.9		
MLC PE II (AUD)	14.1	15.0	13.4		
Benchmark	1.2	3.6	2.4		
Value Added	12.9	11.4	11.0		

CIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Difference %	Status
Cash	0	0.0	0 < 5 < 40	-5.0	✓
Harbour Income	945,301				
Milford Diversified Income	3,181,548				
Mint Diversified Income	2,051,148				
NZ Fixed Interest	6,177,997	42.9	25 < 45 < 65	-2.1	✓
Income Assets	6,177,997	42.9	30 < 50 < 70	-7.1	✓
Milford Active Growth	3,295,288				
Aspiring	1,185,456				
Australasian Equities	4,480,744	31.1	15 < 25 < 35	6.1	✓
Continuity Capital No.4	393,297				
PCP III	112,878				
MLC PE II	218,595				
Australasian Private Equity	724,770	5.0	0 < 5 < 10	0.0	✓
Schroders RRF	2,394,263				
AMP GMAF	632,030				
Global Equities	3,026,293	21.0	10 < 20 < 30	1.0	✓
Growth Assets	8,231,808	57.1	30 < 50 < 70	7.1	✓
Total Assets	14,409,805	100.0			

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CIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
2.2	-0.4	-1.8
New Zealand Assets	Australian Assets	Global Assets
2.5	-3.3	0.8

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PROPERTY REINVESTMENT FUND

Asset	1 Month %	3 Month %	YTD* %	1 Year %	3 Year % p.a.	Inception** % p.a.
Australasian Private Equity						
Continuity Capital	-0.1	1.8	-0.1	6.6	5.8	
Benchmark (NZX50 + 4%)	4.7	8.6	4.8	23.8	22.7	
Value Added	-4.8	-6.8	-4.9	-17.2	-16.9	
MLC PE II	13.9	15.9	13.3			
Benchmark (15% p.a.)	1.2	3.6	2.4			
Value Added	12.7	12.3	10.9			
PCP III	-2.3	2.8	-2.3	44.1		
Benchmark (NZX50 + 4%)	4.7	8.6	4.8	23.8		
Value Added	-7.0	-5.8	-7.1	20.3		
Australasian Equities						
Aspiring	2.3	4.3	2.6	12.0	12.3	
Benchmark (CPI + 4%)	0.5	1.4	0.9	5.5	5.3	
Value Added	1.8	2.9	1.7	6.5	7.0	
Mint Trans-Tasman Equities	4.6	7.8	4.0	22.2	18.0	
Benchmark (NZX50)	4.4	7.6	4.1	19.1	18.1	
Value Added	0.2	0.2	-0.1	3.1	-0.1	
QuayStreet Altum	1.8	2.7	0.9	17.4		
Benchmark (OCR + 6%)	0.6	1.9	1.3	7.8		
Value Added	1.2	0.8	-0.4	9.6		
Salt Long Short	-1.1	0.0	0.1	-1.8		
Benchmark (OCR + 5%)	0.5	1.6	1.1	6.8		
Value Added	-1.6	-1.6	-1.0	-8.6		
Diversified Income						
Milford Diversified Income	0.8	2.2	1.3	7.3	9.8	9.4
Benchmark (OCR + 2.5%)	0.3	1.0	0.7	4.2	4.5	4.5
Value Added	0.5	1.2	0.6	3.1	5.3	4.9
Mint Diversified Income	0.6	1.6	0.8	5.0	5.5	5.9
Benchmark (CPI + 3%)	0.4	1.1	0.8	4.5	4.3	4.0
Value Added	0.2	0.5	0.0	0.5	1.2	1.9
Quay Street Income	0.5	1.9	0.8	5.3		
Benchmark (OCR + 2%)	0.3	0.9	0.6	3.8		
Value Added	0.2	1.0	0.2	1.5		
Total Assets						
Total Fund	2.0	3.8	2.1	10.6	9.1	9.2
Fund Objective (MStar Prop + 1%)	0.7	2.0	1.3	8.0	8.0	8.3
Value Added	1.3	1.8	0.8	2.6	1.1	0.9

* The hedged Fund return for the year-to-date would have been 2.1%, compared to the unhedged return of 2.1%

**Inception is measured from 30/09/2014

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %
AUD/NZD Cross Rate	0.2	-1.1	0.1	1.6	0.9
MLC PE II (NZD)	13.9	15.9	13.3		
Benchmark	1.2	3.6	2.4		
Value Added	12.7	12.3	10.9		
MLC PE II (AUD)	14.1	15.0	13.4		
Benchmark	1.2	3.6	2.4		
Value Added	12.9	11.4	11.0		

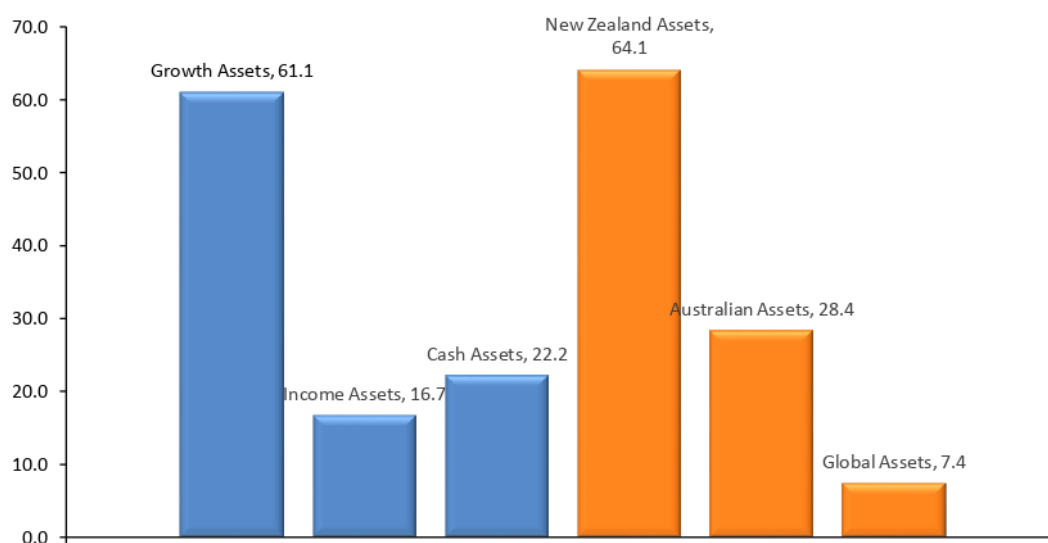
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PRF ASSET ALLOCATIONS

Allocations	Market Value NZ \$	Actual Allocation %	Target Allocation %	Status
Aspiring	3,452,164	22.8	10 < 15 < 20	×
Mint Trans-Tasman Equities	3,717,836	24.6	10 < 15 < 20	×
QuayStreet Altum	971,418	6.4	0 < 5 < 10	✓
Salt Long Short	1,732,866	11.5	0 < 5 < 10	×
Australasian Equities	9,874,284	65.3	40	
Continuity Capital No.2	1,090,883	7.2	0 < 5 < 25	✓
PCP III	112,878	0.7	0 < 2.5 < 25	✓
MLC PE II	218,595	1.4	0 < 2.5 < 25	✓
Australasian Private Equity	1,422,356	9.4	10	
Growth Assets	11,296,640	74.7	50	
Milford Diversified Income	1,409,815	9.3	0 < 10 < 20	✓
Mint Diversified Income	1,194,862	7.9	10 < 25 < 40	×
Quay Street Income	1,226,486	8.1	5 < 15 < 20	✓
Diversified Income	3,831,162	25.3	50	
Cash	0	0.0		
Income Assets	3,831,162	25.3	50	
Total Assets	15,127,803	100.0	100	

Aspiring, Mint Trans-Tasman Equities and Salt are all above their allowable ranges.
Mint Diversified Income is below its allowable range, but will receive \$1m in September from the Aspiring redemption.

PRF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
7.6	-7.1	-0.5
New Zealand Assets	Australian Assets	Global Assets
1.9	-2.1	0.2

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INFRASTRUCTURE INVESTMENT FUND						
Asset	1 Month %	3 Month %	YTD* %	1 Year %	3 Year %	Inception* %
Diversified Growth						
Aspiring	2.0	4.0	2.3			
Benchmark (CPI + 4%)	0.5	1.4	0.9			
Value Added	1.5	2.6	1.4			
Castle Point 5 Oceans	0.9	2.7	2.1	7.7		
Benchmark (OCR + 3%)	0.4	1.2	0.8	4.7		
Value Added	0.5	1.5	1.3	3.0		
Schroders RRF CPI + 5%	0.2	3.5	1.4			
Benchmark (Aus TM CPI + 5%)	0.2	0.5	0.3			
Value Added	0.0	3.0	1.1			
Diversified Income						
BlackRock FIGO	0.0	1.4	0.4	-0.2		
Benchmark (AusBond BB + 4%)	0.5	1.5	1.0	5.9		
Value Added	-0.5	-0.1	-0.6	-6.1		
Harbour Income	1.0	2.4	1.6	5.5	5.5	5.8
Benchmark (OCR + 3.5%)	0.4	1.3	0.9	5.3	4.5	4.5
Value Added	0.6	1.1	0.7	0.2	1.0	1.3
Milford Diversified Income	0.9	2.3	1.4	7.5		
Benchmark (OCR + 2.5%)	0.3	1.0	0.7	4.2		
Value Added	0.6	1.3	0.7	3.3		
Mint Diversified Income	0.8	1.9	1.1	3.5	4.9	4.8
Benchmark (CPI + 3%)	0.4	1.1	0.8	4.5	4.3	4.3
Value Added	0.4	0.8	0.3	-1.0	0.6	0.5
Total Assets						
Total Fund	0.9	2.7	1.7	5.6	4.9	4.9
Fund Objective (OCR + 3%)	0.5	1.4	0.9	5.8	5.8	5.8
Value Added	0.4	1.3	0.8	-0.2	-0.9	-0.9

* The hedged Fund return for the year-to-date would have been 1.7%, compared to the unhedged return of 1.7%

** Inception is measured from 31 July 2015

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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.

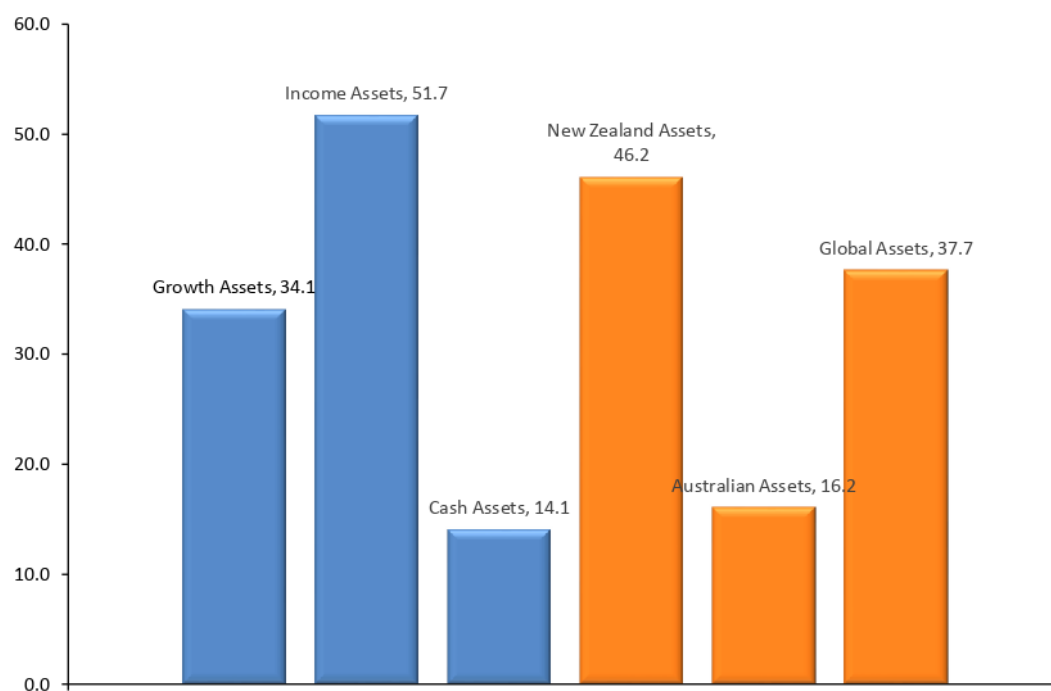
	1 Month %	3 Month %	YTD %	1 Year %
AUD/NZD Cross Rate	0.2	-1.1	0.1	1.6
Schroders RRF + 5% (NZD)	0.2	3.5	1.4	
Benchmark	0.2	0.5	0.3	
Value Added	0.0	3.0	1.1	
Schroders RRF + 5% (AUD)	0.4	2.3	1.6	
Benchmark	0.2	0.5	0.3	
Value Added	0.2	1.8	1.3	
BlackRock FIGO (NZD)	0.0	1.4	0.4	-0.2
Benchmark	0.5	1.5	1.0	5.9
Value Added	-0.5	-0.1	-0.6	-6.1
BlackRock FIGO (AUD)	0.2	0.3	0.5	1.4
Benchmark	0.5	1.5	1.0	5.9
Value Added	-0.3	-1.2	-0.5	-4.5

IIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Aspiring	1,115,056	9.6	0 < 10 < 20	✓
Castle Point 5 Oceans	4,066,025	35.0	10 < 30 < 40	✓
Schroders RRF 5%	1,282,008	11.0	0 < 10 < 20	✓
Diversified Growth	6,463,088	55.6	50	
Growth Assets	6,463,088		50	
BlackRock FIGO	1,142,541	9.8	0 < 10 < 20	✓
Harbour Income	1,766,796	15.2	0 < 10 < 20	✓
Milford Diversified Income	1,300,368	11.2	0 < 10 < 20	✓
Mint Diversified Income	951,276	8.2	0 < 10 < 20	✓
Schroders RRF 3.5%	0	0.0	0 < 10 < 20	✓
Diversified Income	5,160,980	44.4	50	
Income Assets	5,160,980		50	
Total Assets*	11,624,068	100.0	100	
BlackRock FIGO (AUD)	1,048,224			
Schroders RRF 5% (AUD)	1,176,178			

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IIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
-0.2	1.6	-1.4
New Zealand Assets	Australian Assets	Global Assets
3.0	-2.0	-1.0

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SHORT TERM INVESTMENT FUND

Asset	1 Month %	3 Month %	YTD %	1 Year %	Inception* %
Diversified Income					
Milford Diversified Income	1.0	1.8	1.4		
Benchmark (OCR + 2.5%)	0.3	1.0	0.7		
Value Added	0.7	0.8	0.7		
Mint Diversified Income	0.6	1.3	0.9	4.5	4.2
Benchmark (CPI + 3%)	0.4	1.1	0.8	4.5	4.7
Value Added	0.2	0.2	0.1	0.0	-0.5
Harbour Income Fund	1.6	2.3	2.3		
Benchmark (CPI + 3%)	0.4	1.3	0.9		
Value Added	1.2	1.0	1.4		
Diversified Growth					
Castle Point 5 Oceans	0.9	2.6	2.0		
Benchmark (OCR + 3%)	0.4	1.2	0.8		
Value Added	0.5	1.4	1.2		
Total Assets					
Total Fund	1.0	2.3	1.9	5.8	5.9
Fund Objective (OCR + 2%)	0.3	0.9	0.6	3.8	3.8
Value Added	0.7	1.4	1.3	2.0	2.1

* Inception is measured from 31 March 2016

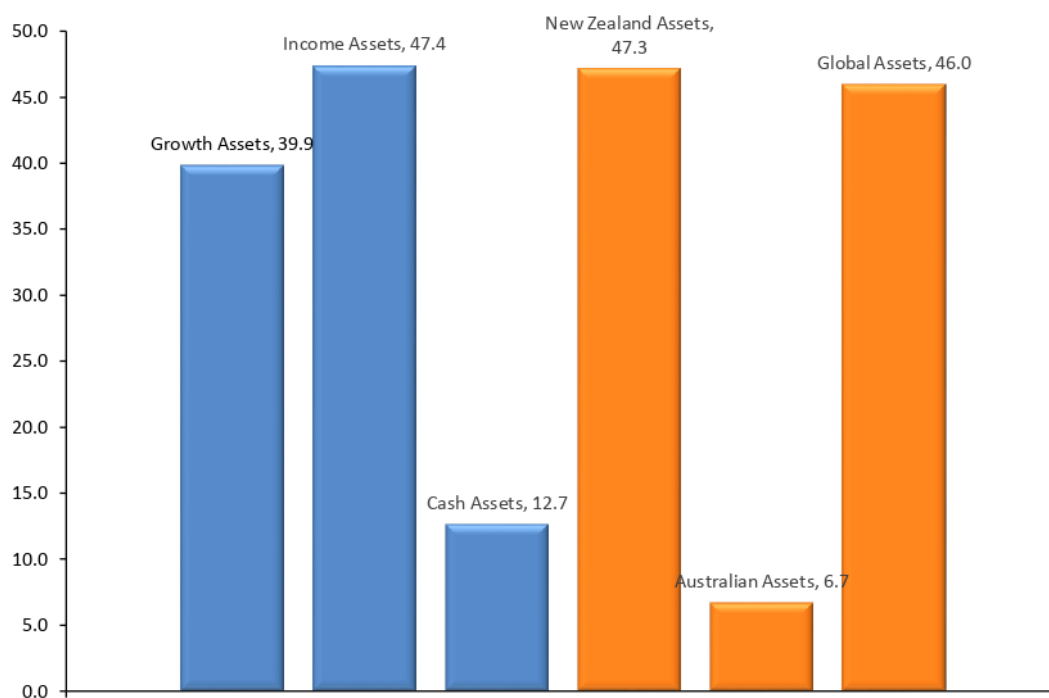
STIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Harbour Income	204,875	12.3	0 < 20 < 40	✓
Milford Diversified Income	39,397	2.4	0 < 20 < 40	✓
Mint Diversified Income	76,179	4.6	0 < 20 < 40	✓
QuayStreet Income		0.0	0 < 20 < 40	✓
Diversified Income	320,451	19.3		
Income Assets	320,451	19.3	80	
Castle Point 5 Oceans	1,341,282	80.7	0 < 20 < 40	x
Diversified Growth	1,341,282	80.7		
Growth Assets	1,341,282	80.7	20	
Total Assets	1,661,734	100.0	100	

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

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STIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
Growth Assets	Income Assets	Cash Assets
0.0	0.0	0.0
New Zealand Assets	Australian Assets	Global Assets
-7.6	0.3	7.2

STANDARD DEVIATION OF RETURNS

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

The Morningstar category benchmarks are defined as below:

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

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

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

Standard Deviation of Returns	1 Year %	3 Year (p.a.) %
CIF	2.9	3.2
PRF	2.9	3.1
IIF	2.8	3.4
STIF	2.2	N/A
NZ Multi-Sector Balanced	4.6	5.0
NZ Multi-Sector Moderate	2.6	2.9
S&P/NZX 50	5.7	9.1

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 STIF.

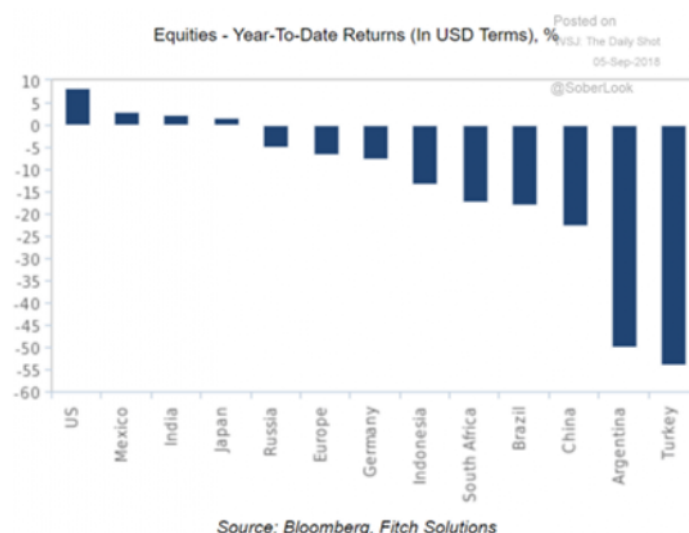
Over the three-year period the CIF, PRF and IIF had a lower standard deviation than the Balanced benchmark and NZX 50, but slightly higher than the Moderate benchmark. The STIF has not been running for three years yet.

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ECONOMIC COMMENTARY

Since the start of the year equity markets have diverged significantly in performance. In Figure 1 below the US market has been the better performer to date. At the other end of the spectrum is Argentina and Turkey which have experienced substantial drops in their currencies recently amidst sky-rocketing inflation.

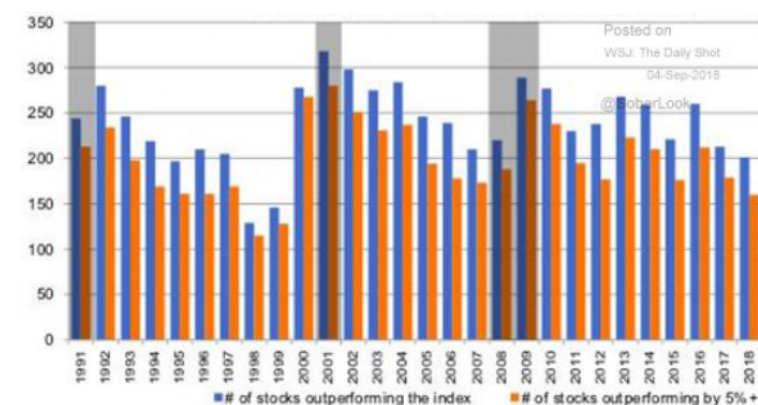
Figure 1: Divergence in Equity Performance



Source: The Daily Shot, Wall Street Journal

Within the US equity market (S&P 500) Figure 2 below shows the decreasing amount of stocks that are outperforming the index. The blue lines show any outperformance of the index, whilst the orange lines show those stocks that have outperformed by 5% or more.

Figure 2: Number of S&P 500 stocks outperforming the index

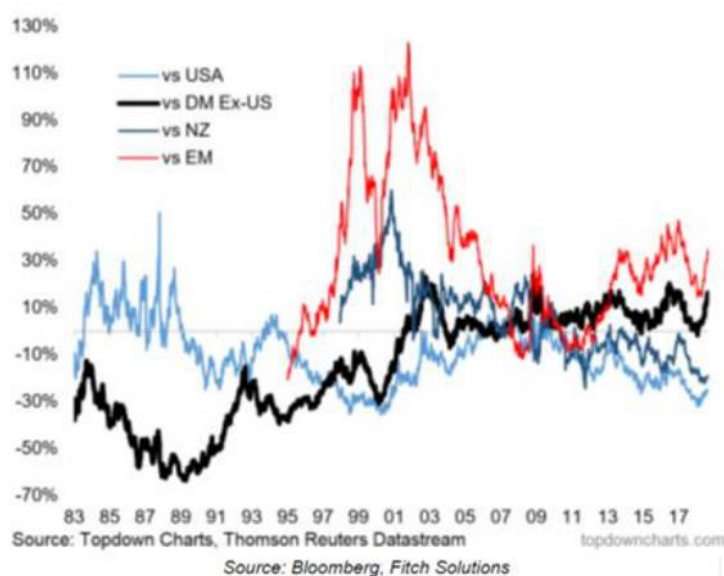


Source: The Daily Shot, Wall Street Journal, @Callum_Thomas, @bySamRo

There is a similar theme happening in the New Zealand stock market too. Most of the performance is being driven by a handful of stocks. August was no exception. The NZX50 returned 4.4% for the month, but if you remove a2 Milk, Fisher and Paykel Healthcare and Ryman then the return drops to 1.2% for the remaining 47 stocks. Momentum investing through passive vehicles keeps pushing these stocks to higher valuations. Compared to Australian equities, New Zealand is looking expensive.

Figure 3 below shows how Australian equities are valued relative to other equity markets. The lines below the x axis mean that Australia is cheaper, whilst above means they are more expensive. The light blue line shows that Australian equities are about 30% cheaper than US stocks. The dark blue line shows Australian stocks are about 20% cheaper than New Zealand stocks. However, Australian stocks are more expensive than Developed Market (excluding US) and Emerging Market stocks.

Figure 3: Australian equity valuations relative to global markets



Source: Topdown Charts

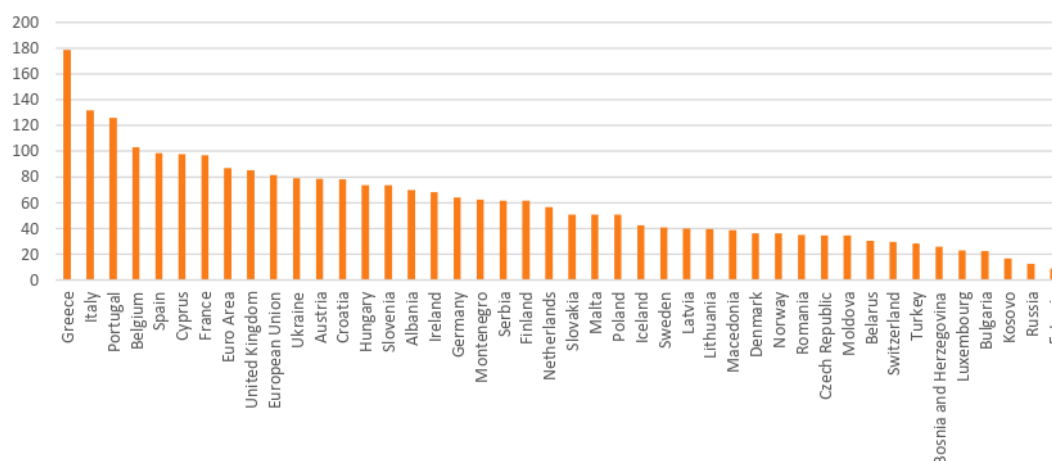
The Reserve Bank of Australia kept the cash rate on hold at 1.5% at the start of September. Infrastructure spending and a recovery in resources are supporting the economy. Risks looking forward are a cooling housing market and political headwinds. Developments in China and how they fare in the trade war with the US will also be important to follow.

Across the Tasman the NZD suffered at the end of August following the release of the ANZ survey. Results of the survey included further falls in business confidence and inflation expectations. The market sees a growing risk that the OCR may be cut when the RBNZ next makes a move. However, near term GDP growth expectations of 0.5% for Q2 by the RBNZ suggest the economy is strong enough not to require an OCR cut at this stage.

Fiscal policy in Italy is a risk for investors with the 2019 Italian budget up for review in mid-October before it is sent to the European Commission (EC). There is a risk that the current coalition government will draw up a budget that exceeds the EC requirement for spending to be no greater than 3% of GDP. The fear that this may happen is likely to cause volatility in markets. More government spending means more borrowing which consequently pushes up borrowing costs. The higher costs flow through to businesses and consumers and slow down growth in the economy. Estimates by Citi economists for 2018 GDP growth were revised down from 1.6% to 1.1% for 2018, while the International Monetary Fund forecasts 1.3%.

Current government debt is around 132% of GDP in Italy (~2.3 trillion euros), the second highest in Europe after Greece. Italy needs to reduce its debt ratio to make it more adaptive to any shocks that may occur in the future. Case in point is the infrastructure spending needed following the bridge collapse in Genoa recently. Citi economists estimate a budget deficit of 1.5-2% could still allow the debt ratio to decline whilst enabling the government to implement some of its plans.

Figure 4: Government debt to GDP % - Europe



Source: data from tradingeconomics.com

With the considerable amount of debt in the global economy at present, the US dollar strengthening and risk of interest rates increasing, liquidity in markets is tightening. This means that it is becoming more difficult to sell assets as and when you need.

“In times of trouble you sell what you can and not what you should.” - Armstrong Economics

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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.

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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.

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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	632,030					
	NZ Short Duration				0	632,030	1.5
Aspiring	Aspiring	1,185,456	3,452,164	1,115,056		5,752,676	13.4
BlackRock	FIGO			1,142,541	0	1,142,541	2.7
Castle Point	5 Oceans			4,066,025	1,341,282	5,407,307	12.6
Continuity Capital	No.2 LP		1,090,883			1,090,883	2.5
	No.4 LP	393,297				393,297	0.9
Harbour	Income	945,301		1,766,796	204,875	2,916,973	6.8
Milford	Active Growth	3,295,288					
	Diversified Income	3,181,548	1,409,815	1,300,368	39,397	9,226,416	21.5
Mint	Diversified Income	2,051,148	1,194,862	951,276	76,179		
	Trans-Tasman Equities		3,717,836			7,991,301	18.7
MLC	PE II	218,595	218,595			437,190	1.0
Pioneer Capital	PCP III	112,878	112,878			225,756	0.5
QuayStreet	Altum		971,418				
	Income		1,226,486			2,197,903	5.1
Salt	Long Short		1,732,866			1,732,866	4.0
Schroders	Real Return + 3.5%						
	Real Return + 5%	2,394,263		1,282,008		3,676,271	8.6
Self-managed	Cash		0			0	0.0
Total FUM		14,409,805	15,127,803	11,624,068	1,661,734	42,823,409	100

Note: all values are in NZD

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

FUNDS DENOMINATED IN AUD

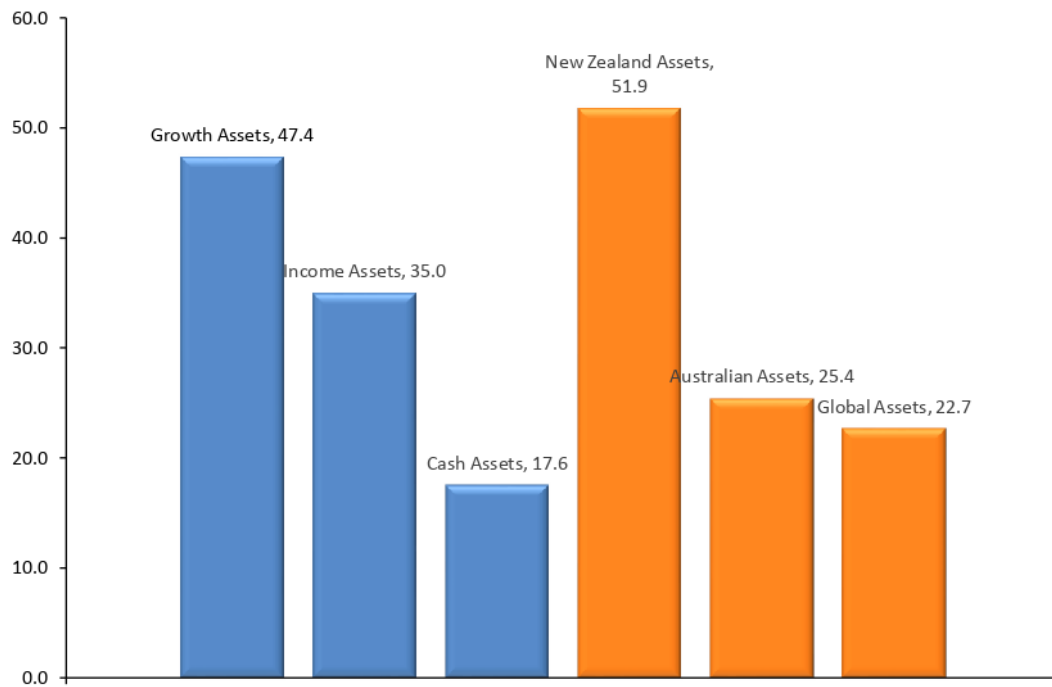
		CIF	PRF	IIF	STIF	Total AUD
BlackRock	FIGO			1,048,224	0	1,048,224
MLC	PE II	200,550	200,550			401,100
Schroders	Real Return + 3.5%			0		0
Schroders	Real Return + 5%	2,196,617		1,176,178		3,372,795
Total AUD		2,397,167	200,550	2,224,402	0	4,822,119

PRIVATE EQUITY – COMMITTED CAPITAL (CALLED VS UNCALLED)

		Committed Capital \$	Called \$	Uncalled \$
Continuity Capital No.4 (NZD)	CIF	1,000,000	400,000	600,000
Continuity Capital No.2 (NZD)	PRF	2,000,000	1,500,000	500,000
MLC PE II (AUD)	CIF	500,000	175,000	325,000
	PRF	500,000	175,000	325,000
Pioneer Capital III (NZD)	CIF	500,000	120,080	379,920
	PRF	500,000	120,080	379,920

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NRC TOTAL UNDERLYING FUND ALLOCATIONS



TITLE: Business with the Public Excluded

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	Review of Investment Report	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) and the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h).

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.