Council

Tuesday 18 June 2019 at 10.30am

AGENDA

TABLED

Northland
REGIONAL COUNCIL
Te Kaunihera ā rohe o Te Taitokerau

Northland Regional Council Supplementary Agenda

Meeting to be held in the Council Chamber
36 Water Street, Whangārei
on Tuesday 18 June 2019, commencing at 10.30am

Recommendations contained in the council agenda are NOT council decisions. Please refer to council minutes for resolutions.

TITLE:	**Tabled Item for 18 June 2019**
ID:	A1203117
From:	Simon Crabb, Finance Manager

Executive summary

The purpose of this report is to place before the council a tabled item for inclusion in the council meeting agenda.

The tabled item was unable to be completed in time for circulation with the council agenda as the advice from council's independent advisor, EriksensGlobal, was received after the council agenda was compiled. Furthermore, the EriksensGlobal advice proposes a strategy that requires full council approval prior to 30 June 2019.

The report includes the recommendation that the tabled item be received.

Recommendation

That as permitted under section 46A(7) of the Local Government Official Information and Meetings Act 1987 the following tabled report be received:

- Externally Managed Funds – Strategy to De-risk Portfolio Prior to Financial Year-end.

Authorised by Group Manager

Name:	Dave Tams
Title:	Group Manager, Corporate Excellence
Date:	17 June 2019

TITLE: Externally Managed Funds - Strategy to De-risk Portfolio Prior to Financial Year-end

ID: A1202809

From: Simon Crabb, Finance Manager

Executive summary/Whakarāpopototanga

Council's independent investment advisor, EriksensGlobal, has recommended a strategy to de-risk the Managed Fund Portfolio and provide a degree of protection against any equity market downturn leading into the financial year-end.

The detail of the EriksensGlobal strategy is attached as **Attachment 1**.

It is proposed that $2,600,000 is redeemed from the growth (equity) assets of each fund (CIF, IIF, PRF) prior to year-end and transferred into fixed term deposits for a term of 30 days.

Growth assets typically provide greater returns over the long term, however, they tend to carry a higher level of risk as they are strongly influenced by market volatility and can vary considerably over shorter time frames. Therefore, by reducing the investment in growth assets at this stage of the year we reduce the risk of a market downturn (in late June) eroding the gains that have already been generated over the past 11 months.

Term deposits are a low risk investment and at the time of writing the return for a 30-day term deposit was 2.05% pa. Prior to the maturity of the term deposit investments, the Investment Subcommittee and Jonathan Eriksen will assess the prevailing economic conditions and funding requirements before deciding to transfer any of the $2.6M back into Managed Funds.

As there is no Investment Subcommittee meeting scheduled before 30 June 2019, formal approval is sought from council.

It should be noted that the recommendations contained in this report are not related to the Operating Costs Reserve. The investment strategy for the Operating Costs Reserve will be presented to full council in August 2019.

Recommendation(s)

1. That the report 'Externally Managed Funds - Strategy to De-risk Portfolio Prior to Financial Year-end' by Simon Crabb, Finance Manager and dated 14 June 2019, be received.
2. That $2,600,000 is redeemed from the fund managers recommended by EriksensGlobal, prior to 30 June 2019, and transferred into 30-day fixed term deposits.
3. That the Investment Subcommittee and Jonathan Eriksen are consulted, and assess the prevailing economic conditions and funding requirements prior to deciding whether to transfer any of the $2,600,000 back into Managed Funds.

---

1. Options

No.	Option	Advantages	Disadvantages
1	Transfer $2.6M of funding from growth (equity) assets into 30-day fixed term deposits.	Reduce the risk of an equity market downturn (in late June) eroding: • the Fund Manager gains that have already been generated over the past 11 months; and • the total gains reported in the 2019 Annual Report.	Earn a lower rate of return, associated with term deposits, for 30 days.
2	Do not transfer any funding from growth assets into 30-day fixed term deposits.	Take advantage of a higher rate of return should the equity market perform well in the month of June 2019.	Maintain an exposure to the risk of an equity market downturn (in late June) eroding the Fund Manager gains that have already been generated over the past 11 months, and the total gains that will be reported in the 2019 Annual Report.

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.

4. Financial implications

A reduction in growth assets at this stage of the year helps maintain the level of Managed Fund gains already earnt this financial year and the level of annual gains that will be reported at 30 June in the 2019 Annual Report. Typically, growth assets will eventually absorb a short-term loss and generate relatively high returns in the long run. However, the strategy proposed in this report is intended to defend against the negative impacts of any downturn occurring before 30 June 2019.

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

Attachments/Ngā tapirihanga

Attachment 1: EriksensGlobal Recommendation: Strategy to De-Risk Councils Managed Fund Portfolio ⇩

Authorised by Group Manager

Name: Dave Tams

Title: Group Manager, Corporate Excellence

Date: 17 June 2019

From: EriksensGlobal
To: Simon Crabb
Cc: Dave Tams; Malcolm Nicolson
Subject: Investment Sub-Committee 28/5/19
Date: Wednesday, 12 June 2019 11:47:14 AM

Simon

As discussed on Tuesday 28th May during the Investment Sub-Committee meeting Council and management wish to de-risk the portfolio before the end of this financial year, 30 June 2019. The action point for us was to recommend an appropriate implementation strategy.

With interest rates falling around the world many stock markets, especially New Zealand and the US, have recently reached record highs. However the New Zealand market is also stretched by high Price/Earnings ratios and limited liquidity. Both Australia and New Zealand have many corporates with 30 June balance dates.

In the US balance dates tend to be 31 December i.e. calendar year end and the PE ratios are not as stretched. The US markets are deep and hence liquid. Therefore to de-risk the portfolio we recommend reducing the exposure to Australasian equities and NZ equities in particular. This is despite the fact that the RBNZ and RBA have been cutting their respective cash rates.

We recommend taking 5% out of the growth asset allocations before the end of June. However we recommend not reducing your exposure to Aspiring because they are reasonably defensive, have a modest exposure to US stocks and don't tend to own the expensive portion of the NZX.

In summary our specific recommendations are:

Name of Fund	Redemption Amount 000's	Product
CIF	700	Milford Active Growth
PRF	900	Mint Trans-Tasman Equities
IIF	1,000	Mint Trans-Tasman Equities
STF	Nil	N/A

The Short Term Fund has no specific growth asset products so no adjustment is warranted.

We also want to reduce the exposure to Milford and Mint because these two managers are most likely to breach the 20% maximum threshold. We also recommend keeping Salt because of its defensive characteristics leading up to the financial year end. It returned 1.9% for the month of May.

Warm regards

Jonathan

ERIKSENSGLOBAL
Actuaries & Investment Strategists
eriksensglobal.com
P +64 9 486 3144
2 Burns Avenue
PO Box 33-1318
Takapuna 0740
Auckland