

**Investment Subcommittee**  
**Tuesday 27 August 2019 at 8.30am**

# **AGENDA**

## Investment Subcommittee Agenda

Meeting to be held in the Whale Bay Room  
36 Water Street, Whangārei  
on Tuesday 27 August 2019, 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

Chairman, Councillor John Bain

Independent Financial Advisor,  
Mr Geoff Copstick

Councillor Bill Shepherd (Ex-  
Officio)

Councillor Penny Smart

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<b>1.0 APOLOGIES</b>	
<b>2.0 DECLARATIONS OF CONFLICTS OF INTEREST</b>	
<b>3.0 CONFIRMATION OF MINUTES</b>	
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<b>4.0 DECISION MAKING MATTERS</b>	
<b>4.1</b> July Investment Report <i>By Eriksens &amp; Associates</i>	
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<b>4.2</b> Statement of Investment Policy & Objectives - Implementation of Council decision to restructure funds	
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**TITLE:** Confirmation of Minutes -  
**ID:** A1230156  
**From:** Judith Graham, Corporate Excellence P/A

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**Recommendation**

That the minutes of the Investment Subcommittee meeting held on 28 May 2019 be confirmed as a true and correct record.

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**Attachments/Ngā tapirihanga**

Attachment 1: Investment Subcommittee Meeting Minutes 28 may 2019 [↓](#) 

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**Authorised by Group Manager**

**Name:** Dave Tams  
**Title:** Group Manager, Corporate Excellence  
**Date:**

## Investment Subcommittee Minutes

Meeting held in the Whale Bay Room  
36 Water Street, Whangārei  
on Tuesday 28 May 2019, commencing at 8.30am

### **Present:**

Chairman, Councillor Penny Smart (Acting Chair)  
Independent Financial Advisor, Mr Geoff Copstick  
Councillor Bill Shepherd (Ex-Officio)

### **In Attendance:**

**Full Meeting**  
Chief Executive  
GM- Corporate Excellence  
**Part Meeting**  
Rick Stolwerk

The Chair declared the meeting open at 8.30am.

### **Apologies (Item 1.0)**

#### **Moved (Smart/ Copstick)**

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

**Carried**

### **Declarations of Conflicts of Interest (Item 2.0)**

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

### **Confirmation of Minutes (Item 3.1)**

**ID: A1167236**

**Report from Dave Tams, Group Manager, Corporate Excellence**

#### **Moved (Shepherd /Copstick)**

That the minutes of the Investment Subcommittee meeting held on 26 February 2019 be confirmed as a true and correct record.

**Carried**

## **Final Report - Investment Funds Review (Item 4.1)**

**ID: A1191535**

**Report from Linda Harrison, Organisational Project Manager**

### *Secretarial Note:*

- *The report 'A review of the service level, Investment Objectives, Policies, Monitoring Procedures and Performance of Northland Regional Council Investment Fund' was noted.*
- *Jonathan Eriksen joined the tell conference at 8.44am. and finished at 9.22am*
- *Discussion was focused on global cash rate reducing and the impact on equity markets.*
- *Jonathan Eriksen undertook to review an option to secure funds for year end.*
- *Further consideration to be given to funds that are consistently under performing*

## **Performance of Council's Externally Managed Fund to April 2019 (Item 5.1)**

**ID: A1174425**

**Report from Simon Crabb, Finance Manager**

### **Moved (Shepherd/Copstick)**

That the report 'Performance of Council's Externally Managed Fund to April 2019' by Simon Crabb, Finance Manager and dated 8 May 2019, be received.

**Carried**

*Secretarial Note: Revised version of Draft copy of Operating Costs Reserve policy was tabled.*

## **Draft Operating Costs Reserve Policy (Item 5.2)**

**ID: A1195504**

**Report from Simon Crabb, Finance Manager**

### **Moved (Copstick/Shepherd)**

1. That the report 'Draft Operating Costs Reserve Policy' by Simon Crabb, Finance Manager and dated 22 May 2019, be received.

**Carried**

*Secretarial Note: It was noted that the operating cost policy a prudent approach to manage the risk of volatility in the markets affecting the contribution to general funds.*

### **Moved (Shepherd/Copstick)**

2. That the Investment Subcommittee endorse that the Draft Operating Costs Reserve Policy (incorporated all changes that were captured at the meeting.) presented to full council for approval.

**carried**

**The meeting concluded at 9.50am.**

# ERIKSENSGLOBAL

Actuaries & Investment Strategists

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## NORTHLAND REGIONAL COUNCIL EXTERNALLY MANAGED INVESTMENT FUNDS

MONTHLY REPORT 31 JULY 2019

20 AUGUST 2019

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## EXECUTIVE SUMMARY

	1 Month %	3 Month %	YTD %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %
<b>CIF</b>	<b>1.3</b>	<b>3.5</b>	<b>1.3</b>	<b>7.1</b>	<b>7.1</b>	<b>7.9</b>
CIF Objective	0.5	1.6	0.5	5.7	5.6	5.2
Over / Underperformance	0.8	1.9	0.8	1.4	1.5	2.7
<b>PRF</b>	<b>1.8</b>	<b>4.0</b>	<b>1.8</b>	<b>8.7</b>	<b>7.5</b>	<b>8.8</b>
PRF Objective	0.7	2.1	0.7	8.4	8.4	11.9
Over / Underperformance	1.1	1.9	1.1	0.3	-0.9	-3.1
<b>IIF</b>	<b>1.2</b>	<b>2.6</b>	<b>1.2</b>	<b>7.1</b>	<b>5.7</b>	<b>5.3</b>
IIF Objective	0.4	1.3	0.4	5.5	5.5	5.5
Over / Underperformance	0.8	1.3	0.8	1.6	0.2	-0.2
<b>STIF</b>	<b>1.0</b>	<b>1.6</b>	<b>1.0</b>	<b>5.6</b>	<b>5.5</b>	<b>5.7</b>
STIF Objective	0.3	0.9	0.3	3.5	3.5	3.5
Over / Underperformance	0.7	0.7	0.7	2.1	2.0	2.2

- More dovish central banks meant a rise in equity markets and bond prices due to a fall in yields. Trans-Tasman equities were the strongest performing markets over the month.
- The CIF and STIF outperformed their objectives over all periods analysed. The IIF underperformed its objective since inception. The PRF underperformed its objective over three years and since inception.
- The CIF is currently overweight its allocation to private equity due to the transfer from the PRF. The recent SIPO recommendations allow for these allocations within the recommended Long Term and Short Term Funds. Aspiring is above its allowable range in the PRF. The STIF is currently overweight its allocation to Castle Point.
- The following transactions were made in July:
  - An investment of \$686k was made into Milford Active Growth (CIF)
  - A redemption of \$1.0m was made from Harbour Income (CIF), which was incorrectly actioned. The redemption should have been made from the STIF.
  - A redemption of \$35k was made from Mint Diversified Income - to pay the Continuity Capital call (CIF)
  - Continuity Capital made a call of \$35k (CIF)
  - An investment of \$830k was made into Mint Diversified Income (PRF)
  - A redemption of \$427k was made from Mint Trans-Tasman Equities (PRF)
  - An investment of \$1.0m was made into Mint Diversified Income (IIF)
  - A redemption of \$350k was made from Mint Diversified Income (STIF)
  - A redemption of \$400k was made from Milford Diversified Income (STIF)
  - A redemption of \$1.0m was made from QuayStreet Income (STIF)
- Mint are in the process of merging the wholesale funds with their retail products. There is no change to the strategy. This is to create better efficiencies with respect to in-fund costs for investors. The fee discount for Eriksens clients will now be rebated outside the fund to nominated client bank accounts; previously this was automatically reinvested into the Mint fund. This change should take effect during August for NRC.



## 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:

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

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

The NZ CPI (rolling over three years) as at **June 2019 was 1.6% per annum**. The Fund objectives for shorter time periods have been amended to reflect the actual CPI change for that period (where possible).

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.

## MARKET PERFORMANCE

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

Index	1 Month %	3 Months %	1 Year %
<b>Global Equities</b>			
MSCI Emerging Markets	-1.0	-3.3	-0.8
S&P 500 (US)	1.3	1.2	5.8
Nikkei 225 (Japan)	1.2	-3.3	-4.6
FTSE 100 (UK)	2.2	2.3	-2.1
DAX (Germany)	-1.7	-1.3	-4.8
CAC 40 (France)	-0.4	-1.2	0.1
<b>Trans-Tasman Equities</b>			
S&P/NZX 50	3.4	8.4	21.7
S&P/ASX 300	3.0	8.6	13.2
<b>Bonds</b>			
S&P/NZX NZ Government Stock	0.7	2.9	8.5
S&P/NZX A Grade Corporate Bonds	0.8	2.7	7.3
Barclays Global Aggregate Bonds (Hedged to NZD)	0.7	3.5	8.0
FTSE World Government Bonds (Hedged to NZD)	0.7	3.9	8.3
<b>Oil</b>			
West Texas Intermediate Crude Oil	0.2	-8.3	-14.8
Brent Crude Oil	-0.5	-10.7	-12.2
<b>NZD Foreign Exchange</b>			
AUD	0.0	1.1	4.6
EUR	0.5	-0.4	1.9
GBP	2.1	5.4	3.9
JPY	-1.0	-3.5	-6.0
CNY	-1.5	1.2	-2.0
USD	-1.7	-1.0	-3.1

Source: Nikko Asset Management

We make the following key observations:

- Negative returns in global equity markets over 12 months except the US and France
- Trans-Tasman equities positive over each period with extraordinary double-digit returns over 12 months
- Bond markets have rallied recently, leading to significant returns over 12 months (higher than global equity markets!)
- The NZD strength against the AUD
- Oil prices much lower compared to this time last year

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### COMMUNITY INVESTMENT FUND

	1 Month %	3 Month %	YTD* %	1 Year %	3 Year (p.a.) %	Inception (p.a.) %**
<b>NZ Fixed Interest</b>	<b>1.1</b>	<b>4.1</b>	<b>1.1</b>	<b>9.8</b>	<b>6.8</b>	<b>8.7</b>
Benchmark (Weighted Average)	0.4	1.1	0.4	4.5	4.5	4.0
Value Added	0.7	3.0	0.7	5.3	2.3	4.7
<b>Harbour Income</b>	<b>0.9</b>	<b>3.5</b>	<b>0.9</b>	<b>8.6</b>	<b>5.6</b>	
Benchmark (NZ OCR + 3.5% p.a.)	0.4	1.2	0.4	5.2	4.7	
Value Added	0.5	2.3	0.5	3.4	0.9	
<b>Milford Diversified Income</b>	<b>1.2</b>	<b>4.5</b>	<b>1.2</b>	<b>11.0</b>	<b>8.6</b>	
Benchmark (NZ OCR + 2.5% p.a.)	0.3	1.0	0.3	4.2	4.2	
Value Added	0.9	3.5	0.9	6.8	4.4	
<b>Mint Diversified Income</b>	<b>1.0</b>	<b>3.6</b>	<b>1.0</b>	<b>8.1</b>	<b>5.0</b>	
Benchmark (NZ CPI + 3% p.a.)	0.4	1.3	0.4	4.7	4.6	
Value Added	0.6	2.3	0.6	3.4	0.4	
<b>Australasian Equities</b>	<b>1.6</b>	<b>4.3</b>	<b>1.6</b>	<b>7.2</b>	<b>9.6</b>	<b>12.0</b>
Benchmark (Weighted Average)	0.7	2.1	0.7	8.8	9.0	9.5
Value Added	0.9	2.2	0.9	-1.6	0.6	2.5
<b>Aspiring</b>	<b>2.1</b>	<b>2.6</b>	<b>2.1</b>	<b>5.4</b>	<b>8.5</b>	
Benchmark (NZ CPI + 4% p.a.)	0.5	1.6	0.5	5.7	5.6	
Value Added	1.6	1.0	1.6	-0.3	2.9	
<b>Milford Active Growth</b>	<b>1.3</b>	<b>5.1</b>	<b>1.3</b>	<b>8.1</b>	<b>10.1</b>	<b>12.4</b>
Benchmark (10% p.a.)	0.8	2.4	0.8	10.0	10.0	10.0
Value Added	0.5	2.7	0.5	-1.9	0.1	2.4
<b>Australasian Private Equity</b>	<b>1.9</b>	<b>4.1</b>	<b>1.9</b>	<b>11.1</b>		
Benchmark (Weighted Average)	3.1	8.0	3.1	23.7		
Value Added	-1.2	-3.9	-1.2	-12.6		
<b>MLC PE II</b>	<b>0.6</b>	<b>1.2</b>	<b>0.6</b>	<b>13.0</b>		
Benchmark (15% p.a.)	1.2	3.6	1.2	15.0		
Value Added	-0.6	-2.4	-0.6	-2.0		
<b>CC 4</b>	<b>-0.3</b>	<b>0.1</b>	<b>-0.3</b>	<b>0.0</b>		
Benchmark (NZX50 + 4%)	3.7	9.5	3.7	0.6		
Value Added	-4.0	-9.4	-4.0	-0.6		
<b>CC 2</b>	<b>4.1</b>	<b>7.0</b>	<b>4.1</b>			
Benchmark (NZX50 + 4%)	3.7	9.5	3.7			
Value Added	0.4	-2.5	0.4			
<b>PCP III</b>	<b>0.0</b>	<b>3.8</b>	<b>0.0</b>	<b>8.9</b>		
Benchmark (NZX50 + 4% p.a.)	3.7	9.5	3.7	26.5		
Value Added	-3.7	-5.7	-3.7	-17.6		
<b>Global Equities</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>1.0</b>	<b>4.6</b>	<b>4.2</b>
Benchmark (Weighted Average)	0.5	1.7	0.5	6.6	6.8	7.0
Value Added	0.2	-0.9	0.2	-5.6	-2.2	-2.8
<b>Schroders Real Return + 5%</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.4</b>	<b>4.6</b>	<b>3.9</b>
Benchmark (Aus CPI TM + 5% p.a.)	0.6	1.7	0.6	6.6	6.7	6.2
Value Added	0.1	-0.9	0.1	-6.2	-2.1	-2.3
<b>Total Fund</b>	<b>1.3</b>	<b>3.5</b>	<b>1.3</b>	<b>7.1</b>	<b>7.1</b>	<b>7.9</b>
Fund Objective	0.5	1.6	0.5	5.7	5.6	5.2
Value Added	0.8	1.9	0.8	1.4	1.5	2.7

\* The hedged Fund return for the year-to-date would have been 1.3%, compared to the unhedged return of 1.3%

\*\*Inception date was 31 December 2012

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

	1 Month %	3 Month %	YTD %	1 Year %	3 Year % p.a.
<b>CC 2</b>	<b>4.1</b>	<b>7.0</b>	<b>4.1</b>	<b>21.0</b>	<b>10.9</b>
Benchmark	3.7	9.5	3.7	26.5	18.4
Value Added	0.4	-2.5	0.4	-5.5	-7.5

The following table shows the movements of the AUD/NZD cross rate which affect the unhedged Schrodgers 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.
<b>AUD/NZD Cross Rate</b>	<b>0.0</b>	<b>1.1</b>	<b>0.0</b>	<b>4.6</b>	<b>0.3</b>
<b>Schrodgers RRF + 5% (NZD)</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>	<b>0.4</b>	<b>4.6</b>
Benchmark	0.6	1.7	0.6	6.6	6.7
Value Added	0.1	-0.9	0.1	-6.2	-2.1
<b>Schrodgers RRF + 5% (AUD)</b>	<b>0.7</b>	<b>1.8</b>	<b>0.7</b>	<b>5.0</b>	<b>4.9</b>
Benchmark	0.6	1.7	0.6	6.6	6.7
Value Added	0.1	0.1	0.1	-1.6	-1.8
<b>MLC PE II (NZD)</b>	<b>0.6</b>	<b>1.2</b>	<b>0.6</b>	<b>13.0</b>	
Benchmark	1.2	3.6	1.2	15.0	
Value Added	-0.6	-2.4	-0.6	-2.0	
<b>MLC PE II (AUD)</b>	<b>0.6</b>	<b>2.4</b>	<b>0.6</b>	<b>17.8</b>	
Benchmark	1.2	3.6	1.2	15.0	
Value Added	-0.6	-1.2	-0.6	2.8	

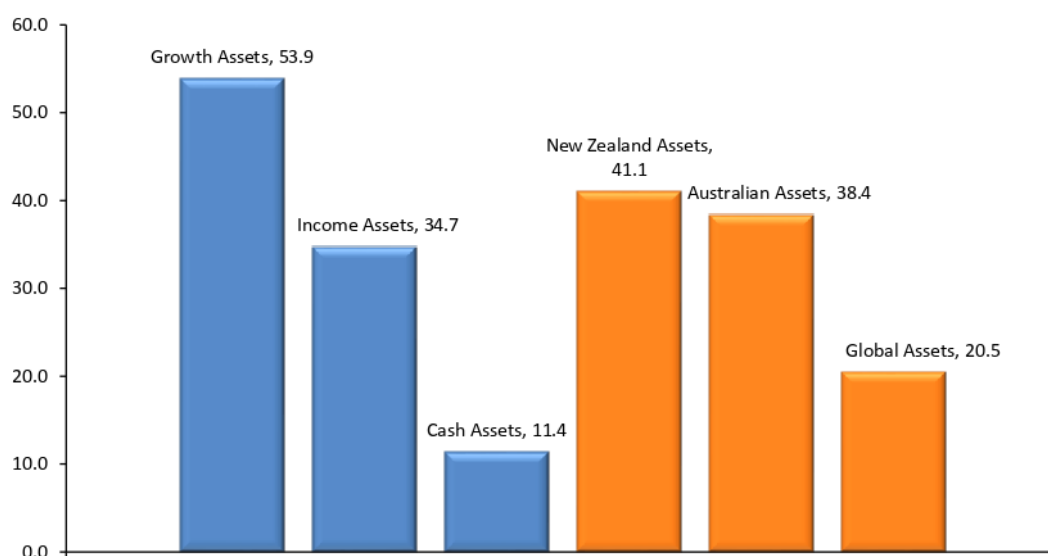
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#### CIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Difference %	Status
<b>Cash</b>	<b>0</b>	<b>0.0</b>	<b>0 &lt; 5 &lt; 40</b>	<b>-5.0</b>	✓
Harbour Income	76,418				
Milford Diversified Income	3,405,227				
Mint Diversified Income	1,790,931				
<b>NZ Fixed Interest</b>	<b>5,272,576</b>	<b>37.1</b>	<b>25 &lt; 45 &lt; 65</b>	<b>-7.9</b>	✓
<b>Income Assets</b>	<b>5,272,576</b>	<b>37.1</b>	<b>30 &lt; 50 &lt; 70</b>	<b>-12.9</b>	✓
Milford Active Growth	2,817,653				
Aspiring	1,224,972				
<b>Australasian Equities</b>	<b>4,042,625</b>	<b>28.4</b>	<b>15 &lt; 25 &lt; 35</b>	<b>3.4</b>	✓
Continuity Capital No.2	1,174,214				
Continuity Capital No.4	401,513				
PCP III	377,062				
MLC PE II	656,041				
<b>Australasian Private Equity</b>	<b>2,608,830</b>	<b>18.4</b>	<b>0 &lt; 5 &lt; 10</b>	<b>13.4</b>	x
Schroders RRF	2,292,657				
AMP GMAF	0				
<b>Global Equities</b>	<b>2,292,657</b>	<b>16.1</b>	<b>10 &lt; 20 &lt; 30</b>	<b>-3.9</b>	✓
<b>Growth Assets</b>	<b>8,944,112</b>	<b>62.9</b>	<b>30 &lt; 50 &lt; 70</b>	<b>12.9</b>	✓
<b>Total Assets</b>	<b>14,216,688</b>	<b>100.0</b>			

Australasian Private Equity is above its allowable range.

#### CIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
<b>Growth Assets</b>	<b>Income Assets</b>	<b>Cash Assets</b>
5.1	-1.2	-3.9
<b>New Zealand Assets</b>	<b>Australian Assets</b>	<b>Global Assets</b>
-8.9	8.9	0.0

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PROPERTY REINVESTMENT FUND

Asset	1 Month %	3 Month %	YTD %	1 Year %	3 Year % p.a.	Inception* % p.a.
<b>Australasian Equities</b>						
<b>Aspiring</b>	<b>2.1</b>	<b>2.6</b>	<b>2.1</b>	<b>5.7</b>	<b>8.5</b>	
Benchmark (CPI + 4%)	0.5	1.6	0.5	5.7	5.6	
Value Added	1.6	1.0	1.6	0.0	2.9	
<b>Mint Trans-Tasman Equities</b>	<b>3.5</b>	<b>7.2</b>	<b>3.5</b>	<b>19.4</b>	<b>14.1</b>	
Benchmark (NZX50)	3.4	8.4	3.4	21.7	13.9	
Value Added	0.1	-1.2	0.1	-2.3	0.2	
<b>QuayStreet Altum</b>	<b>3.0</b>	<b>3.6</b>	<b>3.0</b>	<b>2.1</b>		
Benchmark (OCR + 6%)	0.6	1.8	0.6	7.7		
Value Added	2.4	1.8	2.4	-5.6		
<b>Salt Long Short</b>	<b>2.6</b>	<b>5.0</b>	<b>2.6</b>	<b>-5.6</b>		
Benchmark (OCR + 5%)	0.5	1.6	0.5	6.7		
Value Added	2.1	3.4	2.1	-12.3		
<b>Diversified Income</b>						
<b>Milford Diversified Income</b>	<b>1.2</b>	<b>4.5</b>	<b>1.2</b>	<b>10.9</b>	<b>8.5</b>	<b>9.7</b>
Benchmark (OCR + 2.5%)	0.3	1.0	0.3	4.2	4.2	4.5
Value Added	0.9	3.5	0.9	6.7	4.3	5.2
<b>Mint Diversified Income</b>	<b>0.9</b>	<b>3.5</b>	<b>0.9</b>	<b>7.9</b>	<b>4.9</b>	<b>6.3</b>
Benchmark (CPI + 3%)	0.4	1.3	0.4	4.7	4.6	4.1
Value Added	0.5	2.2	0.5	3.2	0.3	2.2
<b>Quay Street Income</b>	<b>0.7</b>	<b>3.1</b>	<b>0.7</b>	<b>7.6</b>	<b>5.8</b>	
Benchmark (OCR + 2%)	0.3	0.9	0.3	3.7	3.7	
Value Added	0.4	2.2	0.4	3.9	2.1	
<b>Total Assets</b>						
<b>Total Fund</b>	<b>1.8</b>	<b>4.0</b>	<b>1.8</b>	<b>8.7</b>	<b>7.5</b>	<b>8.8</b>
Fund Objective (MStar Prop + 1%)	0.7	2.1	0.7	8.4	8.4	11.9
Value Added	1.1	1.9	1.1	0.3	-0.9	-3.1

\*Inception is measured from 30/09/2014

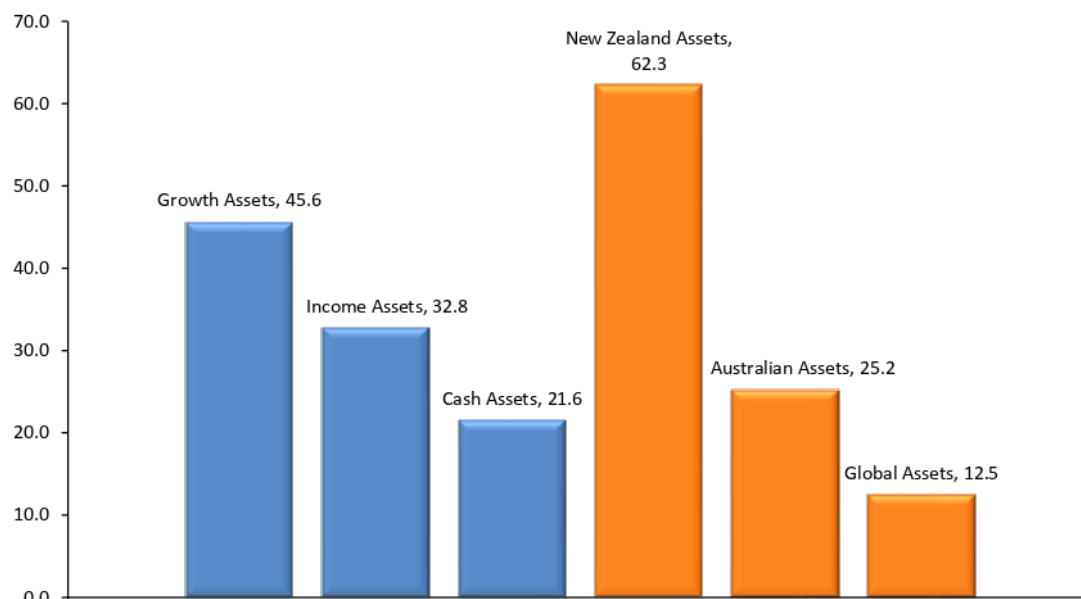
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#### PRF ASSET ALLOCATIONS

Allocations	Market Value NZ \$	Actual Allocation %	Target Allocation %	Status
Aspiring	3,567,239	20.2	10 < 15 < 20	x
Mint Trans-Tasman Equities	2,670,053	15.1	10 < 15 < 20	✓
QuayStreet Altum	974,850	5.5	0 < 5 < 10	✓
Salt Long Short	1,653,354	9.4	0 < 5 < 10	✓
<b>Australasian Equities</b>	<b>8,865,496</b>	<b>50.2</b>	<b>40</b>	
Continuity Capital No.2	0	0.0	0 < 5 < 25	✓
PCP III	0	0.0	0 < 2.5 < 25	✓
MLC PE II	0	0.0	0 < 2.5 < 25	✓
<b>Australasian Private Equity</b>	<b>0</b>	<b>0.0</b>	<b>10</b>	
<b>Growth Assets</b>	<b>8,865,496</b>	<b>50.2</b>	<b>50</b>	
Milford Diversified Income	1,750,860	9.9	0 < 10 < 20	✓
Mint Diversified Income	3,862,837	21.9	10 < 25 < 40	✓
Quay Street Income	3,193,013	18.1	5 < 15 < 20	✓
<b>Diversified Income</b>	<b>8,806,711</b>	<b>49.8</b>	<b>50</b>	
Cash	0	0.0		
<b>Income Assets</b>	<b>8,806,711</b>	<b>49.8</b>	<b>50</b>	
<b>Total Assets</b>	<b>17,672,207</b>	<b>100.0</b>	<b>100</b>	

Aspiring is above its allowable range.

#### PRF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
<b>Growth Assets</b>	<b>Income Assets</b>	<b>Cash Assets</b>
-1.3	2.9	-1.6
<b>New Zealand Assets</b>	<b>Australian Assets</b>	<b>Global Assets</b>
-5.5	3.6	1.9

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INFRASTRUCTURE INVESTMENT FUND						
Asset	1 Month %	3 Month %	YTD* %	1 Year %	3 Year % p.a.	Inception** % p.a.
<b>Diversified Growth</b>						
<b>Aspiring</b>	<b>2.1</b>	<b>2.6</b>	<b>2.1</b>	<b>5.1</b>		
Benchmark (CPI + 4%)	0.5	1.6	0.5	5.7		
Value Added	1.6	1.0	1.6	-0.6		
<b>Castle Point 5 Oceans</b>	<b>1.1</b>	<b>1.9</b>	<b>1.1</b>	<b>3.9</b>		
Benchmark (OCR + 3%)	0.4	1.1	0.4	4.7		
Value Added	0.7	0.8	0.7	-0.8		
<b>Mint Trans-Tasman Equities</b>	<b>3.3</b>	<b>6.7</b>	<b>3.3</b>			
Benchmark (NZX 50)	3.4	8.4	3.4			
Value Added	-0.1	-1.7	-0.1			
<b>Schroders RRF CPI + 5%</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.4</b>		
Benchmark (Aus TM CPI + 5%)	0.6	1.7	0.6	6.6		
Value Added	0.1	-1.0	0.1	-6.2		
<b>T. Rowe Price Global Eq. Growth</b>	<b>2.3</b>	<b>1.4</b>	<b>2.3</b>			
Benchmark (MSCI ACWI)	0.8	-0.2	0.8			
Value Added	1.5	1.6	1.5			
<b>Diversified Income</b>						
<b>BlackRock FIGO</b>	<b>0.4</b>	<b>1.0</b>	<b>0.4</b>	<b>-0.1</b>		
Benchmark (AusBond BB + 4%)	0.4	1.4	0.4	6.0		
Value Added	0.0	-0.4	0.0	-6.1		
<b>Harbour Income</b>	<b>0.9</b>	<b>3.5</b>	<b>0.9</b>	<b>8.5</b>	<b>5.5</b>	<b>6.3</b>
Benchmark (OCR + 3.5%)	0.4	1.2	0.4	5.2	4.7	4.7
Value Added	0.5	2.3	0.5	3.3	0.8	1.6
<b>Milford Diversified Income</b>	<b>1.2</b>	<b>4.5</b>	<b>1.2</b>	<b>11.0</b>		
Benchmark (OCR + 2.5%)	0.3	1.0	0.3	4.2		
Value Added	0.9	3.5	0.9	6.8		
<b>Mint Diversified Income</b>	<b>0.8</b>	<b>3.5</b>	<b>0.8</b>	<b>7.7</b>	<b>4.3</b>	<b>5.4</b>
Benchmark (CPI + 3%)	0.4	1.3	0.4	4.7	4.6	4.3
Value Added	0.4	2.2	0.4	3.0	-0.3	1.1
<b>Total Assets</b>						
<b>Total Fund</b>	<b>1.2</b>	<b>2.6</b>	<b>1.2</b>	<b>7.1</b>	<b>5.7</b>	<b>5.3</b>
Fund Objective (OCR + 3%)	0.4	1.3	0.4	5.5	5.5	5.5
Value Added	0.8	1.3	0.8	1.6	0.2	-0.2

\* The hedged Fund return for the year-to-date would have been 1.2%, compared to the unhedged return of 1.2%

\*\* 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.

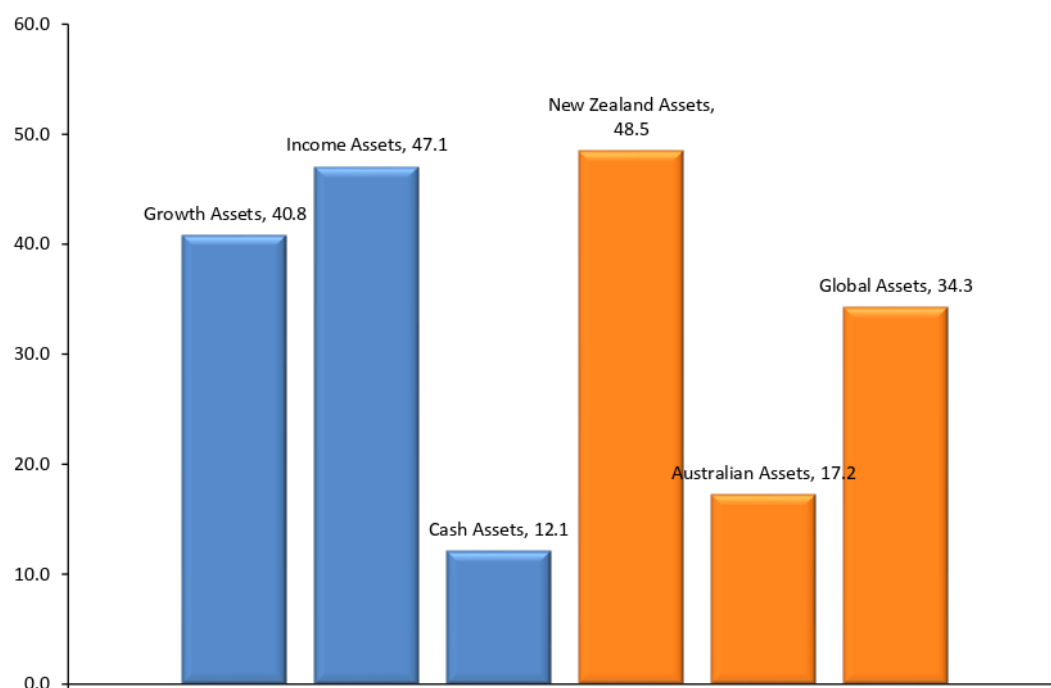
	1 Month %	3 Month %	YTD %	1 Year %
<b>AUD/NZD Cross Rate</b>	<b>0.0</b>	<b>1.1</b>	<b>0.0</b>	<b>4.6</b>
<b>Schroders RRF + 5% (NZD)</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.4</b>
Benchmark	0.6	1.7	0.6	6.6
Value Added	0.1	-1.0	0.1	-6.2
<b>Schroders RRF + 5% (AUD)</b>	<b>0.7</b>	<b>1.8</b>	<b>0.7</b>	<b>5.0</b>
Benchmark	0.6	1.7	0.6	6.6
Value Added	0.1	0.1	0.1	-1.6
<b>BlackRock FIGO (NZD)</b>	<b>0.4</b>	<b>1.0</b>	<b>0.4</b>	<b>-0.1</b>
Benchmark	0.4	1.4	0.4	6.0
Value Added	0.0	-0.4	0.0	-6.1
<b>BlackRock FIGO (AUD)</b>	<b>0.4</b>	<b>2.1</b>	<b>0.4</b>	<b>4.5</b>
Benchmark	0.4	1.4	0.4	6.0
Value Added	0.0	0.7	0.0	-1.5

IIF ASSET ALLOCATIONS

Allocations	Market Value NZ\$	Actual %	Target %	Status
Aspiring	2,176,645	10.1	0 < 10 < 20	✓
Castle Point 5 Oceans	5,221,746	24.3	20 < 25 < 40	✓
Schroders RRF 5%	1,284,735	6.0	0 < 5 < 20	✓
Mint Trans-Tasman Equities	171,068	0.8	0 < 5 < 15	✓
T. Rowe Price Global Equity Growth	1,777,661	8.3	0 < 5 < 15	✓
<b>Diversified Growth</b>	<b>10,631,855</b>	<b>49.6</b>	<b>50</b>	
<b>Growth Assets</b>	<b>10,631,855</b>	<b>49.6</b>	<b>50</b>	
BlackRock FIGO	1,141,799	5.3	0 < 10 < 20	✓
Harbour Income	3,662,027	17.1	0 < 15 < 20	✓
Milford Diversified Income	2,399,572	11.2	0 < 10 < 20	✓
Mint Diversified Income	3,620,461	16.9	0 < 15 < 20	✓
<b>Diversified Income</b>	<b>10,823,859</b>	<b>50.4</b>	<b>50</b>	
<b>Cash</b>	<b>0</b>	<b>0.0</b>		
<b>Income Assets</b>	<b>10,823,859</b>	<b>50.4</b>	<b>50</b>	
<b>Total Assets</b>	<b>21,455,714</b>	<b>100.0</b>	<b>100</b>	
BlackRock FIGO (AUD)	1,093,344			
Schroders RRF 5% (AUD)	1,230,213			

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#### IIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
<b>Growth Assets</b>	<b>Income Assets</b>	<b>Cash Assets</b>
1.3	1.7	-3.0
<b>New Zealand Assets</b>	<b>Australian Assets</b>	<b>Global Assets</b>
1.1	3.8	-4.9

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**SHORT TERM INVESTMENT FUND**

Asset	1 Month %	3 Month %	YTD %	1 Year %	3 Year % p.a.	Inception* % p.a.
<b>Diversified Income</b>						
<b>Milford Diversified Income</b>	<b>1.2</b>	<b>3.3</b>	<b>1.2</b>	<b>10.0</b>		
Benchmark (OCR + 2.5%)	0.3	1.0	0.3	4.2		
Value Added	0.9	2.3	0.9	5.8		
<b>Mint Diversified Income</b>	<b>1.0</b>	<b>2.5</b>	<b>1.0</b>	<b>5.3</b>	<b>3.7</b>	<b>4.4</b>
Benchmark (CPI + 3%)	0.4	1.3	0.4	4.7	4.6	4.6
Value Added	0.6	1.2	0.6	0.6	-0.9	-0.2
<b>Harbour Income Fund</b>	<b>0.9</b>	<b>2.6</b>	<b>0.9</b>	<b>7.5</b>		
Benchmark (CPI + 3%)	0.4	1.2	0.4	5.2		
Value Added	0.5	1.4	0.5	2.3		
<b>QuayStreet Income</b>	<b>0.8</b>	<b>2.3</b>	<b>0.8</b>			
Benchmark (OCR + 2%)	0.3	0.9	0.3			
Value Added	0.5	1.4	0.5			
<b>Diversified Growth</b>						
<b>Castle Point 5 Oceans</b>	<b>1.1</b>	<b>2.0</b>	<b>1.1</b>	<b>3.3</b>		
Benchmark (OCR + 3%)	0.4	1.1	0.4	4.7		
Value Added	0.7	0.9	0.7	-1.4		
<b>Total Assets</b>						
<b>Total Fund</b>	<b>1.0</b>	<b>1.6</b>	<b>1.0</b>	<b>5.6</b>	<b>5.5</b>	<b>5.7</b>
Fund Objective (OCR + 2%)	0.3	0.9	0.3	3.5	3.5	3.5
Value Added	0.7	0.7	0.7	2.1	2.0	2.2

\* Inception is measured from 31 March 2016

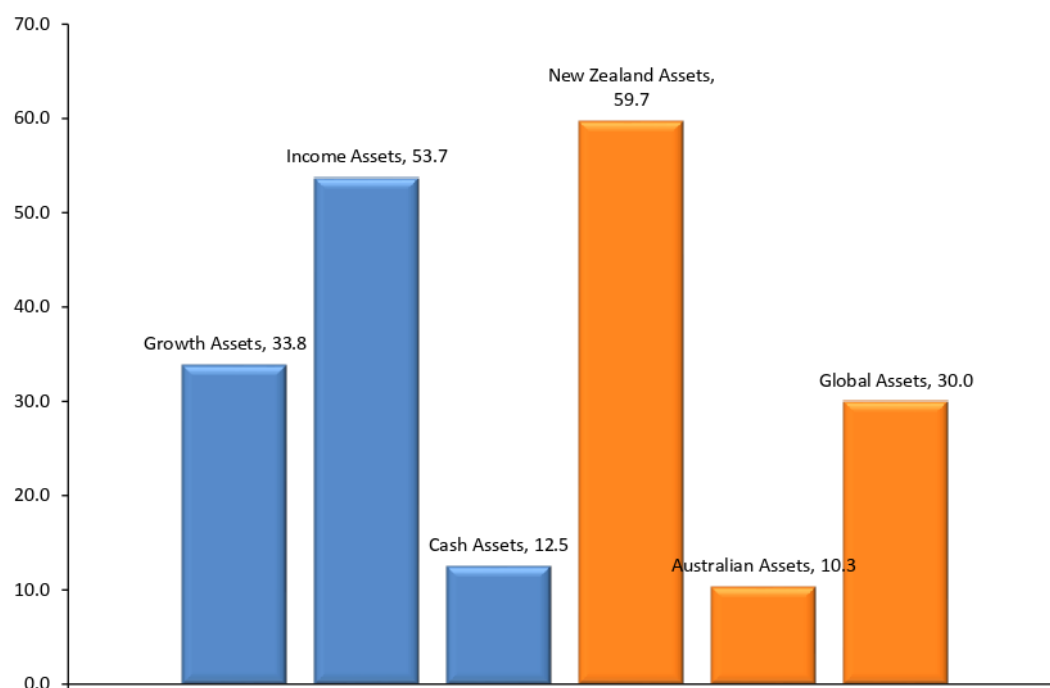
**STIF ASSET ALLOCATIONS**

Allocations	Market Value NZ\$	Actual %	Target %	Status
Harbour Income	1,326,495	29.4	0 < 20 < 40	✓
Milford Diversified Income	343,322	7.6	0 < 20 < 40	✓
Mint Diversified Income	213,705	4.7	0 < 20 < 40	✓
QuayStreet Income	319,971	7.1	0 < 20 < 40	✓
<b>Diversified Income</b>	<b>2,203,491</b>	<b>48.9</b>		
<b>Income Assets</b>	<b>2,203,491</b>	<b>48.9</b>	<b>80</b>	
Castle Point 5 Oceans	2,304,660	51.1	0 < 20 < 40	×
<b>Diversified Growth</b>	<b>2,304,660</b>	<b>51.1</b>		
<b>Growth Assets</b>	<b>2,304,660</b>	<b>51.1</b>	<b>20</b>	
<b>Total Assets</b>	<b>4,508,151</b>	<b>100.0</b>	<b>100</b>	

Castle Point 5 Oceans is above its allowable range.

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#### STIF UNDERLYING FUND ALLOCATIONS



Monthly % Change		
<b>Growth Assets</b>	<b>Income Assets</b>	<b>Cash Assets</b>
4.2	-4.8	0.5
<b>New Zealand Assets</b>	<b>Australian Assets</b>	<b>Global Assets</b>
-0.5	-3.7	4.2

## ERIKSENS RESPONSIBLE INVESTMENT REPORT

This report includes data from Eriksens Responsible Investment Survey as at 30 June 2019 as it applies to the Northland Regional Council externally managed funds. The Survey is conducted twice a year and covers the following exposures:

- Alcohol
- Armaments
- Distribution of fossil fuels
- Extraction and processing of fossil fuels
- Gambling and gaming
- Prostitution or pornography
- Renewable energy
- Sustainable forestry
- Tobacco

How securities are defined as say tobacco or fossil fuel companies is a highly subjective concept and there are various classification schemes. We choose to define it by using the Global Investment Classification Standard ("GICS"), which involves analysts from the credit rating agencies MSCI and Standard and Poor's periodically classifying companies, based on what they believe is the "principal business" of a company. Thus companies with limited exposure to say, tobacco, through for example retail sales won't be considered "tobacco" companies. Conversely, excluded companies with significant exposures to "non-bad" activities will still be excluded.

Exposure is to any part of the "capital structure" of a company, whether equity or debt. The categories chosen are based on what the analysts deem to be the principal business of a company, taking into account qualitative factors, quantitative measures and market views.<sup>1</sup>

NRC ESG exposure	CIF	PRF	IIF	STIF	Total
as at 30 June 2019	%	%	%	%	%
Alcohol	0.68	1.02	0.60	0.15	<b>0.70</b>
Armaments	0.05	0.03	0.43	0.33	<b>0.21</b>
Distribution of fossil fuels	0.15	1.54	0.08	1.34	<b>0.66</b>
Extraction and processing of fossil fuels	1.60	2.87	1.96	2.24	<b>2.17</b>
Gambling and gaming	0.84	0.77	0.35	0.38	<b>0.60</b>
Prostitution or pornography	-	-	-	-	-
Renewable energy	3.28	7.39	5.21	5.13	<b>5.37</b>
Sustainable forestry	0.02	0.07	0.02	-	<b>0.03</b>
Tobacco	-	-	-	-	-

<sup>1</sup> [www.msci.com/gics](http://www.msci.com/gics)

## 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.) %
<b>CIF</b>	4.5	3.4
<b>PRF</b>	5.3	3.7
<b>IIF</b>	4.1	3.5
<b>STIF</b>	2.8	3.8
<b>NZ Multi-Sector Balanced</b>	6.8	5.3
<b>NZ Multi-Sector Moderate</b>	3.9	3.1
<b>S&amp;P/NZX 50</b>	10.7	8.1

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 each NRC Fund had a lower standard deviation than the Balanced benchmark and NZX 50, but slightly higher than the Moderate benchmark.

## ECONOMIC COMMENTARY

The first couple of weeks of August saw a paradigm shift in yields around the globe. At the start of August Federal Reserve Governor, Jerome Powell, announced a cut to the Fed rate for the first time in over a decade. The upper range of the Fed rate was reduced by 25bps, down to 2.25%. This move was expected by the market, however, the reasoning/justification for this move expressed by Powell in the press conference was what caused dissatisfaction for the market. Powell said the current cut was a “mid-cycle adjustment” which wasn’t necessarily the start of a lengthy cutting cycle. This was viewed as a negative for equities because the support that lower interest rates provide equities in terms of valuation could be muted or removed.

Figure 1 shows how flat the yield curve is across the globe, with only one 10-year government bond having a higher yield than the relevant cash rate – New Zealand.

**Figure 1: 10 Year Government Bond Yields vs Cash Rates (as at 16 August)**

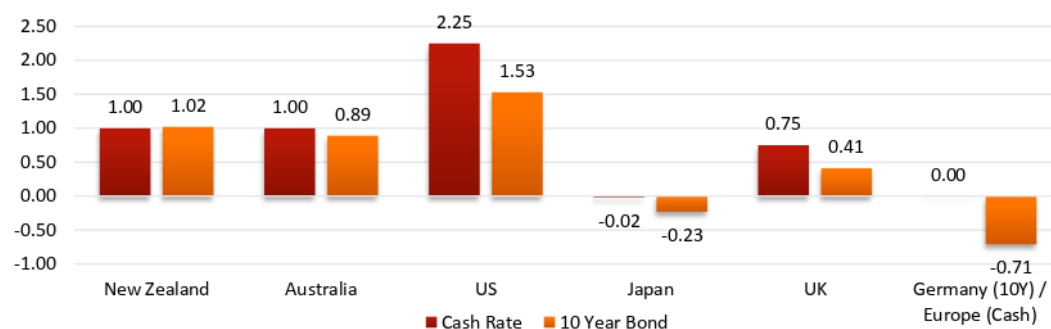


Figure 2 shows the performance of equity markets to 31 July. The key driver for the year-to-date returns has been the dovish central bank outlook. If you then add on the return for the five months previous to this (end of 2018), you get an idea of how quickly things can change in equity markets. The difference with respect to the New Zealand market returns (and perhaps Australia) less affected by the turbulence last year.

**Figure 2: Equity Market Performance 1 Year vs Year-to-Date (7 months)**



Despite strong labour market conditions currently seen in New Zealand, fears of weakening global growth and continuing trade tensions are putting downwards pressure on inflationary expectations. The Reserve Bank of New Zealand responded by cutting the OCR by 50bps to a record low of 1% at its August meeting. This was more aggressive than market expectations which had priced in a 25bps decrease. Furthermore, Adrian Orr suggested he is open to the idea of further rate cuts - even into negative territory (given the historic low allows little room for cuts). The market's reaction saw the NZX50 index gain 1.9% on the day with the chase for yield causing defensive dividend paying stocks to rise by even more (see Figure 3 below).

**Figure 3: NZ Utility Stocks on the day of 50bps OCR cut**



Source: Yahoo Finance

As the price of these defensive stocks rise, the yields fall, and thus the margin of safety investors are searching for reduces due to lower capital growth potential. At what point will the relationship between lower rates and higher prices collapse?

*"Usually, a natural course of action for an investor in a stable system is to look for abnormal variations to normal relationships, and position a portfolio to capitalise upon this variation reverting to type. This year, however, it is clear that we have neither a stable financial system nor (for the same reasons) a basis upon which to believe historic norms should be a natural order. Mean reversion is a flawed strategy when fundamental shifts occur, whether that is with respect to the cost of capital, or community and political expectations of acceptable returns for corporations and the level of acceptable penalties that can apply should those expectations be breached."*

— Andrew Fleming, Portfolio Manager, Schroders Australia



## APPENDIX 1: BENCHMARKS

### COMMUNITY INVESTMENT FUND

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

Asset Class	Manager	Fund	Benchmark
NZ Fixed Interest	Harbour	Income	NZ OCR + 3.5% p.a.
	Milford	Diversified Income	NZ OCR + 2.5% p.a.
	Mint	Diversified Income	NZ CPI + 3% p.a.
Australasian Equities	Milford	Active Growth	10% p.a.
	Mint	Trans-Tasman Equities	NZX 50 Gross Index
	Aspiring	Aspiring	NZ CPI + 4% p.a.
Australasian Private Equity	MLC	PE II	15% p.a.
	Continuity Capital	Private Equity Fund No.2 LP	NZX 50 Gross Index + 4% 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.

## INFRASTRUCTURE INVESTMENT FUND

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

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

\*Our analysis uses + 4% as the benchmark

## SHORT TERM INVESTMENT FUND

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

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

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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	0				0	0.0
	NZ Short Duration				0		
Aspiring	Aspiring	1,224,972	3,567,239	2,176,645		6,968,857	12.0
BlackRock	FIGO			1,141,799	0	1,141,799	2.0
Castle Point	5 Oceans			5,221,746	2,304,660	7,526,406	13.0
Continuity Capital	No.2 LP	1,174,214	0			1,174,214	2.0
	No.4 LP	401,513				401,513	0.7
Harbour	Income	76,418		3,662,027	1,326,495	5,064,939	8.8
Milford	Active Growth	2,817,653				10,716,634	18.5
	Diversified Income	3,405,227	1,750,860	2,399,572	343,322		
Mint	Diversified Income	1,790,931	3,862,837	3,620,461	213,705	12,329,055	21.3
	Trans-Tasman Equities		2,670,053	171,068			
MLC	PE II	656,041	0			656,041	1.1
Pioneer Capital	PCP III	377,062	0			377,062	0.7
QuayStreet	Altum		974,850			4,487,834	7.8
	Income		3,193,013		319,971		
Salt	Long Short		1,653,354			1,653,354	2.9
Schroders	Real Return + 3.5%					3,577,392	6.2
	Real Return + 5%	2,292,657		1,284,735			
Self-managed	Cash	0	0	0		0	0.0
T. Rowe Price	Global Equity Growth			1,777,661		1,777,661	3.1
<b>Total FUM</b>		<b>14,216,688</b>	<b>17,672,207</b>	<b>21,455,714</b>	<b>4,508,151</b>	<b>57,852,760</b>	<b>100</b>

Note: all values are in NZD

## FUNDS DENOMINATED IN AUD

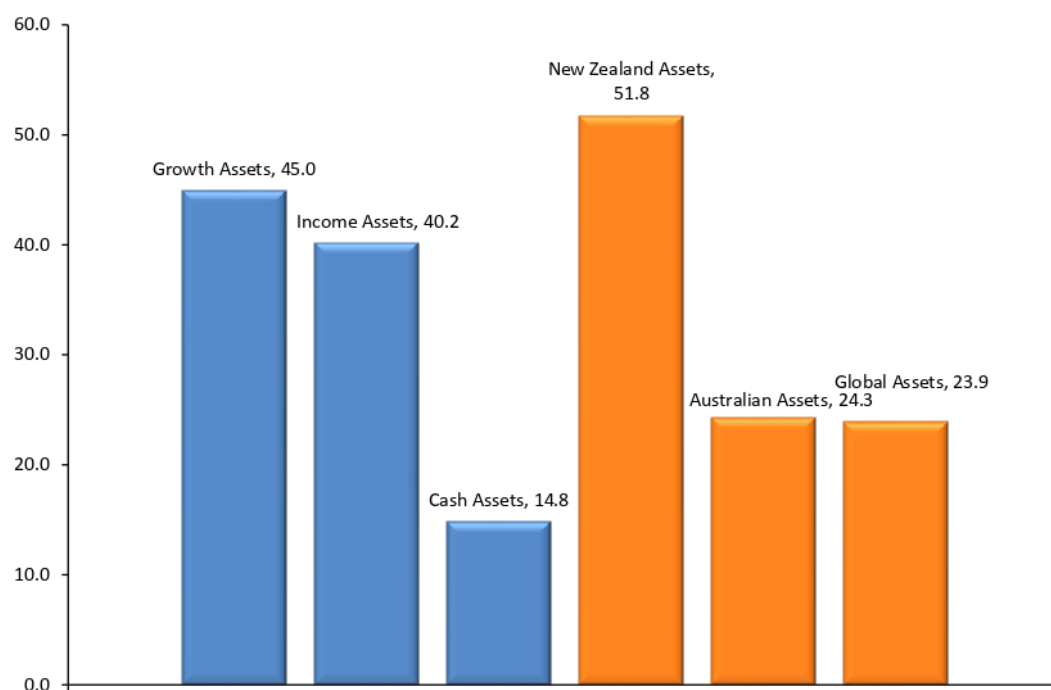
		CIF	PRF	IIF	STIF	Total AUD
BlackRock	FIGO			1,093,344	0	1,093,344
MLC	PE II	628,200	0			628,200
Schroders	Real Return + 5%	2,195,361		1,230,213		3,425,574
<b>Total AUD</b>		<b>2,823,561</b>	<b>0</b>	<b>2,323,557</b>	<b>0</b>	<b>5,147,118</b>

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

		Committed Capital \$	Called \$	Uncalled \$
Continuity Capital No.2 (NZD)	CIF	2,000,000	1,500,000	500,000
Continuity Capital No.4 (NZD)	CIF	1,000,000	400,000	600,000
MLC PE II (AUD)	CIF	1,000,000	560,000	440,000
Pioneer Capital III (NZD)	CIF	1,000,000	390,806	609,194

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#### NRC TOTAL UNDERLYING FUND ALLOCATIONS





# STATEMENT OF INVESTMENT POLICY & OBJECTIVES (SIPO) NORTHLAND REGIONAL COUNCIL INVESTMENT FUND



EFFECTIVE DATE THIS SIPO TAKES EFFECT FROM 1ST APRIL 2019  
THE SCHEDULED DATE OF THE NEXT FORMAL SIPO REVIEW IS APRIL 2020  
NORTH LAND REGIONAL COUNCIL

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## 1. INTRODUCTION

This Statement of Investment Policy and Objectives ("SIPO") directs the investments of the Northland Regional Council's Investment Fund (hereafter known as "the Fund"), as determined by the Council, in accordance with the Fund's purposes – which are to promote business development in Northland and stabilize the impact of large irregular infrastructure projects on the Council's income and capital requirements.

The SIPO is the key written document setting out the expectations, principles and goals the Council have regarding the investment of the Fund's assets, and helps ensure effective communication between the relevant stakeholders.

The Fund has arisen from two sources

The Community Investment Fund which arose from the sale of Port Company shares in 1992. It was established in March 1996 with the goal of promoting business development in Northland.

The Infrastructure Investment Fund which was created to stabilise the impact of large irregular infrastructure projects on the Council's income and capital requirements; and help spread the costs of such projects. It was also intended to provide more flexibility around when such large capital-intensive projects could commence.

For internal purposes Council will split the Fund into long term and short-term portions each with its distinct liquidity requirement and risk tolerances; those factors will underpin the investment return targets for each portion of the Fund and be reflected in the target allocations across cash, income and growth assets for each of the two portions.

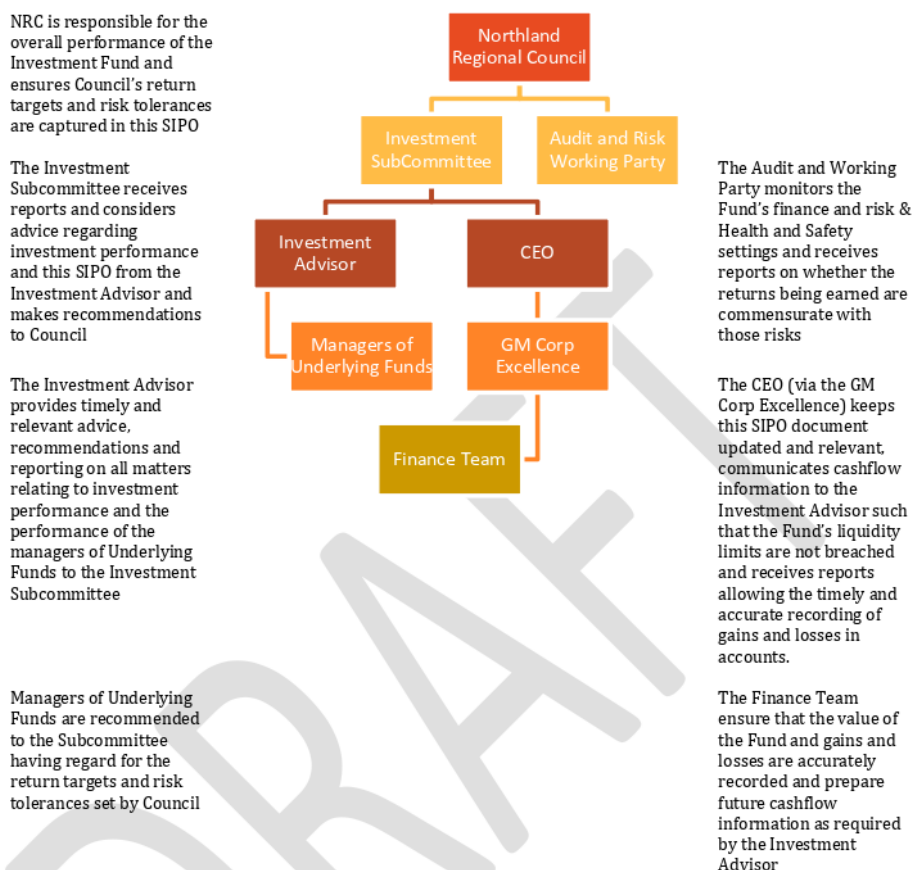
Monies that will be used in a 12-month timeframe or where there are known cash flow requirements beyond this, will be deposited in the short term fund.

Monies that will not need to be utilized within the 12 months will be placed into the Long Term Fund.

The criteria for which fund to use is therefore a factor of certainty of cash flow requirements and time frame for investment.

Council invests the Fund based on advice from its Investment Advisor in managed funds ('underlying funds') to achieve its return objectives and meet its liquidity requirements within the Council's risk tolerances and at a cost that represents value-for-money for the ratepayer.

## 2 MANAGEMENT OF INVESTMENT PERFORMANCE



## 3 INVESTMENT BELIEFS

- A clear governance structure promotes accountability and improved returns.
- Risk and return are strongly related; Council must be able to answer the question “for the risks being taken, have returns been acceptable?”
- Within any given risk limit, long term investments will out-perform short term investments. i.e. over more than one market cycle (typically, 7-10 years)
- Ethically based investments will yield similar returns (or better) than non-ethically based investments. As a responsible investor Council believes that social, environmental and governance factors are important for long term returns.



- Markets, over long horizons, operate in a largely predictable way and therefore the market signals and other information any manager uses to derive better-than-market investment returns ('alpha') are commoditised over time. Substantial long term alpha is very unlikely and too risky to pursue. Moderate alpha is possible by changing management styles and the sets of signals and information used to allocate investments; Council accepts this approach to allocations incurs fees and other costs

#### 4. RETURN, RISKS and LIQUIDITY

The returns for the Fund's investment portfolios will be managed by comparison to the portfolio weighted average of the benchmarks set for each underlying fund by that fund's manager.

Council requires the Long Term portion of the Fund to return 1.5% above that portfolio weighted average of underlying fund benchmarks.

Council requires the Short Term portion of the Fund to return 0.5% above that portfolio weighted average of underlying fund benchmarks.

The overall risk tolerance is low; Council seeks to maximise returns (so that council operations and projects can be funded without over reliance on ratepayers) while minimising the risk of loss of its capital in any 3-year period (which should correspond to the local election cycle) ie unless decided otherwise by Council the Fund value that each new council inherits must be preserved to pass on to the next council plus any un-utilised gains. This stance on risk may entail the 'cashing up' of gains mid cycle to meet the objective of passing on a higher fund value to a future council.

The Long-Term portion of the Fund has low transaction frequency and therefore can earn the return premiums associated with illiquid investments.

The cash outflows associated with the Short-Term portion of the Fund are certain and cannot be jeopardised, all known future cash flows will be communicated regularly to the Investment Advisor who shall make recommendations on allocation changes and transfers between the two portions of the Fund to ensure availability of required cash.

#### 5. RISK

- a. The Fund has identified the following non-exhaustive list of major investment risks:
  - inflation risk;
  - interest rate risk;
  - currency risk;
  - credit risk;
  - financial risk;
  - liquidity risk;
  - operational risk; and
  - market Risk.

- b. Investment risk will be mitigated by appropriate diversification and managed both within and between asset classes and among managers. No single fund manager may hold more than 20% of the Fund.
- c. Not more than 5% of the Fund's assets may be invested in securities related to, or guaranteed by, a single entity without specific consideration & approval by the Council (unless it is a clear guarantee from a nation with a Standard & Poor's {or Moody's / Fitch equivalent} long term rating of at least AA-).
- d. The risk of each investment should be measured separately, as well as how it changes the risk/return characteristics of the Fund overall and reported on quarterly.
- e. The Council have determined the risk tolerances and return outcomes they are most comfortable with. This has allowed any significant divergences in risk tolerance by the Council to be reconciled along with a consistent risk adjusted approach to investment decisions.
- f. Council accepts that despite risk management the Fund's capital and income returns may fluctuate, and this may impact the level of income that is available for distributions and project funding. Recipients of distributions and project funding will therefore be subject to investment risk.
- g. For the purposes of the following constraints regarding derivatives, "Portfolio" is taken to mean an Underlying Fund under the management of an individual Manager. Each Manager is entitled to make use of derivative contracts to protect the capital value of portfolios and gain exposure to appropriate markets. Each Manager is entitled to make use of derivative contracts to reduce transaction cost and improve liquidity by using derivative contracts to take a position which would otherwise have been taken by buying or selling physical stock.

## 6. HORIZON

The performance of the Fund overall will be assessed over a rolling seven-year time horizon. Council also has a three-year political cycle and each Council will strive to increase the returns on investment to each incoming Council.

## 7. CONFLICTS OF INTEREST

Council has a conflicts of interest policy applicable to councillors, staff and advisors to council. All conflicts, potential or real, must be declared and recorded, as soon as possible.

## 8. ENVIROMENTAL, SOCIAL AND GOVERNANCE POLICIES

Council holds financial assets on behalf of the community- Accordingly investing ethically and responsibly is an important issue. Council doesn't wish to hold Investments in,

- Fossil Fuels
- Alcohol
- Tobacco
- Gambling
- Military Weapons
- Civilian firearms
- Nuclear power
- Adult Entertainment

## 9. GOVERNANCE

Governance will set the investment objectives for the fund, risk tolerance, authorities and responsibilities. These will be monitored quarterly.

a. The **Council** will be responsible for the following:

- Taking decisions on investment strategy, having regard to the overall circumstances of the Fund, and complying with all applicable legislative requirements.
- Putting in place appropriate governance, management structures and processes in line with the Fund given both the types of investment assets under management, and adherence to good practice.
- Reviewing and approving this SIPO, including the instructions to the Managers and Investment Consultant.
- Determining the appropriate number of managers, and selecting and changing those managers as appropriate on the advice of the Investment Consultant.
- Approving relevant internal and external benchmarks for assessing financial/investment performance.
- Periodic assessment of whether the Council's Conflicts of Interest Policy has been met (e.g. staff and Councilors' trading on their personal account, identification and management of related party investments).

b. The **Investment Subcommittee** will be responsible for the following:

- Provide oversight and assistance to the Council on investment activities within the established limits of this SIPO, ensuring external accountabilities and responsibilities are fulfilled.
- Make recommendations to the Council on investment matters in conjunction with the advice of the Investment Consultant.

c. The **Investment Advisor** will be responsible for providing the following services:

- Review this SIPO at least once each calendar year or sooner if there is a material change in the Fund's circumstances.
- Monthly Fund performance review and monitoring against agreed targets in respect of the Fund's investible assets as well provision of an economic and investment market commentary. The principal goals of performance monitoring are to:
- Assess the extent to which the Fund's investment objectives are being achieved. Allow the Council to continually assess the ability of each Manager to successfully meet the Fund's objectives.

- Monitor Managers' performance quarterly with a view to an annual evaluation of Rolling three-year results.
- Review Managers' roles on a regular basis. Factors considered in these reviews will include investment style, resources, organisational strength, investment performance relative to objectives, and any other factors considered relevant to the Managers' continuing ability to meet the applicable investment objective.
- Provide quarterly reporting in a format agreed between the Investment Advisor and the Investment Subcommittee.
- Provide information on socially responsible investment issues in the Fund on a timely basis after 30 June and 31 December each year, subject to receiving information from the relevant Managers.
- Undertaking such other actions as may be agreed with the Fund from time to time, including recommending rebalancing to take into account market movements or cash flow requirements.
- Each Underlying Fund **Manager** will be responsible for the following:
  - Managing its portion of the Fund's investments in accordance with the investment management agreements and/or governing documents referred to in the application form(s).
  - Selecting securities within each asset class, subject to the constraints imposed in relevant fund documentation and in any applicable legislation.
  - Managers must notify the Investment Advisor (and through the Investment Advisor, the Investment Subcommittee) promptly of the reasons for any significant deviation to their mandate and the date or dates of the deviation occurring.
  - Supplying to the Council and Investment Advisor any reports of the Underlying Fund's performance in advance of the Investment Subcommittee's regular meetings and at the Council's request, participating in those meetings to review the written reports. The reports shall contain such information and in such format as agreed with the Council, but must contain sufficient information to enable the annual accounts compiled and any necessary tax calculations to be undertaken.
- Participating, when required by the Investment Advisor, in the annual review of this SIPO
- Ethically based investments will yield similar returns (or better) than non-ethically based investments.
- Markets, over long horizons, operate in a largely predictable way. Therefore exceeding the long term average therefore difficult and carries more inherent risk
- Diversification across asset classes and fund managers will reduce risk.

## 10. INVESTMENT POLICIES

### Currency Hedging

Council will not hedge funds.

Underlying Fund Managers may at their discretion hedge foreign currency denominated investments back to the New Zealand dollar.

### Rebalancing

The asset allocation of the funds will be monitored on a monthly basis by council's Investment advisors. The Investment Advisor is required to provide timely advice to the Investment Subcommittee where funds are within 5% of the maximum of their range.

## 11. FEES

Returns shown in monthly/quarterly reporting to Council should be after fees and taxes. Any commissions paid by fund managers must be declared to Council

### SCHEDULE 1 SHORT TERM FUND

The Fund was derived by consolidating the Property Reinvestment Fund and Infrastructure Investment Fund, Short term investment Fund.

#### Target Returns and Risk Tolerance

Because the cash requirements from this portion of the Fund cannot be put at risk, Council does not permit asset allocations that put the chance of a negative return in any year at more than once in years and accordingly sets a return target of 2% above the New Zealand Official Cash Rate ('OCR').

#### Benchmark Asset Allocations and Range

Asset Class	Benchmark Asset Allocations	Range
NZ Fixed Interest	35%	0-50%
International Fixed Interest	45%	0-50%
Total Income Assets	80%	
Australasian Equities	20%	0-20%
International Equities	0%	0%
Total Growth Assets	20%	

Fund Managers and Underlying Fund Benchmarks (to comprise the portfolio weighted average return)

Manager	Fund	Benchmark (p.a.)
Castle Point	5 Oceans	NZ CPI + 3%
Harbour	Income	NZ OCR + 3.5%
Milford	Diversified Income	NZ OCR + 2.5%
Mint	Diversified Income	NZ CPI + 3%
Mint	Trans-Tasman Equities	S&P /NZX 50 Index
QuayStreet	Income	NZ OCR + plus 2%
Milford	Active Growth	10%

*Note: These objectives were correct as at the date of this SIPO, but are subject to be changed without notice by Underlying Fund Managers.*

## SCHEDULE 2 LONG TERM FUND

The Fund was derived by consolidating the Community Investment Fund and Infrastructure Investment Fund.

### Target Returns and Risk Tolerance

Being long term (>20years), this portion of the fund can tolerate some risk and in doing so earn higher returns. Council allows asset allocations that put the chance of a negative return in any year at once in 7 years and accordingly sets a real return target of 6% after assuming inflation of 2.5%.

### Benchmark Asset Allocations and Range

Asset Class	Benchmark Asset Allocations	Range
Cash & Cash Equivalents	5%	0-40%
NZ Fixed Interest	45%	25-65%
International Fixed Interest	0%	0%
Total Income Assets	50%	25-75%
Australasian Equities	25%	15-35%
Australian Private Equities	5%	0-10%
International Equities	20%	10-30%
Total Growth Assets	50%	25-75%

Fund Managers and Underlying Fund Benchmarks (to comprise the portfolio weighted average benchmark)

Manager	Fund	Objective (p.a.)
Aspiring	Aspiring Fund	NZ CPI + 4%
Blackrock	Fixed Income Global Opportunities	Bloomberg AusBond Bank Bill Index plus 4%
Castle Point	5 Oceans	NZ OCR + 3%
Continuity Capital	PE Fund No.2 LP	15%
Continuity Capital	PE Fund No.4 LP	15%
Harbour	Income	NZ OCR + 3.5%
Milford	Active Growth	10%
Milford	Diversified Income	NZ OCR + 2.5%
Mint	Diversified Income	NZ CPI + 3%

<b>Mint</b>	Diversified Growth	<b>CPI + 4.5%</b>
<b>MLC</b>	PE II	<b>15%</b>
<b>Pioneer Capital</b>	III	<b>8%</b>
<b>Salt</b>	Long Short	<b>NZ OCR + 5%</b>
<b>Schroder</b>	Real Return Fund CPI + 5%	<b>Australian CPI (Trimmed Mean) + 5%</b>
<b>T. Rowe Price</b>	<b>Global Equity Growth</b>	<b>MSCI All Country World Index</b>

*Note: These objectives were correct as at the date of this SIPO, but are subject to be changed without notice by Managers.*

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