

Investment and Property Subcommittee
Wednesday 22 February 2023 at 1pm

AGENDA

Investment and Property Subcommittee Agenda

Meeting to be held in the Council Chamber
36 Water Street, Whangārei
on Wednesday 22 February 2023, commencing at 1pm

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

MEMBERSHIP OF THE INVESTMENT AND PROPERTY SUBCOMMITTEE

Chairperson, NRC Councillor, Rick Stolwerk

Councillor Jack Crow

Councillor John Blackwell

Councillor Geoff Crawford

Councillor Peter-Lucas Jones

Independent Consultant Jonathan Eriksen
Independent Advisor Stuart Henderson

KARAKIA / WHAKATAU

RĪMITI (ITEM)

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1.0 NGĀ MAHI WHAKAPAI/HOUSEKEEPING

2.0 NGĀ WHAKAPAHĀ/APOLOGIES

3.0 NGĀ WHAKAPUAKANGA/DECLARATIONS OF CONFLICTS OF INTEREST

4.0 REPORTS

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| 5.1 | For Noting Only: Confidential Investment and Property Sub-committee meeting minutes | |
| 5.2 | Update on Council's Current Redevelopments and Other Property Matters | |
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| 5.5 | Introduction of Greenmount Capital Co-Investment Fund into the Long-Term Investment Fund | |

Investment and Property Subcommittee
29 June 2022

Investment and Property Subcommittee Minutes

Meeting held in the Council Chamber
36 Water Street, Whangārei
on Wednesday 29 June 2022, commencing at 1.00pm

Tuhinga/Present:

Chairperson, NRC Councillor, Rick Stolwerk
Ex-Officio Penny Smart
Councillor Colin Kitchen
Councillor Jack Crow
Councillor Terry Archer
Independent Consultant Jonathan Eriksen
Independent Advisor Stuart Henderson

I Tae Mai/In Attendance:

Full Meeting
Pou Taumatua - GM Corporate Services
Tumuaki – Chief Executive Officer
Pou Tiaki Taiao – GM Environmental Services
Strategic Projects and Facilities Manager
Financial Accountant
Accounting Assistant
EriksensGlobal – Janibek Issagulov
Administration Support

The Chair declared the meeting open at 1.00pm with a Karakia by Councillor Stolwerk

Ngā Mahi Whakapai/Housekeeping (Item 1.0)

Ngā whakapahā/Apologies (Item 2.0)

Moved (Rick Stolwerk /Terry Archer)

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

Carried

Nga whakapuakanga/Declarations of Conflicts of Interest (Item 3.0)

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

Investment and Property Subcommittee
29 June 2022

Confirmation of Minutes - 30 March 2022 (Item 4.1)

Report from Judith Graham, Corporate Services P/A

Moved (Rick Stolwerk/Jack Crow)

That the minutes of the Investment and Property Subcommittee meeting held on 30 March 2022 be confirmed as a true and correct record.

Carried

Receipt of Action Sheet (Item 5.1)

Report from Judith Graham, Corporate Services P/A

Secretarial Note: Item 5.1 Apologies it was not on the Agenda. GM Corporate Services addressed this.

Performance of Councils Externally Managed Funds to 31 May 2022 (Item 6.1)

Report from Vincent McColl, Financial Accountant

Moved Rick Stolwerk/Colin Kitchen

That the report 'Performance of Councils Externally Managed Funds to 31 May 2022 ' by Vincent McColl, Financial Accountant and dated 20 June 2022, be received.

Carried

Secretarial Note: The breach of SIPO limits for both the STF and the LTF were noted to be for reasonable financial reasons given market volatility and there are plans in place to get the specific investments back within the SIPO limits

Northland Regional Council Environmental, Social, and Governance Targets (Item 6.2)

Report from Judith Graham, Corporate Services P/A

Moved: Rick Stolwerk/Jack Crow

EriksenGlobe report was discussed . There was consensus we are on track with our environmental, social, and governance targets.

Moved

Kaupapa ā Roto/Business with Public Excluded (Item 7.0)

Moved (Rick Stolwerk /Jack Crow)

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

Investment and Property Subcommittee
29 June 2022

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
7.1	Confirmation of Confidential Minutes - 30 March 2022	The public conduct of the proceedings would be likely to result in disclosure of information, as stated in the open section of the meeting -.
7.2	Investment and withdrawal between fund managers	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h).
7.3	Update on Council's Current Redevelopments and Other Property Matters	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(b)(ii), the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).

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

Carried

Whakamutunga (Conclusion)

The meeting concluded at 2.42pm led by a Karakia by Councillor Stolwerk

TITLE: Performance of Councils Externally Managed Funds to 31 December 2022

From: Simon Crabb, Finance Manager

Authorised by Group Manager/s: Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on 07 February 2023

Whakarāpopototanga / Executive summary

For the 6 months to the end of December 2022, councils externally managed fund portfolio has generated gains of \$1.15m compared to the corresponding budget of \$2.2m.

A summary of the returns and target objectives for the 6 months ending 31 December for councils 2 managed funds is presented below, with the supporting detail and fund performance for longer periods contained in the attached EriksensGlobal Report (Attachment 1).

6 Months Ending 31 December 2022	Long Term Fund (LTF)	Short Term Fund (STF)
Fund Return %	1.2%	3.9%
Fund Objective %	4.4%	3.1%
Fund Over / (Under) Performance	-3.2%	0.8%

Jonathan Eriksen from EriksensGlobal will be joining in via Zoom to provide a financial market update and answer any questions.

All monthly, quarterly and year to date (YTD) return percentages in this report and its attachment are **not** annualised.

Ngā mahi tūtohutia / Recommendation

That the report 'Performance of Councils Externally Managed Funds to 31 December 2022' by Simon Crabb, Finance Manager and dated 3 February 2023, be received.

Background/Tuhinga

At 31 December 2022, the LTF has an overall market value of \$61.9m, comprising of funds attributable to:

- Economic Development of \$17.0m,
- Property Reinvestment of \$26.8m,
- Regional Project Development of \$14.3m.
- Rates collected for Debt repayment and Depreciation \$3.8m

The LTF has performed as follows:

LTF	1 month		Quarter		YTD						1 year			5 year	
	Return	Objective	Return	Objective	Return	Objective	Budget	Return \$	Budget \$	Var \$	Return	Objective	Budget	Return	Objective
	-1.2%	0.7%	0.2%	2.2%	1.2%	4.4%	3.0%	\$0.7M	\$1.9M	(\$1.1M)	-4.3%	9.0%	\$3.8M	6.4%	7.9%

Short Term Investment Fund (STF)

At 31 December 2022, the STF has an overall market value of \$7.6m, comprising funds attributable to:

- Working capital requirements of \$6.1m
- Property Reinvestment of \$1.4m.
- Investment and Growth reserve requirements of \$82k

The STF has performed as follows:

STF	1 month		Quarter		YTD						1 year			5 year	
	Return	Objective	Return	Objective	Return	Objective	Budget	Return \$	Budget \$	Var \$	Return	Objective	Budget	Return	Objective
	-0.6%	0.6%	2.4%	1.7%	3.9%	3.1%	2.1%	\$409K	\$340K	\$68K	-2.8%	5.2%	\$671K	4.7%	4.4%

Non-compliance with the Statement of Investment Policy and Objectives (SIPO) At 31 December 2022, the Long-Term Investment Fund allocation to the Global Equities was 4.3% which is slightly below its lower limit of 5%. This under allocation is due to reducing exposure to currently volatile global equities to help de-risk the portfolio. This discrepancy from SIPO will be remedied when global equities markets are expected to grow again.

Attachments/Ngā tapirihanga

Attachment 1: EriksensGlobal Report December 2022 [↓](#) 

ERIKSENSGLOBAL

Actuaries & Investment Strategists

NORTHLAND REGIONAL COUNCIL

EXTERNALLY MANAGED

INVESTMENT FUNDS

QUARTERLY REPORT 31 DECEMBER 2022

19 JANUARY 2023

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ERIKSENSGLOBAL.com

Auckland

2 Burns Avenue Takapuna
PO Box 33-1318 Takapuna 0740
p: +64 9 486 3144
auckland@eriksensglobal.com

Wellington

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

TITLE: **Responsible Investment Report - December 2022**

From: Simon Crabb, Finance Manager

Authorised by Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on 14
Group Manager/s: February 2023

Whakarāpopototanga / Executive summary

Responsible investing, also known as ethical investing or sustainable investing, is a holistic approach to investing, where social, environmental, corporate governance (ESG) and ethical factors are considered alongside financial performance when making an investment decision.

Councils Statement of Investment Policy and Objectives (SIPO) is the key document that sets out council's responsible investment expectations in regard to its externally managed fund portfolio. Specifically, transitioning away from any investments listed below over a five-year time horizon:

- Fossil fuels (exploration, extraction and processing)
- Alcohol
- Tobacco
- Gambling
- Military weapons
- Civilian firearms
- Nuclear power
- Adult entertainment

The EriksensGlobal responsible investment report as at 31 December 2022 is **attached**. This report presents councils exposure to restricted investments, as well as investments in companies that support environmental sustainability.

Ngā mahi tūtohutia / Recommendation

That the report 'Responsible Investment Report - December 2022' by Simon Crabb, Finance Manager and dated 1 February 2023, be received.

Attachments/Ngā tapirihanga

Attachment 1: Responsible Investment Report December 2022 [↓](#) 

TITLE: QuayStreet Income Fund - recommended approach to cashing out investment

From: Simon Crabb, Finance Manager

Authorised by Group Manager/s: Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on 07 February 2023

Executive summary/Whakarāpopototanga

QuayStreet Income Fund (QuayStreet) is a fund manager within councils Short Term Investment Fund (STF). At 31 December 2022, councils investment in QuayStreet totalled NZ\$1,505,759.

Due to the sale announcement of QuayStreet to Smartshares Limited and the pending departure of 2 key QuayStreet personnel, council’s independent investment advisor (EriksensGlobal) has recommended that council’s entire investment in QuayStreet is withdrawn and re-invested as follows:

- \$255k invested into the STF Harbour Income Fund
- \$250k invested into STF Milford Diversified Income Fund
- \$500k invested into 6-month STF Term Deposit (at time of writing = 4.7% pa return)
- And the balance into a 1-year STF Term Deposit (at time of writing = 5.3% pa return)

The performance summary of the QuayStreet, Harbour, and Milford Income funds to 31 December 2022 is presented below:

	1 Month %	Quarter %	YTD %	1 Year %	3 Year (p.a.) %	5 Year (p.a.) %
QuayStreet Income	0.4	2.3	3.1	(0.7)	1.8	3.4
Benchmark	0.5	1.5	2.7	4.4	3.0	3.2
Value Added	(0.1)	0.8	0.4	(5.1)	(1.2)	0.2
Harbour Income	(0.8)	1.2	1.4	(4.1)	3.4	
Benchmark	0.6	1.8	3.4	5.9	4.5	
Value Added	(1.4)	(0.6)	(2.0)	(10.0)	(1.1)	
Milford Diversified Income	0.2	3.5	5.2	(1.5)	2.6	4.8
Benchmark	0.5	1.6	2.9	4.9	3.5	3.7
Over / Underperformance	(0.3)	1.9	2.3	(6.4)	(0.9)	1.1

Councils Treasury Management policy delegates the responsibility for withdrawing and investing between fund managers (in line with the SIPO) to the Investment and Property Subcommittee.

Recommendation(s)

1. That the report ‘QuayStreet Income Fund - recommended approach to cashing out investment’ by Simon Crabb, Finance Manager and dated 3 February 2023, be received.
2. That council’s entire investment in QuayStreet Income Fund is withdrawn and reinvested in line with the EriksensGlobal recommendation of:
 - \$255,000 invested into the STF Harbour Income Fund
 - \$250,000 invested into STF Milford Diversified Income Fund
 - \$500,000 invested into 6-month STF Term Deposit
 - with the balance invested into a 1-year STF Term Deposit

Options

No.	Option	Advantages	Disadvantages
1	Undertake the recommended withdrawal and reinvestment of funds currently invested in the QuayStreet income fund	Reduce exposure to Quaystreet and any associated volatility that may result from a change in investment style (active management to passive management) and the departure of 2 key staff.	Term deposits require a notice period to break and liquidate, and longer-term deposits can be vulnerable to inflation
2	Do not proceed with the recommended withdrawal and reinvestment of funds currently invested in the QuayStreet income fund	Maintain liquidity of funds not transferred into term deposits	Carry a risk that increased volatility will result from a change in investment style (active management to passive management) and the departure of 2 key Quaystreet staff.

The staff's recommended option is 1.

Considerations

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

1. Financial implications

Overall, the return target and risk tolerance profile of the Short-Term Investment Fund will remain unchanged as a result of adopting the recommendation contained in this report

2. Implementation issues

If adopted the recommended treasury transactions will be processed immediately.

3. Significance and engagement

In relation to section 79 of the Local Government Act 2002, this decision is considered to be of low significance when assessed against council's Significance and Engagement Policy because it is part of council's day to day activities. This does not mean that this matter is not of significance to tangata whenua and/or individual communities, but that council is able to make decisions relating to this matter without undertaking further consultation or engagement.

4. Policy, risk management and legislative compliance

The activities detailed in this report are in accordance with council's Treasury Management Policy, and the 2021-31 Long Term Plan, both of which were approved in accordance with council's decision-making requirements of sections 76–82 of the Local Government Act 2002.

The Investment and Property Subcommittee is responsible for approving withdrawals and Investments between fund managers that are in line with council's current Statement of Investment Policy and Objectives (SIPO).

Background/Tuhinga

In November 2022, NZX Limited announced that its 100% owned subsidiary Smartshares Limited had signed an agreement to acquire the management rights of QuayStreet Asset Management (and its \$1.6 billion in funds under management) from Craigs Investment Partners for \$31.25m. Whereas currently QuayStreet is an actively managed fund, Smartshares Limited is a passive manager of funds who do not actively adjust their asset mix according to changing market conditions. As a result of this announcement and the shift in investment philosophy EriksensGlobal revised their rating for the QuayStreet Income Fund from a “Buy” rating to a “Hold” rating.

Subsequent to the sale announcement EriksensGlobal was informed that Andrew South, Director and Chief Investment Officer would be leaving QuayStreet on 23 February 2023, and Roy Cross, Senior Analyst and Portfolio Manager of the Income Fund and Fixed Interest Fund would be leaving on 30 March 2023. As a result of the pending departure of these key individuals EriksensGlobal revised their rating for the QuayStreet Income Fund to a “**Sell**” rating.

The sell-down strategy recommended by EriksensGlobal is to transfer all the funds invested in the QuayStreet Income Fund (Short Term Fund December 2022 valuation: \$1,506k) as follows:

- \$255k invested into the STF Harbour Income Fund
- \$250k invested into STF Milford Diversified Income Fund
- \$500k invested into 6-month STF Term Deposit Fund
- And the balance into a 1-year STF Term Deposit Fund

Attachments/Ngā tapirihanga

Attachment 1: EriksensGlobal recommendation to withdraw and reinvest the funds held in the QuayStreet Income Fund [↓](#) 

TITLE: Tāika Forest/Mount Tiger Forest Management Plan – Reporting Actual Performance Against Targets 2021/2022

From: Phil Heatley, Strategic Projects and Facilities Manager and Donna Cooper, Property Officer

Authorised by Group Manager/s: Bruce Howse, Pou Taumatua – Group Manager Corporate Services, on 09 February 2023

Whakarāpopototanga / Executive summary

This item is to present the actual performance of council's Tāika Forest/Mount Tiger forestry holding against the prescribed actions of the Forest Management Plan and Budget for the 2021/2022 financial year. Northland Forest Managers, providing forestry operations and management services for council, will be present to answer any detailed queries.

Ngā mahi tūtohutia / Recommendation

That the report 'Tāika Forest/Mount Tiger Forest Management Plan – Reporting Actual Performance Against Targets 2021/2022' by Phil Heatley, Strategic Projects and Facilities Manager and Donna Cooper, Property Officer and dated 26 January 2023, be received.


Background/Tuhinga

The performance against targets for the 2021/2022 year is attached (Attachment A). Key points to note are as follows:

- a) The forestry holding was valued at \$4,145,000 as of 30 June 2022.
- b) Council held a total of 17,460 NZETS Units (New Zealand Emissions Trading Scheme) as of 30 June 2022 valued at \$1,326,960 (\$76.00 per unit). This results in a non-cash revaluation gain of \$567,974 from the previous year.
- c) There was no harvest for the 2021/2022 year, the last was in 2018/2019. The next harvest is likely to take place in the next few years in order to take advantage of economies of scale where two stands are harvest ready. An added benefit is that log prices may have stabilized over that time.
- d) Aerial releasing of the area planted in 2020 was not required as the trees are ahead of the competing weeds.
- e) No foliage sampling was undertaken, and this was an oversight. Previous years foliage sampling results indicate it is unlikely that significant deterioration in tree growth would have occurred. Northland Forest Managers intend to undertake foliage sampling in 2022/2023.
- f) The pest control budget was underspent as the activity is also now funded through the Kiwi Link HVA (High Value Area) programme which encompasses Tāika Forest.
- g) Due largely to 'no harvest' and the underspent items above, forest costs were \$50,120 less than budget.
- h) In December 2021 and June 2022, the clearing of trees, removal of slips, and repair to fence post and rails was required
- i) Overall, the forest health remains good, and no corrective actions were required in the 2021/2022 financial year.

The contract with Northland Forest Managers comes up for renewal in June 2023. At that time the Property Team will consider whether to re-engage an independent consultant to liaise with the operator/manager as was the practice up until recently.

Attachments/Ngā tapirihanga

Attachment 1: Performance Against Targets 2021/2022 [↓](#) 

TITLE: Business with the Public Excluded

Whakarāpopototanga / 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.

Ngā mahi tūtohutia / 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	For Noting Only: Confidential Investment and Property Sub-committee meeting minutes	The public conduct of the proceedings would be likely to result in disclosure of information, as stated in the open section of the meeting -.
5.2	Update on Council's Current Redevelopments and Other Property Matters	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(b)(ii), the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.3	Proposal for Property Redevelopment	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to protect information where the making available of the information would be likely unreasonably to prejudice the commercial position of the person who supplied or who is the subject of the information s7(2)(b)(ii), the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h) and the withholding of which is necessary to enable council to carry on, without prejudice or disadvantage, negotiations (including commercial and industrial negotiations) s7(2)(i).
5.4	Future Management of Tāika Forest	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out, without prejudice or disadvantage, commercial activities s7(2)(h).
5.5	Introduction of Greenmount Capital Co-Investment Fund into the Long-Term Investment Fund	The public conduct of the proceedings would be likely to result in disclosure of information, the withholding of which is necessary to enable council to carry out,

		without prejudice or disadvantage, commercial activities s7(2)(h).
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3. That the Independent Financial Advisors be permitted to stay during business with the public excluded.
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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.