



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



**EFFECTIVE DATE: THIS SIPO TAKES EFFECT FROM 1 FEBRUARY 2021  
THE SCHEDULED DATE OF THE NEXT FORMAL SIPO REVIEW IS JANUARY  
2022 NORTHLAND 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

1. CIF for the purpose of generating revenue to support economic development.
2. IIF for funds held for the smoothing of infrastructure expenditure.
3. PRF for purposes of reinvestment in property of timeframes longer than 12 months.
4. Loan repayment reserves for rates being accumulated for future debt repayments.
5. Depreciation reserves for rates collected to fund future maintenance.
6. General Equity of the Council reserves with no allocated purpose.
7. Working Capital being both operation and capital liquidity budgeted to be expensed with a 12-month period or a definite payment date.

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 four primary 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 economic and community 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.
- The Property Re-investment Fund which arose out of the sale of commercial properties and used to earmark funds for approved property investments in future but achieve inflation proofed rental-like yields to subsidise Council operations in the meantime.
- The Short Term Investment Fund to create transparency and govern the working capital assets of the Council by investing in a diversified selection of defensively orientated managed funds.

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 is budgeted to be used in a 12-month timeframe or where there are known cash flow

and operational 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. The funds are to be rebalanced twice a year in February and August of each year based on the budgets as approved by Council at that time.

Council invests the Fund based on advice from its Investment Advisor and Chief Executive 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

NRC is responsible for the overall performance of the Investment Fund and ensures Council's return targets and risk tolerances are captured in this SIPO

The Investment Subcommittee receives reports and considers advice regarding investment performance and this SIPO from the Investment Advisor and makes recommendations to Council

The Investment Advisor provides timely and relevant advice, recommendations and reporting on all matters relating to investment performance and the performance of the managers of Underlying Funds to the Investment Subcommittee

Managers of Underlying Funds are recommended to the Subcommittee having regard for the return targets and risk tolerances set by Council



The Audit and Working Party monitors the Fund's finance and risk & Health and Safety settings and receives reports on whether the returns being earned are commensurate with those risks

The CEO (via the GM Corp Excellence) keeps this SIPO document updated and relevant, communicates cashflow information to the Investment Advisor such that the Fund's liquidity limits are not breached and receives reports allowing the timely and accurate recording of gains and losses in accounts.

The Finance Team ensure that the value of the Fund and gains and losses are accurately recorded and prepare future cashflow information as required by the Investment Advisor

## 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 that an active management approach to allocations incurs fees and other costs but consider these to be less than the alpha generated.

#### 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 the objective specified in Schedule 2. Over the long term this is approximately 6.5% (which is inflation of 2% plus 4.5%).

Council requires the Short Term portion of the Fund to the objective specified in Schedule 1. As at the date of the SIPO this was approximately 4.6% (which is the 90-day bank bill index return of 1.6% plus 3%).

The overall risk tolerance is low for the Short Term portion of the Fund, but higher for the Long Term portion of the Fund due to its longer time horizon and lower transaction frequency; 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) i.e. 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 has a higher risk profile and 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. The transfers will generally occur in February and August each year.

#### 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. 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.
  - d. 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.
  - e. 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.
  - f. For the purposes of the following constraints regarding derivatives, "Portfolio" is taken to mean an Underlying Fund under the management of an individual Manager.
  - g. Each Manager is entitled to make use of derivative contracts to protect the capital value of portfolios and gain exposure to appropriate markets.
  - h. 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.
  - i. Council will oversee the currency risk associated with NZ denominated investments and council will only hedge any foreign exchange risk associated with Non-NZ denominated investments subject to the advice of councils independent Treasury advisors.
  - j. The Council believes the illiquidity premium available in unlisted markets should be utilised more widely towards the end of market cycles.

## 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 (exploration, extraction and processing)
- Alcohol
- Tobacco
- Gambling
- Military Weapons
- Civilian firearms
- Nuclear power
- Adult Entertainment

Council intends to transition away from any investments listed above into responsible investments over a five year time horizon. Broadly this means transitioning to Environmental, Social and Governance (ESG) investments.

## 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 fund managers and Investment Advisor.
- Determining the appropriate number of managers, and selecting and changing those managers as appropriate on the advice of the Investment Advisor.
- 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 Advisor.

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.

d. 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.

- Supplying the Council and Investment Advisor with information concerning environmentally sensitive assets at regular intervals.
- Participating, when required by the Investment Advisor, in the annual review of this SIPO
- The asset allocation of the funds will be monitored on a monthly basis by council's Investment Advisors and a report provided to the Chief Executive. The Investment Advisor is required to provide timely advice to the Investment Subcommittee on a quarterly basis.

## 10. 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

## 11. SCHEDULE 1 SHORT TERM 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 20 years and accordingly sets a return target of 3% above the 90-day Bank Bill index after fees (over 12 month rolling periods).

### Managers and Asset Allocations Benchmarks

Short Term Investment Fund	Benchmark %	Target Ranges %
<b>Growth Assets</b>	<b>20</b>	<b>0 - 40</b>
<b>Diversified Growth</b>	<b>20</b>	<b>0 - 40</b>
Castle Point 5 Oceans	10	0 - 20
Milford Active Growth	5	0 - 20
Mint Diversified Growth	5	0 - 20
<b>Income Assets</b>	<b>80</b>	<b>60 - 100</b>
<b>Diversified Income</b>	<b>80</b>	<b>60 - 100</b>
Harbour Income	20	0 - 30
Milford Diversified Income	20	0 - 30
Mint Diversified Income	20	0 - 30
QuayStreet Income	20	0 - 30
<b>Cash</b>	<b>0</b>	<b>0 - 20</b>
Self-Managed	0	0 - 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%
Milford	Active Growth	10%
Mint	Diversified Income	NZ CPI + 3%
Mint	Diversified Growth	NZ CPI + 4.5%
QuayStreet	Income	NZ OCR + 2%

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

## 12. SCHEDULE 2 LONG TERM FUND

### Target Returns and Risk Tolerance

Being long term (>10 years), 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 4.5% after assuming inflation of 2.0%.

### Managers and Asset Allocations Benchmarks

Long Term Investment Fund	Benchmark %	Target Ranges %
<b>Growth Assets</b>	<b>67</b>	<b>50 - 85</b>
<b>Diversified Growth</b>	<b>35</b>	<b>25 - 70</b>
Aspiring	8	5 - 15
Castle Point 5 Oceans	15	10 - 20
Milford Active Growth	5	0 - 10
Mint Diversified Growth	5	0 - 10
Schroders Real Return CPI + 5%	2	0 - 5
<b>Global Equity</b>	<b>7</b>	<b>5 - 20</b>
<b>Nanuk New World</b>	<b>2</b>	<b>0 - 5</b>
T. Rowe Price Global Equity Growth	5	0 - 10
<b>Private Equity</b>	<b>25*</b>	<b>0 - 35*</b>
Continuity Capital PE Fund No.2 LP	3	0 - 8
Continuity Capital PE Fund No.4 LP	3	0 - 8
Continuity Capital PE Fund No.5	3	0 - 8
Continuity Capital PE Fund No.6 LP	3	0 - 8
Direct Capital VI	3	0 - 8
Federation Private Equity	2	0 - 5
MLC PE II	2	0 - 5
MLC PE III	2	0 - 5
PCP III	2	0 - 5
PCP IV	2	0 - 5
<b>Income Assets</b>	<b>33</b>	<b>15 - 50</b>
<b>Diversified Income</b>	<b>33</b>	<b>15 - 45</b>
Blackrock FIGO	2	0 - 10
Fermat ILS Yield	2	0 - 10
Harbour Income	9	0 - 15
Milford Diversified Income	10	0 - 15
Mint Diversified Income	10	0 - 15
<b>Cash</b>	<b>0</b>	<b>0 - 5</b>
Self-Managed	0	0 - 5

\* *Invested capital*

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

Manager	Fund	Benchmark (p.a.)
Aspiring	Aspiring	NZ CPI + 4%
Blackrock	Fixed Income Global Opportunities	Bloomberg AusBond Bank Bill Index + 4%
Castle Point	5 Oceans	NZ OCR + 3%
Continuity Capital	PE Fund No.2 LP	15%
Continuity Capital	PE Fund No.4 LP	15%
Continuity Capital	PE Fund No.5	15%
Continuity Capital	PE Fund No.6 LP	15%
Direct Capital	VI	8%
Federation	Private Equity	16%
Fermat	ILS Yield	<b>Bloomberg AusBond Bank Bill Index + 4.5%</b>
Harbour	Income	NZ OCR + 3.5%
Milford	Active Growth	10%
Milford	Diversified Income	NZ OCR + 2.5%
Mint	Diversified Income	NZ CPI + 3%
Mint	Diversified Growth	NZ CPI + 4.5%
MLC	PE II	15%
MLC	PE III	15%
Nanuk	New World	<b>FTSE Russell Environmental Opportunities</b>
Pioneer Capital	III	8%
Pioneer Capital	IV	8%
Schroders	Real Return CPI + 5%	Australian CPI (Trimmed Mean) + 5%
T. Rowe Price	Global Equity Growth	MSCI All Country World Index

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