Meeting of the Finance Audit & Risk Sub-committee

LATE ITEMS

Date: Wednesday 12 August 2020

Time: 9.00am

Venue: Council Chamber
Hawke's Bay Regional Council
159 Dalton Street
NAPIER

Agenda

ITEM **TITLE** **PAGE**

Information or Performance Monitoring

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 12 August 2020

Item 13

Subject: TREASURY REPORT TO 30 JUNE 2020

Reason for Report

1. This item provides an update of compliance monitoring of treasury activity and reports the performance of Council's diversified investment portfolios

Background

2. As a requirement of HBRC Treasury Policy, a quarterly update is provided to the Financial Audit & Risk Sub-Committee (FARS) on all treasury investments.
3. As at Q4, 30 June 2020, the Treasury Investments to be reported on consist of:
   - 3.1. Economic Impacts generated during the quarter
   - 3.2. Cash and Cash Equivalents
   - 3.3. Disposals and Acquisitions
   - 3.4. Externally Managed Investment Funds
     - 3.4.1. Long-Term Investment Fund (LTIF)
     - 3.4.2. Future Investment Fund (FIF)
4. Since 2018, HBRC has procured treasury advice and services from PwC. Their quarterly compliance report has been attached to this report.
5. Officers and FARS continue to develop the Treasury reporting function. Enhancements included within this report is the reporting on HBRC Cash and Cash Equivalents. Further enhancements will continue to be developed as part of the FARS work programme for 2020-21.

Discussion

Economic Impacts

6. The fourth and final quarter for FY2020 illustrates how market volatility can have such a significant impact on the value of HBRC Investments. The vigorous bounce out of the Covid-19 NZ lockdown is evident in the numbers provided throughout this report. It's important to note that while market volatility can create uncertainly, the downs (and ups) will occur from time to time. The strategy of diversifying an asset base is by far the best way of safeguarding any investment; achieved through exposing the investment to the full spectrum of global market movements.
7. The New Zealand economy has benefited by being in position of being able to return to somewhat normal, but the outlook is a challenging one. Globally, Governments which could afford to support their economies have been using tools such as quantitative easing to boost liquidity and reduce interest rates. However, there is still the perception that the global economy will shrink by 4.9%, impacting the advanced economies the most.
8. A closed New Zealand border for the foreseeable future will mean a smaller economy here. Because of our size, New Zealand will always be quite reliant on imports and foreign markets. 10% of the New Zealand economy pre Covid-19 could be attributed to travel and tourism; 40% coming from international visitors. This reliance may reduce for a time and that could boost sectors, such as import-competing manufacturing. It's worth keeping in mind that the economy will not return to how it was, it will find a new equilibrium and set new trends and pivot from here.

9. As we are right now, the 'bounce back' has effectively come from enhanced income supporting policies, lower interest rates, redirected travel savings and an involuntary saving bump from lockdown. This is not expected to last. Private consumption is expected to lessen in line with the expected rise in unemployment, and any fixed mortgages needing to be 'rolled over' for any benefit to discretionary income, and the Major Banks will hurt from the 'missed' new lending cycle. The ANZ central forecast sees GDP returning to pre-crisis levels in mid-2022.

Cash and Cash Equivalents

10. As at June 30, HBRC had one Term Deposit ($2.5m) returning 1.65% and held $3.6m in its Cheque Accounts.

11. HBRC monthly cash liquidity position.

Cash Position	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20
Millions (NZD)	Actual	Actual	Actual	Actual	Actual	Actual
Mean	6.8	7.2	5.2	6.5	3.3	4.1
High Point	21.7	22.2	9.4	15.8	6.2	6.3
Low Point	2.6	4.8	2.8	2.6	1.4	1.4
Available facility*	5.0	5.0	5.0	5.0	5.0	5.0

**** facility available to HBRC is the BKBM + 1.1% margin. As at June 30, this would cost 1.4% to call on.***

12. Returns from assets classes such as Cash and Cash Equivalents will be unfavorable, when compared to Pre Covid-19 levels as mainly due to lower economic growth and controlled inflation.

Debt Funding

13. Council acquired $6.3m of funds through the LGFA tender on 8 July 2020, with repayments due in 2024 and 2025.

Managed Funds

14. The Total capital invested as at 30 June 2020 was $156.6m, this represents a true return of $2.6m (1.68%) return on the original investment after adjusting for inflation & fees.

15. Both Long Term Investment Fund (LTIF) and Future Investment Fund (FIF) have improved positions since the last reported positions in May 2020 and Q3 (March 2020).

16. CPI Protected Capital Amounts and Fund Totals:

Fund	Total Capital Contributed30/6/19 $	CPI Protected Capital 30/6/19 $	Total Capital Contributed $	CPI Protected Capital 30/6/20 $	Value 31 Dec 19 $	Value 31 March 20 $	Value 30 Jun 20 $
LTIF	40,000,000	40,280,240	46,577,569	47,608,886	50,651,390	46,305,061	49,921,914
FIF (HBRC Held)	-	-	60,563,802	61,046,786	44,703,199	58,452,264	61,104,952

Fund	Total Capital Contributed30/6/19	CPI Protected Capital 30/6/19	Total Capital Contributed	CPI Protected Capital 30/6/20	Value 31 Dec 19	Value 31 March 20	Value 30 Jun 20
	$	$	$	$	$	$	$
FIF (HBRIC Held)	-	-	45,019,493	45,378,514	60,013,349	41,711,847	45,588,822
Total	**40,000,000**	**40,280,240**	**152,160,864**	**154,034,186**	**155,367,938**	**146,469,172**	**156,615,688**

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Long Term Investment Fund (LTIF)

17. The LTIF has benefited form being invested over a longer period, when compared to the FIF, which was invested during Q2 of the FY20 Year.
18. The Fund is fully compliant to the SIPO's stipulated strategic asset allocation.
19. Below is financial year returns:

FY20	**Return**			**%**		
Return	Jarden	Mercer	Total	Jarden	Mercer	Total
Gross of Fees	860,114	703,263	1,563,377	3.7%	3.0%	3.4%
Net of Fees	719,659	698,622	1,418,281	3.1%	3.0%	3.1%
CPI						1.5%
Real net return				1.6%	1.5%	1.6%

20. From inception the LTIF has returned a CPI Protected Return of 4.9% (4.5% Jarden / 5.2% Mercer).

Future Investment Fund (FIF)

21. Funds invested with Mercer are fully SIPO compliant. Jarden expects to be fully compliant by Q1 2021. This is in line with previous reports of Jarden's approach of a staggered approach of investing.
22. On 30 June, HBRC instructed Jarden to transfer the NZD denominated assets from HBRIC to HBRC, totaling a $16.6m Transfer. Jarden's approach to manage the SIPO requirements will be to review the FIF on a consolidated level. This transfer represents the Sale & Purchase Agreement between HBRC and HBRIC Ltd, as recommended and agreed on at the 24 June 2020 Regional Council Meeting.
23. Combined HBRC and HBRIC Returns:

FY20	**Return**			**%** (Annualised)		
Return	Jarden	Mercer	Total	Jarden	Mercer	Total
Gross of Fees	862,026	414,957	1,276,983	2.1%	1.0%	1.5%
Net of Fees	698,261	412,218	1,110,479	1.7%	1.0%	1.3%
CPI						0.8%
Real net return				0.9%	0.2%	0.5%

24. From inception the FIF has returned a CPI Protected Return of 0.3% (0.5% Jarden / 0.0% Mercer).

Outlook

25. The lower the starting point for interest rates and the higher the starting point for equity valuations, the lower the return assumptions will be for all asset classes. The below

benchmark returns have been provided by Jarden (29 May 2020) and may help facilitate in modeling future returns for each asset class:

Cash	2.7% pa
New Zealand debt securities	3.6% pa
Global debt securities (unhedged)	2.5% pa
Global debt securities (hedged)	3.6% pa
New Zealand equities	6.3% pa
New Zealand property	7.0% pa
Australian equities	6.9% pa
Global equities	6.0% pa
Alternatives	5.9% pa

Note: These predictions do not form recommendations.

26. With the current 50/50 Growth/Income spilt in stipulated strategic asset allocation, this expects a return of 4.9% (less than the Targeted 5%). To achieve 5%, the split would need to be 45/55 in favor of Growth.
27. Given the economic climate and the fiscal position of the organisation, Council could consider operating outside of the treasury policy and not look to protect the capital base of the manage funds by adjusting for inflation. This would allow for more funds to be available for withdrawal to finance the origination's shortfall in investment income.
28. To enable this to happen for the FIF, Council would need to consult on the change as the Significance and Engagement Policy has listed the proceeds of the sale of Napier Port as inflation adjusted capital base.
29. This could be considered by Council for the LTIF as this fund is not listed in the Significance and Engagement policy.
30. Council would need to consider the longer-term impacts of having a reduced capital base versus the short-term impact of a reduction in the shortfall and officers would recommend an analysis of the impacts if Council would like to consider this as an option.

Next Steps

31. The Annual Treasury Reporting requirements will be delivered as part of Annual Report, due to timing of the year end process and the revaluations of the other investment assets. The report will be included as part of the report for the Finance, Audit and Risk Committee during the recommendation for the adoption of the Annual Report which will be scheduled in October following the finalisation of the Audit Plan.

Decision Making Process

32. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that:
    - 32.1. as this report is for information only, the decision-making provisions do not apply
    - 32.2. any decision of the sub-committee (in relation to this item) is in accordance with the Terms of Reference and decision-making delegations adopted by Hawke's Bay Regional Council 25 March 2020, specifically the Finance, Audit and Risk Sub-committee shall have responsibility and authority to:
        - 32.2.1. Monitor the performance of Council's investment portfolio.

Recommendation

That the Finance, Audit and Risk Sub-committee receives and notes the *"Treasury Report to 30 June 2020"*.

Authored by:

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Attachment/s

⇩**1** HBRC Treasury Reporting as at 30 June 2020

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 30 June 2020

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Contents

1. Executive summary

Total assets under management across the three respective portfolios was $156.7 million as at 30 June 2020*. This is up from $146.47m as at 31 March 2020, an increase of 7% over the quarter

Total capital contributed to the three portfolios since inception is $152.2m; adjusted for inflation, this equates to $154.03m, meaning the portfolio value at 30 June was $2.6m above the inflation adjusted contribution figure. Therefore, $2.6m could be withdrawn from the portfolios whilst still protecting the real capital value of the initial investment. However, it should be noted that any withdrawal will impact the future return potential of the overall portfolio.

Treasury activity remains compliant with policy except for investment portfolio asset allocations, due to Jarden's staggered implementation approach; this is expected to become compliant by the end of the September quarter 2020.

Council remains compliant to the LGFA borrowing limits.

The interest rate strategy is to maintain and increase exposure to short-term floating rates (within policy limits) through issuing all new debt on a floating rate basis.

The funding requirement continues to be reviewed given the economic and financial market disruptions potentially impacting the Investment Portfolio distributions.

*Note, this includes $81.8k of fees to be paid.

2. Treasury Activity Compliance Monitor

Policy document	Policy parameters	Compliance
Treasury Policy	Borrowing limits	Yes
	Funding risk control limits	Yes
	Liquidity buffer	Yes
	Interest rate risk control limits	Yes
	Treasury investment parameters	Yes
	Counterparty credit limits	Yes
SIPO	Asset allocations	No

3. Investment Management Reporting

Performance Summary

Quarter ending	Mercer Net Returns			Mercer Gross Returns			Mercer Benchmark Returns	
	LTIF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)	LTIF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)	LTIF HBRC	HBRIC & HBRC (port proceeds)
31/12/2018								
31/03/2019	3.7%			3.9%			4.5%	
30/06/2019	2.7%			2.9%			3.1%	
30/09/2019	3.0%	0.7%	0.7%	3.2%	0.7%	0.7%	3.2%	0.7%
31/12/2019	1.2%	1.2%	1.2%	1.3%	1.3%	1.3%	1.4%	1.4%
31/03/2020	(7.9%)	(7.9%)	(7.9%)	(7.8%)	(7.8%)	(7.8%)	(8.7%)	(8.7%)
30/06/2020	7.6%	7.6%	7.6%	7.8%	7.8%	7.8%	7.0%	7.0%
Financial YTD	3.2%	0.9%	0.9%	3.9%	1.4%	1.4%	2.1%	(0.3%)
Financial YTD (annualised)	3.2%	1.1%	1.1%	3.9%	1.8%	1.8%	2.1%	(0.4%)
Cumulative Return Since Inception	10.0%	0.9%	0.9%	11.1%	1.4%	1.4%	10.0%	(0.3%)
Annualised Return Since Inception	6.8%	1.1%	1.1%	7.5%	1.8%	1.8%	6.8%	(0.4%)
Inception Date	18-Jan-19	16-Sep-19	16-Sep-19	18-Jan-19	16-Sep-19	16-Sep-19	18-Jan-19	16-Sep-19
Days Invested	529	288	288	529	288	288	529	288
Reported balance as at 30-Jun-20 ($)	25,039,125	31,031,541	22,172,324	**78,242,991**				
Total Capital Contributions ($)	23,288,784	30,812,898	21,978,750	**76,080,432**				
Net Returns ($)	1,744,801	177,835	163,170	**2,085,807**				
Inflation adjusted capital ($)	23,804,443	31,058,624	22,154,026	**77,017,093**				

Quarter ending	Jarden Net Returns			Jarden Gross Returns			Jarden Benchmark Returns	
	LTIF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)	LTIF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)	LTIF HBRC	HBRIC & HBRC (port proceeds)
31/12/2018	0.3%							
31/03/2019	2.7%			2.7%			4.3%	
30/06/2019	2.3%			2.4%			3.9%	
30/09/2019	1.9%	0.0%	0.0%	2.1%	0.0%	0.0%	3.7%	0.2%
31/12/2019	3.3%	1.6%	1.6%	3.4%	1.7%	1.6%	1.9%	1.9%
31/03/2020	(9.2%)	(5.4%)	(5.4%)	(9.1%)	(5.3%)	(5.3%)	(6.9%)	(6.9%)
30/06/2020	8.0%	5.3%	5.7%	8.2%	5.5%	5.9%	8.8%	8.8%
Financial YTD	3.3%	1.2%	1.6%	3.9%	1.6%	1.9%	7.0%	3.4%
Financial YTD (annualised)	3.3%	1.6%	2.1%	3.9%	2.0%	2.4%	7.0%	4.3%
Cumulative Return Since Inception	7.3%	1.3%	1.7%	8.1%	1.6%	2.0%	16.0%	3.7%
Annualised Return Since Inception	5.0%	1.6%	2.1%	5.5%	2.1%	2.5%	10.8%	4.7%
Inception Date	18-Jan-19	15-Sep-19	15-Sep-19	18-Jan-19	15-Sep-19	15-Sep-19	18-Jan-19	15-Sep-19
Days Invested	529	289	289	529	289	289	529	289
Reported balance as at 30-Jun-20 ($)	24,910,760	14,588,491	38,955,296	**78,454,546**				
Fee adjusted balance as at 30-Jun-20 ($)	24,882,788	14,557,280	38,932,628	**78,372,697**				
Total Capital Contributions ($)	23,288,784	14,206,596	38,585,052	**76,080,432**				
Net Returns ($)	1,621,975	381,895	370,244	**2,374,114**				
Inflation adjusted capital ($)	23,804,443	14,319,890	38,892,760	**77,017,093**				

Note: Mercer calculates quarterly and cumulative returns based on movements in the underlying unit prices of the funds they invest into (time weighted returns). This is a point to point calculation and is not impacted by cash flows in and out of the portfolio.

Jarden's return figures are money weighted returns, which consider the timing of cash flows (additions and withdrawals) from the portfolio. This is reflective of the direct investment nature of Jarden's portfolio, which does not simply invest into managed funds like Mercer.

The difference is return calculation methodology between the two investment managers can sometimes lead to small discrepancies when comparing them against one another. Discrepancies will typically occur when there have been large cash flow movements between the portfolios.

Long Term Investment Fund (LTIF)

Mercer (3 months ending 30 June 2020)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	94,988.48	127,737.2				0.5%	-	20.0%	Y
Index Cash Portfolio	1,772,584.60	1,007,238.4	0.2%	0.1%	0.1%	4.0%	-	20.0%	Y
NZ Sovereign Bonds	3,389,633.70	3,644,357.9	3.7%	2.2%	1.5%	14.6%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,731,968.16	2,927,885.3	2.3%	0.7%	1.6%	11.7%	5.0%	25.0%	Y
Global Credit	2,265,823.99	2,733,246.3	7.8%	6.3%	1.5%	10.9%	5.0%	25.0%	Y
Other Fixed Interest^	1,578,041.93	1,718,813.1	3.2%	0.1%	3.1%	6.9%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,389,210.13	1,763,226.2	16.5%	16.9%	(0.4%)	7.0%	-	18.0%	Y
Socially Responsible Overseas Shares	6,523,360.39	7,081,270	12.6%	14.1%	(1.5%)	28.3%	17.0%	37.0%	Y
International Listed Property	1,716,997.16	772,009.3	13.0%	11.5%	1.6%	3.1%	-	10.0%	Y
Unlisted Property	-	1,231,728.1	2.9%	(4.7%)	7.7%	4.9%	-	10.0%	Y
International Listed Infrastructure	1,785,160.61	785,817.3	8.8%	9.6%	(0.8%)	3.1%	-	10.0%	Y
Unlisted Infrastructure	-	1,245,796.1	12.1%	(8.3%)	20.4%	5.0%	-	10.0%	Y
Total	**23,247,769.14**	**25,039,125.1**	**7.8%**	**7.0%**	**0.8%**	**100.0%**			

Jarden (3 months ending 30 June 2020)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	1,633,250.00	1,417,041.0	1.6%	0.1%	1.5%	5.7%	2.0%	8.0%	Y
NZ Fixed Income	5,649,290.00	5,824,350.0	2.9%	3.4%	(0.5%)	23.4%	15.0%	24.0%	Y
International Fixed Income	5,947,862.00	6,085,765.0	2.3%	2.4%	(0.1%)	24.4%	23.0%	28.0%	Y
NZ Property	433,687.00	424,087.0	(1.5%)	6.7%	(8.2%)	1.7%	1.0%	4.0%	Y
NZ Equities	2,815,764.00	3,402,147.0	16.5%	16.9%	(0.4%)	13.7%	13.0%	18.0%	Y
Global Equities	6,217,438.00	7,357,153.0	17.1%	15.5%	1.6%	29.5%	25.0%	34.0%	Y
International Property	359,971.00	400,218.0	11.2%	10.2%	1.0%	1.6%	1.0%	4.0%	Y
Total	**23,057,262.00**	**24,910,761.0**	**8.2%**	**8.8%**	**(0.6%)**	**100.0%**			

Mercer portfolio

- The Mercer portfolio generated a *gross* return (before fees and tax) of 7.8% for the June 2020 quarter, outperforming their benchmark by 80bp. On a *net* basis (after fees and tax), the portfolio returned 7.6%, outperforming the benchmark by 60bp.
- The portfolio has now achieved a *gross* cumulative return of 11.1% since inception on 18 January 2019, leading the benchmark by 1.1%. On a *net* basis, the portfolio has returned 10.0% since inception, matching the benchmark return.
- Over the quarter, strong relative performance from the fixed interest sectors provided a tailwind, led by Absolute Return Bonds (+3.1% above benchmark over the quarter). Real assets were also positive contributors, while equities were a slight drag on relative performance.
- The portfolio remains compliant with the strategic asset allocation (SAA) ranges stipulated in the SIPO.

Jarden portfolio

- Jarden generated a *gross* return (before fees and tax) of 8.2% for the quarter, trailing their benchmark by 60bp. On a *net* (after fees and tax) basis, the portfolio returned 8.0%, trailing the benchmark by 80bp.
- The portfolio has now achieved a *gross* cumulative return of 8.1% since inception on 18 January 2019, trailing the benchmark by 7.9%. On a *net* basis, the portfolio has returned 7.3% since inception, trailing the benchmark by 8.7%.
- The portfolio remains compliant with the strategic asset allocation (SAA) ranges stipulated in the SIPO.
- Jarden updated the global equities benchmark to the FTSE Developed ex Australia ex Non-Renewable Energy/Vice Products/Weapons Index (also called FTSE Developed ex Australia Choice Index). This benchmark better aligns with the core global equities holding. This should be updated in the SIPO.

Port Future Investment Fund (PFIF)

Mercer (3 months ending 30 June 2020)

HBRIC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	117,721.3	158,307.5				0.5%	-	20.0%	Y
Index Cash Portfolio	2,196,803.3	1,248,292.8	0.2%	0.1%	0.1%	4.0%	-	20.0%	Y
NZ Sovereign Bonds	4,200,848.0	4,516,533.4	3.7%	2.2%	1.5%	14.6%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,385,788.6	3,628,593.0	2.3%	0.7%	1.6%	11.7%	5.0%	25.0%	Y
Global Credit	2,808,085.8	3,387,372.6	7.8%	6.3%	1.5%	10.9%	5.0%	25.0%	Y
Other Fixed Interest^	1,955,702.3	2,130,163.1	3.2%	0.1%	3.1%	6.9%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,721,678.8	2,185,205.3	16.5%	16.9%	(0.4%)	7.0%	-	18.0%	Y
Socially Responsible Overseas Shares	8,084,544.8	8,775,974.4	12.6%	14.1%	(1.5%)	28.3%	17.0%	37.0%	Y
International Listed Property	2,127,912.5	956,768.2	13.0%	11.5%	1.6%	3.1%	-	10.0%	Y
Unlisted Property	-	1,526,507.8	2.9%	(4.7%)	7.7%	4.9%	-	10.0%	Y
International Listed Infrastructure	2,212,389.0	973,880.7	8.8%	9.6%	(0.8%)	3.1%	-	10.0%	Y
Unlisted Infrastructure	-	1,543,942.6	12.1%	(8.3%)	20.4%	5.0%	-	10.0%	Y
Total	**28,811,474.37**	**31,031,541.4**	**7.8%**	**7.0%**	**0.8%**	**100.0%**			

HBRC (port proceeds)

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	84,113.0	113,112.2				0.5%	-	20.0%	Y
Index Cash Portfolio	1,569,636.3	891,916.8	0.2%	0.1%	0.1%	4.0%	-	20.0%	Y
NZ Sovereign Bonds	3,001,544.9	3,227,105.0	3.7%	2.2%	1.5%	14.6%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,419,177.3	2,592,663.4	2.3%	0.7%	1.6%	11.7%	5.0%	25.0%	Y
Global Credit	2,006,403.3	2,420,309.1	7.8%	6.3%	1.5%	10.9%	5.0%	25.0%	Y
Other Fixed Interest^	1,397,367.4	1,522,021.3	3.2%	0.1%	3.1%	6.9%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,230,155.5	1,561,349.5	16.5%	16.9%	(0.4%)	7.0%	-	18.0%	Y
Socially Responsible Overseas Shares	5,776,482.3	6,270,515.2	12.6%	14.1%	(1.5%)	28.3%	17.0%	37.0%	Y
International Listed Property	1,520,413.3	683,619.7	13.0%	11.5%	1.6%	3.1%	-	10.0%	Y
Unlisted Property	-	1,090,704.0	2.9%	(4.7%)	7.7%	4.9%	-	10.0%	Y
International Listed Infrastructure	1,580,772.5	695,846.8	8.8%	9.6%	(0.8%)	3.1%	-	10.0%	Y
Unlisted Infrastructure	-	1,103,161.3	12.1%	(8.3%)	20.4%	5.0%	-	10.0%	Y
Total	**20,586,065.82**	**22,172,324.3**	**7.8%**	**7.0%**	**0.8%**	**100.0%**			

Total Future Investment Fund (PFIF)	**49,397,540.2**	**53,203,865.7**	**7.8%**	**7.0%**	**0.8%**

Jarden (3 months ending 30 June 2020)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	15,883,014.0	10,103,869.0	18.9%	2.0%	8.0%	N
NZ Fixed Income	10,084,560.0	10,308,321.0	19.3%	15.0%	24.0%	Y
International Fixed Income	10,510,381.0	10,754,068.0	20.1%	23.0%	28.0%	N
NZ Property	760,258.0	763,364.0	1.4%	1.0%	4.0%	Y
NZ Equities	4,626,731.0	7,038,315.0	13.1%	13.0%	18.0%	Y
Global Equities	8,340,072.0	13,951,509.0	26.1%	25.0%	34.0%	Y
International Property	561,555.0	624,339.0	1.2%	1.0%	4.0%	Y
Total	**50,766,571.00**	**53,543,785.0**	**100.0%**			

- The port proceeds portfolios were implemented on the 16th of September 2019.
- The Mercer portfolios returned 7.6% on a *net* basis, outperforming the benchmark by 60bp. This brings the cumulative return to 10.0%, or 6.8% on an annualised basis.
- The Jarden portfolio returned 5.7% and 5.3% on a *net* basis. This brings the cumulative return to 1.7% and 1.3% respectively, or 2.1% and 1.5% respectively on an annualised basis.
- The Mercer portfolios are both compliant with their respective SAA SIPO requirements.
- On 30 June the NZD denominated assets were transferred from HBRIC to HBRC Port in the Jarden portfolios. This movement on the last day of the period has made tracking asset allocation across the HBRIC and Port portfolios impossible as they cannot match the SIPO benchmarks. Jarden has and will continue to provide a 'consolidated' asset allocation which combines the HBRIC and Port portfolios into one. These portfolios remain separate for all other purposes.
- The Jarden portfolio(s) continues to be overweight cash and short-term securities, but within the range for other assets classes. Jarden expects to be in a fully invested position by the end of this current quarter. Global investment markets are extremely uncertain, and Jarden is watchful of developments. Jarden continues to believe that given Councils low to moderate capacity to accept risk, that their staggered implementation strategy is prudent.

Summary of Assets Under Management

As at 30 June 2020

	LTIF - HBRC ($)	HBRIC - port proceeds ($)	HBRC - port proceeds ($)	Total ($)
Jarden	24,910,760	14,588,491	38,955,296	78,454,546
Mercer	25,039,125	31,031,541	22,172,324	78,242,991
Total	49,949,885	45,620,032	61,127,620	156,697,537

As at 31 March 2020

	LTIF - HBRC ($)	HBRIC - port proceeds ($)	HBRC - port proceeds ($)	Total ($)
Jarden	23,057,262	29,640,789	21,125,782	73,823,833
Mercer	23,247,769	28,811,474	20,586,066	72,645,309
Total	46,305,031	58,452,263	41,711,848	146,469,142

Total capital contributed

	LTIF - HBRC ($)	HBRIC - port proceeds ($)	HBRC - port proceeds ($)	Total ($)
Jarden	23,288,784	14,206,596	38,585,052	76,080,432
Mercer	23,288,784	30,812,898	21,978,750	76,080,432
Total	46,577,569	45,019,493	60,563,802	152,160,864

Total capital contributed (inflation adjusted)

	LTIF - HBRC ($)	HBRIC - port proceeds ($)	HBRC - port proceeds ($)	Total ($)
Jarden	23,804,443	14,319,890	38,892,760	77,017,093
Mercer	23,804,443	31,058,624	22,154,026	77,017,093
Total	47,608,886	45,378,514	61,046,786	154,034,186

4. Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD $m)	Maturity	Interest Rate
8-Apr-2020	Kiwibank	Fixed Term	2.5	1-Jul-20	1.65%
30-Jun-2020	BNZ	Cheque	3.6	N/A	N/A

5. Liability Management Policy Compliance Checklist

The table below illustrates Council's compliance with funding, interest rate and liquidity risk parameters set out within the Liability Management Policy. A snapshot of current funding in place (maturity term and pricing) as well as interest rate fixing is also provided.

Hawke's Bay Regional Council Interest Rate Position			
			30-Jun-20
Liquidity Buffer:	10%		
Actual	**62%**		
Policy Compliance	Y		
Funding Maturity Profile:			
Years	**0 - 3 years**	**3 - 5 years**	**5 years plus**
Policy Limits	15% - 60%	15% - 60%	0% - 60%
Actual Hedging	**33%**	**24%**	**44%**
Policy Compliance	Y	Y	Y
Weighted Average Duration:			
Funding		**4.33 Years**	
Fixed Rate Portfolio (swaps and fixed rate loans)		**5.34 Years**	
Weighted average margin		**0.09%**	
Weighted average Commitment/Line Fee		**0.07%**	
Weighted average fixed rate (swaps & term loans/bonds)		**5.55%**	
All up cost of borrowing (On Drawn Debt)		**5.11%**	

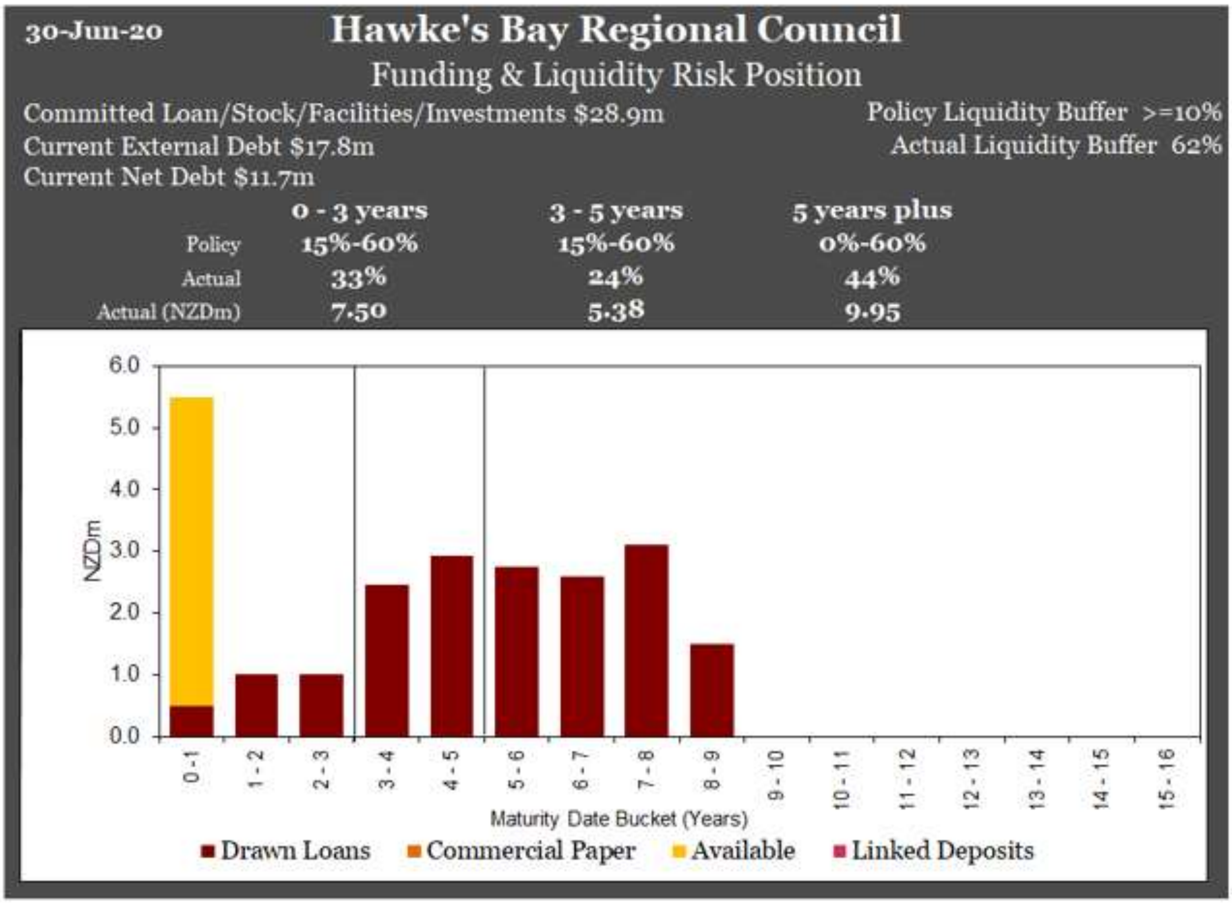
New treasury transactions in the period are outlined in Appendix 1.

6. Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	Actual
Net external debt as a percentage of total revenue	<150%	<175%	19.6%
Net interest on external debt as a percentage of total revenue	<15%	<20%	1.2%
Net interest on external debt as a percentage of annual rates income	<20%	<25%	4.2%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	>10%	65.9%

7. Funding and Liquidity Risk Position

The chart below shows the spread of Council's current funding maturity terms and positioning within funding maturity limits set out within the Liability Management Policy. Council's liquidity buffer amount is also shown.



Debt Funding Strategy

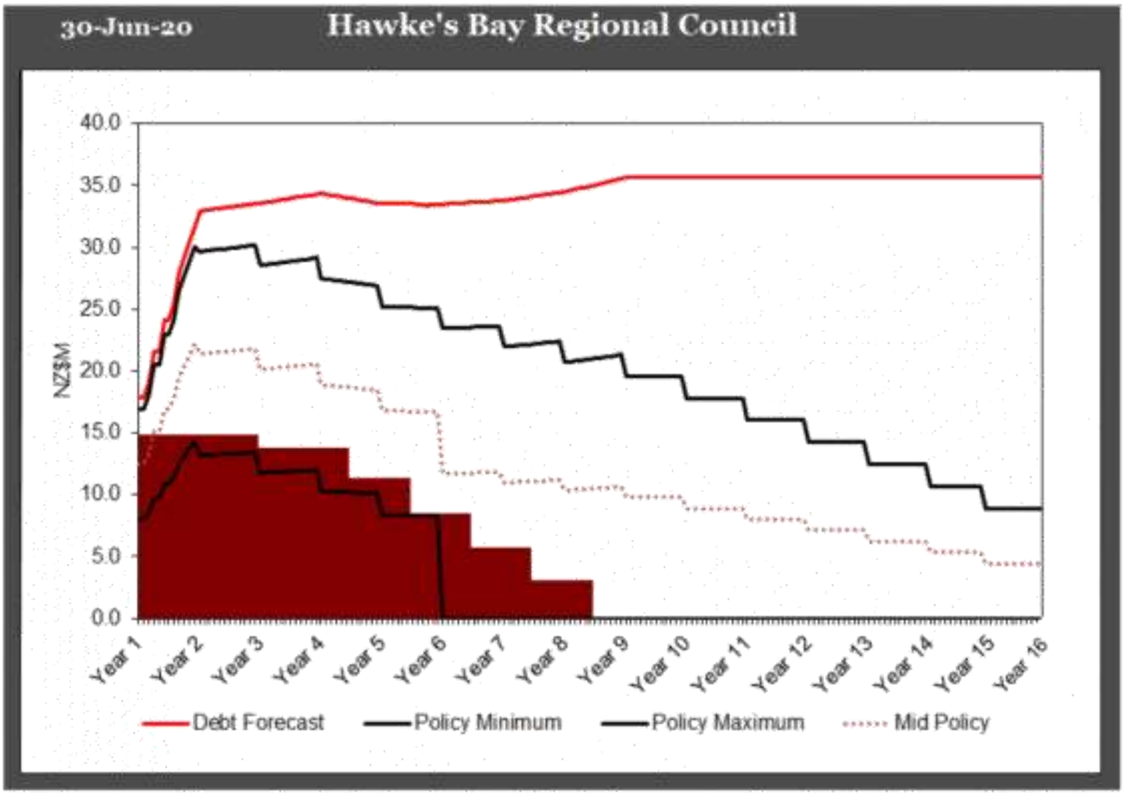
Council's recent cash flow and debt forecast indicated a need for an additional $6.3m of funding, which was acquired through the LGFA tender on 8 July 2020.

Ongoing funding requirements continue to be reviewed given the economic and financial market disruptions potentially impacting Port Napier and the Investment Portfolios. It may be that additional debt funding may be required at upcoming LGFA tenders.

8. Interest Rate Risk Position

The interest rate profile below shows the level of Council's interest rate fixing within Liability Management Policy parameters. The shaded area represents fixed interest rate commitments (i.e. term loans and/or derivatives) and their maturity terms over the 15-year Policy period. The red line represents the current rolling debt forecast for the forward period with the maximum and minimum bands a function of the debt forecast.

As can be seen from the chart and table below, the interest rate risk position is fully compliant to all policy parameters.



Interest rate strategy

With short term interest rates expected to be lower for longer, as the RBNZ stimulates with loose monetary policy settings, the fixed rate position will progressively move towards minimum policy limits. The strategy is therefore to increase exposure to short-term floating rates (within policy limits) through issuing all new debt on a floating rate basis.

Long term interest rates are expected to remain around current low levels as global central banks maintain their loose monetary policy requirements along with influencing low, longer term interest rates (through QE programmes).

Slowing domestic and global demand is expected to have a dampening impact on inflation supporting the maintaining of looser monetary conditions for the medium term.

The longer term interest rate risk position will be maintained around minimum policy limits through the use of interest rate swaps or fixed rate debt issuance.

9. Funding Facility

Bank (Facility maturity date)	Maturity Date	Drawdown Amount ($m)	Facility Limit ($m)
BNZ	10-Apr-21	0.00	5.00
TOTAL		0.00	5.00

Available bank facility capacity (liquidity buffer)	This month ($m)	Last month ($m)
Gross amount	5.00	5.00
Policy liquidity buffer requirements	2.55	2.55
Excess amount	**2.55**	**2.55**

10. Cost of Funds vs Budget

Month		YTD	
Actual ($m)	Budget ($m)	Actual ($m)	Budget ($m)
0.19	0.12	1.005	1.491

11. Counterparty Credit

All counterparty credit exposures are fully compliant with policy.

Counterparty Credit Risk (Interest Rate Risk Management Instruments and Investments)			
Rates Revenue			$ 19,475,000
Policy Credit Limit (NZ$) per NZ Registered Bank (Interest rate risk management)			15%
Policy Credit Limit (NZ$) per NZ Registered Bank (Investments)			20-50%
	Credit Exposure (Swaps) ($m)	Credit Exposure (Investments) ($m)	Compliance
WPC	0.00	0.00	Yes
ANZ	0.00	0.00	Yes
ASB	0.00	0.00	Yes
BNZ	0.00	3.60	Yes
Kiwibank	0.00	2.50	Yes
LGFA	0.00	0.00	Yes

12. Market Commentary

Equity markets

After a highly volatile first quarter of the year, the NZ equity market returned 16.9% over the second quarter. While the top performer on the NZX 50 was Pushpay Holdings, returning over 150%, given its relatively small index weighting, this only translated to the fifth largest gain on an index weighted basis. Other names that performed well through the quarter include Tourism Holdings (+81%), Air New Zealand (+55%), and Kathmandu Holdings (+45%). Given the current challenges facing the travel and retail sectors, the strong performance of these names looks to be at odds with logic. However, all three have rebounded after a very tough first quarter of the year.

The three largest constituents on the NZX 50 index are Fisher & Paykel Healthcare (16.7% weighting), a2 Milk (12.6% weighting), and Spark (7.0% weighting). All three companies posted double-digit returns for the quarter, helping drive almost 40% of the total return of the index. Dividends have also been front of mind for many investors over the past quarter as the initial fallout from COVID-19 saw several companies either cancel, reduce or withdraw dividend guidance.

The other major theme on the back of COVID-19, as companies looked to shore up their balance sheets, was the issuance of new equity by several companies. For the most part, the equity raises came from companies that were directly in the firing line of COVID-19. This included Auckland Airport, Infratil, Kathmandu, Vista Group, SkyCity, SKY Television, and Z Energy. While the near-term balance sheet issues of these companies have been resolved, the outlook remains uncertain as the duration of COVID-19 related impacts remain unknown.

The Australian equity market returned 22.9% over the June quarter. In the past month, we have seen strong performance from numerous sectors that have been laggards throughout most of 2020, and in fact over the last few years. These sectors include financials, energy, building materials, and parts of real estate. These recent sector shifts largely reflect the hope of a sharp recovery as economies gradually reopen, with the economic downside being supported through government stimulus. However, as we continue to see from daily news flow, the re-opening of economies remains fragile at best with several geographies throughout Australia seeing an increase in case numbers. Looking at the past quarter specifically, there was strength across the board with all key sectors in the Australian market ending in positive territory. The technology sector was the standout performer, as investors continued to favour companies which had a clear growth runway and were less impacted by any COVID-19 restrictions.

Globally, markets experienced the steepest decline in decades in the first quarter as lockdown measures aimed at containing the pandemic brought economies to a virtual halt. However, the massive fiscal and monetary stimulus that followed and the realisation that policy makers would do 'whatever it takes' to stabilise financial markets resulted in an equally rapid recovery in global equity markets from the trough. Equity markets have to some degree disconnected from the underlying economic fundamentals, responding more to the global stimulus and low interest rates than weak economic figures and challenged earnings. In this respect many investors are willing to look through a weak economic environment in the belief that conditions will start to normalise as COVID-19 is brought under control.

Apart from the UK equity market which was roughly flat in NZ Dollar terms, regional equity market performance wasn't too dissimilar during the quarter, despite heightened market volatility with European stock markets up 8.4%, Emerging markets up 10.9%, Japanese market up 11.1%, while the technology heavy US market rose 12.6%. Technology and consumer discretionary (e-commerce) outperformed as many stocks within these sectors are viewed as net beneficiaries of COVID-19 due to the expected acceleration of existing megatrends such as increasing ecommerce adoption or greater digitalisation. While the more cyclical sectors such as energy, industrials and materials rebounded strongly during the quarter they are still significant underperformers year-to-date due low demand for their products and supply chain challenges. Financial stocks similarly struggled as provisioning for bad loans rose dramatically.

Funding markets

A total of 36 local government borrowers raised $889 million in the second quarter (Q2) of 2020. 75 separate funding transactions occurred, of which all but two were conducted via the LGFA. Borrowing volumes were strong in Q2 2020 and much greater than in the corresponding quarter last year. A total of 60% of all borrowing in Q2 was undertaken on a floating rate basis. Over the quarter, councils borrowed for a weighted average term of 3.6 years.

LGFA credit margins increased sharply in March as investors responded to the COVID-19 pandemic and New Zealand went into level four lockdown. Credit margins increased for longer dated financing maturities (7-10 years) in particular. However, the RBNZ's decision to include LGFA debt in the Large-Scale Asset Program (LSAP) saw a decline in long dated credit margins, flattening the LGFA credit curve with investors provided confidence in a committed buyer (RBNZ) of LGFA debt. Credit margins have subsequently reduced to pre-COVID-19 levels.

The RBNZ has continued its significant quantitative easing program (LSAP), purchasing up to $60 billion of government bonds in the secondary market across various bond maturities. We expect this buying activity will see short term bond yields remaining at record low levels for a prolonged period as a result.

With NZ Government bond yields remaining at or near historically low levels across the curve, there continues to be reasonable support for LGFA bonds as a substitute investment given the higher yields on offer. However, there has been some competition for investor funds with Kāinga Ora's (previously Housing NZ) issuance of $1.3 billion in Q2 alone (as part of a planned $2.5 billion programme in 2020) as well as a number of Kauri issues providing alternative investments to LGFA bonds. Nonetheless, two key factors appear poised to support investor appetite in the LGFA going forward with (1) S&P reaffirming New Zealand's AA+ rating with a Positive Outlook and (2) the global drop in bond yields (namely US) helping increase New Zealand fixed interest investments attractiveness on a relative global return basis.

LGFA bond issuance should continue to be well supported through the RBNZ's ongoing LSAP programme and absence of corporate bond issuance activity. We believe that investor interest for LGFA bonds will remain robust market confidence stabilising post RBNZ interventions and a general increase in risk sentiment. We therefore expect to see LGFA credit margins move more or less across the page from current levels. We would note the continued uncertainty in the global environment and potential for resulting market volatility. Any decline risk sentiment would see upward pressure for longer dated LGFA bond yields, noting that the extent of any movement should be constrained through an expanded RBNZ LSAP programme.

Interest rate markets

The RBNZ cut the OCR by 75bps in March to 0.25% and at their May meeting reaffirmed forward guidance that the OCR will remain at the current level (until March 2021). RBNZ also announced QE (quantitative easing) in the order of $60bn over the next 12 months. There is the potential for this to be augmented.

RBNZ Governor Adrian Orr expects disruption to be of a medium duration (~12 months), despite the NZ economy emerging from lockdown more quickly than original RBNZ estimates. Further business failures are inevitable, although the impact will hopefully be minimised through government and RBNZ initiatives. Domestic (and global) economic data remains very weak, leading the RBNZ to keep the door open for a negative OCR. However the RBNZ noted that financial institutions are not yet operationally ready to implement negative rates.

Long-term NZ swap rates remain biased lower with global rates likely to remain under structural pressure lower. Introduction of domestic QE is reducing steepness at the long end of the curve to an extent, supporting better market functioning.

Growth from our key export trading nations: Australia, China and Europe is markedly softer. The U.S. Federal Reserve cut interest rates to near-zero (0.00%-0.25%) and significantly increased asset purchases. Fed's Powell commented that negative rates are not appropriate for the U.S. economy and reinstated (massive) QE (essentially unlimited), liquidity facilities and supporting lending to the real economy.

Underlying inflation around the globe remains relatively benign. No reason to expect structurally higher long-term swap rates over the next year.

Budget 2020 projects massive fiscal expansion. S&P reaffirmed the NZ Government's 'positive' outlook (only one of two countries) with an expectation of a quicker economic recovery and lower government debt than Treasury expectations.

13. Policy exceptions

Date	Detail	Approval	Action to rectify
TBC	SIPO asset allocations non-compliant	Y	Gradual staggering into investment portfolio positions will see strategic asset allocation requirements met over coming months.

14. Appendix

14.1. New Treasury Transactions up to 30/06/2020

Borrowing activity

Bank/LGFA	Amount (NZDm)	Borrower notes (NZDm)	Deal Date	Start Date	Maturity Date	Commitment Fee	Margin
	NIL						

Interest Rate Borrower Swaps

Bank	Notional Amount (NZDm)	Deal Date	Start Date	Maturity Date	Swap Rate
n/a	n/a	n/a	n/a	n/a	n/a