HAWKE'S BAY
REGIONAL COUNCIL

Meeting of the Finance Audit & Risk Sub-committee

LATE ITEMS

Date: Wednesday 11 November 2020

Time: 9.00am

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

Agenda

Item 10

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 11 November 2020

Subject: 2019-20 ANNUAL TREASURY REPORT

Reason for Report

1. This item provides an annual update of the Councils investment activity and reports the performance of the Council's investment portfolio for the year ending 30 June 2020.

Background

2. The Investment management reporting requirements, outlined within Council's Treasury Policy, requires Office to report to the Financial Audit & Risk Sub-Committee (FARS) on the Council's investment allocation and investment performance.
3. As stated within the Policy, all Treasury investments are required to be reported on quarterly, with other defined investments reported annually. A general outline of the reporting requirements is listed below.

Minimum update to FARS	
Quarterly	Annually
Liquidity	Investment property
Financial assets	Forestry assets
CCTO - HBRIC	Intangible assets
	Napier / Gisborne Rail

4. Officers continue to welcome feedback from FARS to improve and further develop the reporting process and to highlight any specific gaps of information they would benefit from.

Discussion

5. The Annual Treasury report is written as at 30 June 2020, and reports on:
    - 5.1. Investment Portfolio Summary
    - 5.2. FY19-20 Performance Summary
        - 5.2.1. Napier Port (PONL) IPO
        - 5.2.2. Other
    - 5.3. Liquidity
        - 5.3.1. Cash & Cash Equivalents
        - 5.3.2. Debt
    - 5.4. Financial Assets
    - 5.5. Investment Property
    - 5.6. Forestry Assets value
    - 5.7. Intangible Assets (Carbon Credits)
    - 5.8. Napier / Gisborne Rail
    - 5.9. CCTO – HBRIC

Investment Portfolio Summary

6. The below table is an extract from HBRC Balance sheet, which shows the complete list of HBRC assets as at 30 June 2020:

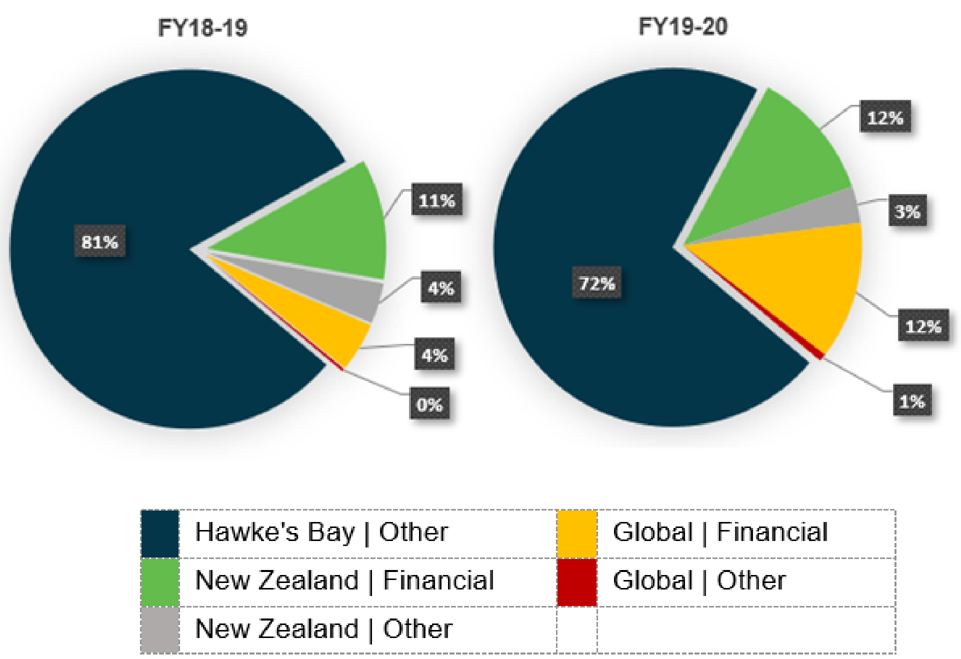
	Asset	FY18-19 $000	%	FY19-20 $000	%	Change $000
	Cash & cash equivalents	**28,436**	**4.0**	**6,522**	**0.7**	**(21,914)**
*	Trade & other receivables	**10,063**	**1.4**	**11,327**	**1.3**	**1,264**
*	Inventories	**113**	**0.0**	**452**	**0.1**	**339**
	Advances to CCO	**6,500**	**0.9**	**-**	**0.0**	**(6,500)**
	Other financial assets	**55,700**	**7.8**	**124,366**	**13.9**	**68,665**
	Management Funds	41,910	75.2	111,073	89.3	69,163
*	Other	13,791	28.5	13,293	10.7	(498)
	Investment property	**48,393**	**6.8**	**57,855**	**6.5**	**9,462**
*	Forestry assets	**11,482**	**1.6**	**11,087**	**1.2**	**(395)**
	Intangible assets	**7,347**	**1.0**	**10,096**	**1.1**	**2,749**
	Napier / Gisborne Rail	**236**	**0.0**	**1,486**	**0.2**	**1,250**
	Investment in HBRIC	**340,396**	**47.9**	**457,260**	**51.0**	**116,864**
*	Property, plant & equipment	**27,473**	**3.9**	**28,574**	**3.2**	**1,101**
*	Infrastructure assets	**174,709**	**24.6**	**187,387**	**20.9**	**12,678**
	Total Assets	**710,848**	**100.0**	**896,412**	**100.0**	**185,564**

* *These assets aren't considered 'Investment Assets' and are excluded from this report. They will however be reported on as part of Council's Annual Report.*

\- *Note amounts listed above are subject to Audit sign off.*

7. The graphs below illustrate geographically, where Councils investments are located.

8. The percentages equate to the percentage of total Council investment portfolio.



9. The graphs demonstrate the response to HBRC Long-Term Plan (LTP 2018-28) strategy, which pursued the strategy of diversifying the Council's investment base, thereby de-risking reliance on the Hawke's Bay region and/or income derived from any one asset class.

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10. The diversification of the investments base is less than anticipated over the past 12 months as a result of the extraordinary value increase realised in PONL; where in spite of Council divesting 45% of its ownership, the investment value increased by $71M. As at 30 June 2020, PONL still accounts for ~60% of the total investment portfolio.

FY19-20 Performance Summary

11. The tables below show Actuals against the Annual Plan's income and funding derived by Councils investments.

Income	FY19-20 Annual Plan $000	%	FY19-20 Actuals $000	%	Variance Actual v. Plan $000	%
Other financial assets	**7,727**	**8**	**3,422**	**3**	**(4,305)**	**44**
Management Funds	6,650	86	2,530	74	(4,120)	38
Interest	1,077	14	892	26	(185)	78
Investment property	**2,284**	**2**	**2,343**	**2**	**59**	**103**
Endowment leasehold land	1,443	63	1,500	64	57	104
Wellington Leasehold land	841	37	843	36	2	100
Napier / Gisborne Rail	**-**	**-**	**-**	**-**	**-**	**-**
Investment in HBRIC	**90,900**	**90**	**109,583**	**95**	**18,683**	**121**
PONL Dividend	7,900	9	2,500	2	(5,400)	32
IPO 'special' Dividend	83,000	91	107,083	98	24,083	129
Income Total	**100,911**	**100**	**115,348**	**100**	**14,437**	**114**

12. The FY19-20 income result reflects six months from the first reports of Covid-19 in China, and the global the impact from it thereafter.

12.1. Other Financial Assets: namely the two Managed Funds, preformed albeit as expected up to Q2, took a significant hit in Q3 and with support from equally significant global fiscal support packages, made a rebound in Q4.

12.2. As a result of the numerous global fiscal packages, equity 'valuations', when compared to low interest rates will now more appealing.

12.3. Investment Property: Endowment land property has out-performed expectations, with the market value of the land increasing by ~$9M in FY19/20. However, a prior Council decision [ACC] limits the benefit to Council, and therefore both land areas performed as expected.

12.4. Investment in HBRIC: The success of the PONL listing is detailed below but is as expected, the success of FY19-20.

13. The overall FY19-20 performance saw a $14.4M or 14% favourable variance in regard to income generation.

PONL IPO Summary

14. On 20 August 2019, Council successfully listed the minority share of PONL on the NZX; resulting in HBRIC receiving $107M cash proceeds in exchange for 45% of capital.

15. As part of the LTP 2018-28 consultation, funds received through the capital liquidation were to establish a 'ring fenced' 'Future Investment Fund' (FIF). As a consequence of being 'ring fenced', Council cannot reinvest the 107M received for the capital without initial community consultation.

16. As a result of an unfavourable IRD binding tax ruling, $35M of the $107M received was financially impractical to transfer as planned from HBRIC to HBRC. Transferring the additional amount would have created onerous tax consequences. Furthermore, the IPO raised an additional $27M compared to the LTP expectations. Any capital achieved over and above the forecasted $83M would initially remain in HBRIC due to Tax consequences.

17. Following the unfavourable binding ruling decision, HBRIC continued to explore options to transfer the IPO funds in a tax efficient manner to HBRC. Upon consultation with PwC a decision was made in June 2020 by Council and the HBRIC board to transfer/ sell circa 16M of Jarden held domestic investments to HBRC in return for an interest bearing loan. This arrangement transferred all risks and rewards of ownership of the funds to HBRC and enabled HBRC to benefit from future earnings and capital gains of the investments transferred.

18. The remaining $45M is invested by HBRIC and governed by the HBRC SPIO.

18.1. As part of the Investment Strategy of the LTP 2021-31, the SIPO of HBRIC will be considered to take advantage of the benefits a CCTO has over Local Government.

PONL IPO Proceeds breakdown summary:	IPO	>	HBRIC	HBRC
	$000		$000	$000
Gross IPO Proceeds	108			
Net IPO Proceeds * Ring Fenced Amount	107	>		
Fully Imputed Dividend Paid to HBRC				44
FIF still held in HBRIC			35	
FIF HBRIC			27	
Internal Loans			(17)	17
Total	**107**	**>**	**45**	**61**

Liquidity - Cash & Cash Equivalents

	Asset	FY19-20		
		$000	%	%
	Cash	4,022		61.7
*	HBRC Held Cash	3,553	88.3	
	Works Group	138	3.4	
	Other – managed trusts	330	8.3	
	Short-term bank deposits	2,500		38.3
-	Cash & and cash equivalents	6,522		100

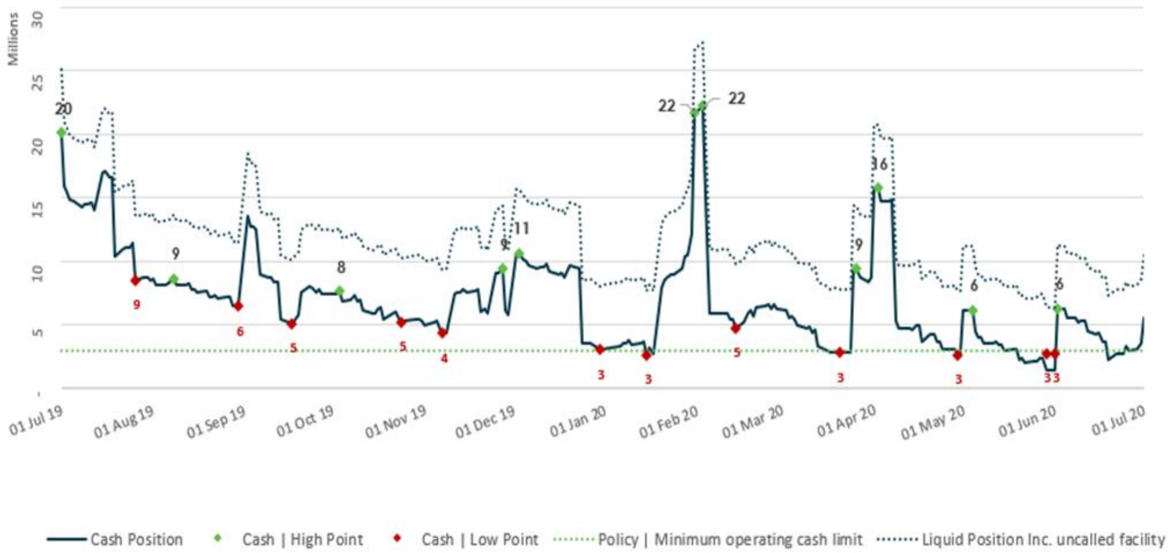
* *$650k is marked to rebalance the disaster damage reserve referenced in the report.*
- The remaining Term Deposit was invested for 84 days & returned 1.65%.

19. With the Reserve Bank of New Zealand (RBNZ) currently setting unprecedented monetary policy easing, the forecast for returns from Cash and Cash Equivalents type investments is to remain low, when compared to Pre Covid-19 levels.

20. This is unfavourable for Council's FY20-21 Annual Plan forecast interest earned from Cash and Cash Equivalents. Returns from cash was forecast at 4.5% as per the significant assumptions used in the 2018-28 LTP. However, lower cash rates will have favourable financial implications through reduced borrowing costs etc.

21. Cash and cash equivalents are used purely for working capital to enable the organisation to meet its requirements.

21.1. The following graph displays HBRC <u>daily closing cash position</u> for the FY19-20.



22. As per the Treasury policy, a minimum $3M liquidity should be accessible at all times.

23. The low material points seen in January/February are a result of rates being due in February 2020. The low points in May/June are loans yet to be drawn for debt funded activities, such as Sustainable Homes and The Erosion Control Scheme. These loans wear drawn in July 2020.

24. The Treasury Accountant reports weekly to the CFO on HBRC short term cash position (up to 13 weeks).

Debt Management

25. HBRC Loans drawn as at 30 June 2020:

Loan Id	Bank	Loan Type	Interest Rate %	Amount drawn $000	Execution	Maturity
1062	BNZ	Fixed	6.4600	500	07 Jul ‘11	30 Jun ‘21
R0423LF63	LGFA	Floating	1.5875	1,000	10 May ‘19	15 Apr ‘23
1068	BNZ	Fixed	5.7500	1,000	22 Jun ‘12	22 Jun ‘22
1072	BNZ	Fixed	6.4500	2,450	09 Dec ‘03	09 Dec ‘23
1076	BNZ	Fixed	5.7400	2,925	18 Dec ‘14	18 Dec ‘24
1078	BNZ	Fixed	4.8500	2,600	16 Dec ‘16	15 Dec ‘26
92	Westpac	Fixed	5.0950	2,750	14 Dec ‘15	18 Dec ‘25
93	Westpac	Fixed	4.5500	3,000	14 Dec ‘17	15 Dec ‘27
R0429LF63	LGFA	Floating	1.2875	1,500	10 May ‘19	15 Apr ‘29
Average			**4.5986**	**17,725**		

	Repayments		
	Principal	Interest	Total
FY Year	$000	$000	$000
FY21	3,650	896	4,546
FY22	3,150	532	3,682
FY23	3,650	374	4,024
FY24	2,300	230	2,530
FY25	1,625	135	1,760
FY26	1,050	75	1,125
FY27	600	39	639

	Repayments		
	Principal	Interest	Total
FY Year	$000	$000	$000
FY28	200	23	223
FY29	1,500	15	1,515
Total	**17,725**	**2,319**	**20,044**

26. Officers have considered refinancing the higher interest rate loans with the BNZ and Westpac Banks with a lower interest rate with the LGFA. Unfortunately, as detailed below, the penalties associated with the early repayment, and with the LGFA Principals only being repayable at loan maturity – results in a $324k unfavourable option.

27. Prior to the 2018-28 Treasury Policy, exposure to fixed / floating interest rates was not prescribed through policy and therefore a more conservative approach was taken to borrow at fixed rates. Unfortunately, in the current environment this has seen Council commit longer to higher the fixed amounts. To mitigate this exposure, new borrowing considers hedging interest risk with a combined of floating/fix rate exposure.

Consideration to Refinance	Interest $000	Total $000
BNZ early break fee	(735)	
Westpac early break fee	(528)	
LFGA Interest Charged at 1.1804% for 6.75 years	(1,169)	
Total Refinancing Costs		**(2,432)**
Westpac & BNZ Interest on current loans held	2,108	
Remain as is		**2,108**
Savings / (costs)		(324)
* *The opening balance differs to the $17.2M above as calculations where preformed in FY20-21 Q1.*		

Borrowing Limits

Ratio	HBRC %	LGFA %	Actual %
Net external debt as a % of total revenue	< 150	< 175	19.6
Net interest on external debt as a % of total revenue	< 15	< 20	1.2
Net interest on external debt as a % 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

28. The ratios mentioned above are self-imposed for HBRC and are covenant requirements for LGFA. HBRC will be reviewed as part of the Treasury policy review for the 2021-31 LTP.

Other financial assets

Managed Funds (excluding HBRIC)

29. The Managed Funds referred to in this section the entire LTIF because this sits solely on HBRC Balance Sheet, and $61M of the FIF held by HBRC.

30. At 30 June 2020 the total original capital invested by HBRC was $107.1M. At 30 June the value of both investments was valued at $111M.

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Quarter ending Fund balances.

Fund	FY18-19 $000	Q1 $000	Q2 $000	Q3 $000	Q4 $000
LTIF	41,926	49,539	50,674	46,305	49,922
FIF	-	43,967	44,724	41,712	61,105
Total	**41,926**	**93,506**	**95,398**	**88,017**	**111,027**

31. The table above, highlights the volatility seen throughout FY19-20, by outlining the investment balance at the start/end of each quarter. While this 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 any global market movements.

32. The investment strategy aims to provide capital protection for intergenerational benefit, meaning these managed funds should always be considered with a long-term view. Reacting to short term shifts in the market can have a significant financial impact in the longer term.

33. As part of the investment strategy discussion for the 2021-31 LTP the Treasury and SIPO policy settings will be reviewed and recommendations made to ensure any changes to the strategy are reflected in the policy and direction given via the SIPO to the fund managers.

Long Term Investment Fund (LTIF) - Income

	Annual Plan	Actual	Variance
Opening Balance - 01 July 2019		41,926	
Additional Capital Invested		6,578	
	50,000	48,504	(1,496)
Maintain Capital Value	1,667	1,418	(249)
Fund Council Operating Costs*	2,500	-	(2,500)
Fund Regional Reserves/Loans	833	-	(833)
Closing Balance – 30 June 2020	55,000	49,922	(5,078)

34. The LTIF actual income of $1.4M is attributed to:

    34.1. Fund earned Dividends/Interest: $0.4M

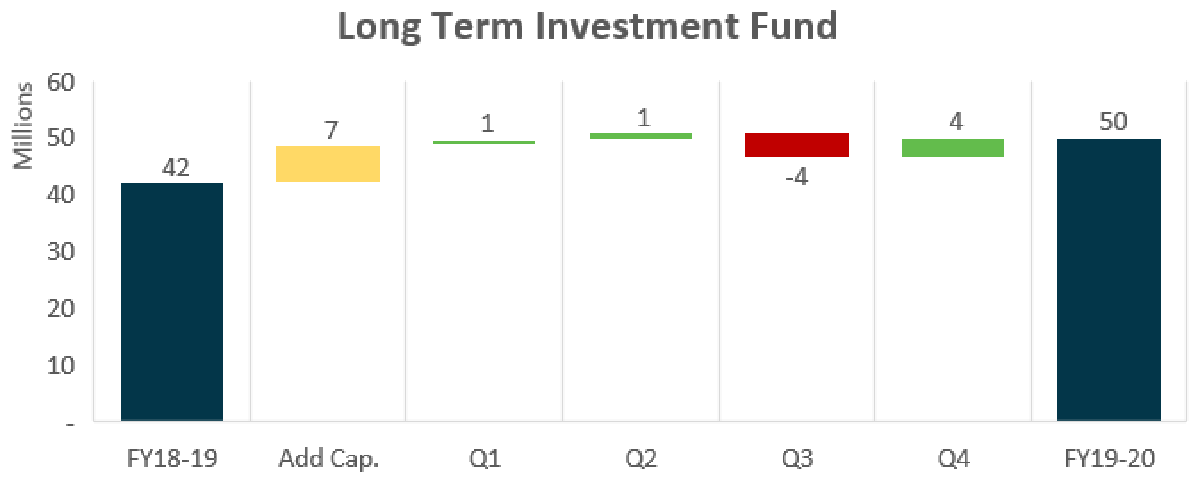
    34.2. Fund Capital Gain: $1.0M

35. Direct investment into the LTIF is $46.6M.

36. Adjusted for CPI, $48M is protected capital.

37. This equates to a potential cash withdrawal for HBRC of up to $1.9M.

38. It should be noted that the $1.9M is a life to date amount, not a FY19-20 amount.



Future Invest Fund HBRC (FIF HBRC) – Income

	Annual Plan	Actual	Variance
Opening Balance - 01 July 2019		-	
Additional Capital Invested		60,564	
	83,000	60,564	(22,436)
Maintain Capital Value	1,660	541	(1,119)
Fund Council Operating Costs*	4,150	-	(4,150)
Fund Regional Reserves/Loans	-	-	-
Closing Balance – 30 June 2020	**88,810**	**61,105**	**(27,705)**

41. As a result of the unfavourable binding ruling, less of the Napier Port IPO proceeds were passed through to HBRC, however these are held in a mirrored FIF fund in HBRIC.

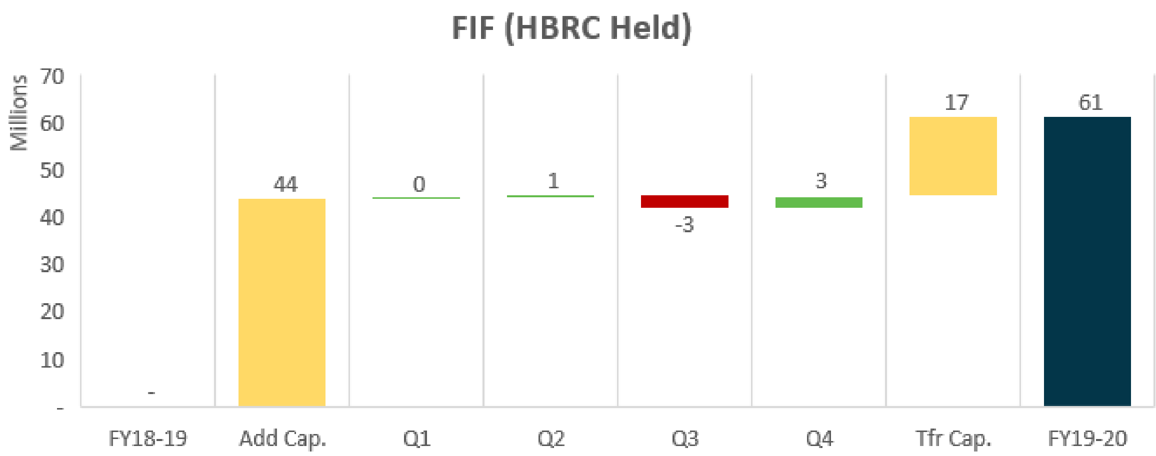
42. The FIF (HBRC) actual income of $0.5M is attributed to:

    42.1. Fund earned Dividends/Interest: $0.2M

    42.2. Fund Capital Gain: $0.3M

43. The FIF HBRC balance of $61.1M includes $60.9M of protected capital.

44. This equates to a potential cash withdrawal for HBRC of up to $0.2M.



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Government bonds and Other Funds in Management

Regional Disaster Reserve (RDR)

45. Incorporated as part of the LTP 2018-28, the RDR is set aside to meet the commercial insurance excess of $600,000 on a ‘disaster event.

46. Per Council Policy, the RDR must have liquid investments available above $2.75M.

47. During FY2018-19 $200k was utilised from the reserve and put towards the HB draught relief fund.

48. At 30 June 2020 the reserve balance was $2.8M.

Type	Maturity	Return	FY19-20		
			Interest Earned	Capital Gain	Value
		%	$000	$000	$000
GOVT Inflation-indexed bonds	20/09/2030	3	16	9	545
GOVT Inflation-indexed bonds	20/09/2025	2	6	5	280
LFGA Fixed Rated Bond	15/04/2023	5.5	10	-	175
Total			**32**	**14**	**1,000**

Fund Manager	Fund	5 Year Avg. Return	Comment	FY19-20 Value
		%		000
Milford	Active Growth	10	A medium to high risk investment, with focus of ASX.	121
Devon	Alpha Fund	5.18	A higher risk investment, with a concentrated portfolio of approx. 10-15 selected companies listed on the NZX and ASX.	66
Platinum	International	5.40	A medium risk investment, with a portfolio of 70-140 companies from across industry sectors and geographically spread.	177
Platinum	Asia	10.7	A medium to high risk investment, with a diversified portfolio of Asian (ex-Japan) companies across industry sectors.	75
Orbis	Global	8.5	A medium to high risk investment. The Fund is designed to remain fully invested in global equities. It aims to earn higher returns than world stock markets.	166
Orbis	US	(2.1)	The Fund seeks capital appreciation in US dollars on a low risk global portfolio.	76
MMC Fund	Aspiring	10	A medium risk investment. The Fund principally invests in NZX, ASX and Globally listed equities. The principal objective of the Fund is to achieve positive absolute returns averaging at least 4% over inflation	135
Total				**816**
Prior Year Returns & cash				**963**
DDR Total				**2,779**

Investment Property

Property	FY18-19		FY19-20		Change
	000	# of Properties*	000	# of Properties*	000
Endowment leasehold land	30,645	168	39,630	160	8,985
Wellington Leasehold land	17,300	12	17,750	12	450
Property at Tutira	450	1	475	1	25
Total	**48,395**	**181**	**57,855**	**173**	**9460**

* *The number of properties is different to the number of leases because of multiple dwellings etc.*

Endowment leasehold land

49. The Endowment leasehold portfolio comprises of 160 individual leases, with all but 1 (commercial) being residential leases. The majority are perpetually renewable ground leases, renewable every 21 years at a prescribed rent at 5% of the land value when reviewed.

50. As per the Hawke's Bay Endowment Land Empowering Act, Freeholding the land is permitted to only the sitting lessees and this is occurring steadily, although the rate is slowing as the proportion of cross leases remaining increases where freeholding is more complex.

51. On 17 December 2013, HBRC sold its entitlement to the next 50 annual rents of the endowment land to ACC for $37.7M to ACC; effectively creating a present-day value of a $172M loan discounted at 6.88%. These funds were originally budgeted against RWSS, however has been invested as part of the LTIF.

52. When accounting for the ACC agreement, the Endowment leasehold land incurred a $1.3M outflow of cash for the FY19-20 year as detailed below.

Financial Performance:		
	$000	$000
Annual Rent Collected	1,500	
Collection Cost (ACC)	90	
		1,590
ACC minimum repayment	(855)	
PV of Freeholding (paid to ACC)	(1,800)	
Gain/(Loss) on Value sold, when compared to present value	(260)	
		(2,915)
Total		(1,325)

53. The agreement assumed the Endowment Lands increased at 1.5% year on year. Although the Napier Market is presently out preforming this assumption, when a section is freeholded HBRC must pay out the present value of the remaining years rent previously sold to ACC which in effect reverses any upside for HBRC. This resulted in $1.8M or 18 leases being paid out in FY2019-20.

54. It is likely that in the near future, this agreement will continue to heavily favour ACC, as HBRC will likely be paying back any freeholded properties faster than it was assumed. In the longer term, it will be less onerous as the percentage of cross lease leaseholds grows, and whereby freeholding is generally more complex, and it is likely only rental payments will be due.

55. As at 30 June 2020, the minimum repayment to ACC is $45.1M, relating to the 159 leases, 90 single and 69 cross leases.

Wellington Leasehold Land

56. The Wellington portfolio comprises of 12 individual leases, within the main, inner city residentials areas of Wellington City. The majority are perpetually renewable ground leases, renewable every 14 years. At a prescribed rent between 5.00-5.25% of the land value when reviewed.

57. Annual rent received for the FY19-20 was $843k, representing a 5.1% cash return on Investment.

58. As part of the required Annual Reporting process, an annual valuation is completed on the properties. The FY2019-20 saw the investment grow $0.5M (capital gains).

Future lease renewals

59. As a requirement of the Treasury policy, below shows the leasehold properties up for renewal:

	Lease renewals				
Location	FY21	FY22	FY23	FY24	FY25
Endowment	20	16	3	8	5
Wellington	-	1	1	3	-
Total	**20**	**17**	**4**	**11**	**5**

60. As indicated above, renewals are important to the HBRC forecast, as rent requirements are set based on the Land Market Value at renewal.

Intangible Assets

	Asset	FY-18-19		FY19-20	
		$000	%	$000	%
	IT Software	5,342	65.7	6,148	60.9
*	Carbon Credits	2,785	34.3	3,948	39.1
	Intangible Assets	8,127	100	10,096	100

* NZU value at 30 June 2020 $31.90, this is compared to $23.10 in 2019.

61. 3.12 NZU (Carbon credits) have been gained from the normal forestry and berm enhancement operations of Council.

62. Council policy is to only sell safe carbon which would offer no liability to repay credits at harvest

Napier/Gisborne Rail

63. In February 2019, HBRC agreed to advance KiwiRail $1.25M as a contribution towards the reinstatement of the log freight service between Wairoa and Napier.

64. Repayment of the $1.25M, along with interest, will happen when log volumes of the line for a ‘rolling’ 6-month exceeds 90,000 tonnes.

65. Due to the Covid-19 market downturn, KiwiRail closed the line in February 2020. The 12 months (July 2019 – June 2020) volumes were 1,946 tonnes.

66. Current indications from KiwiRail’s are that the line will target to achieve a rolling 6-month tonnage of 39,000 tonnes, or 43% of the required 90,000 tonnes.

67. HBRC currently does not forecast of any repayment.

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HBRIC

Overall Summary

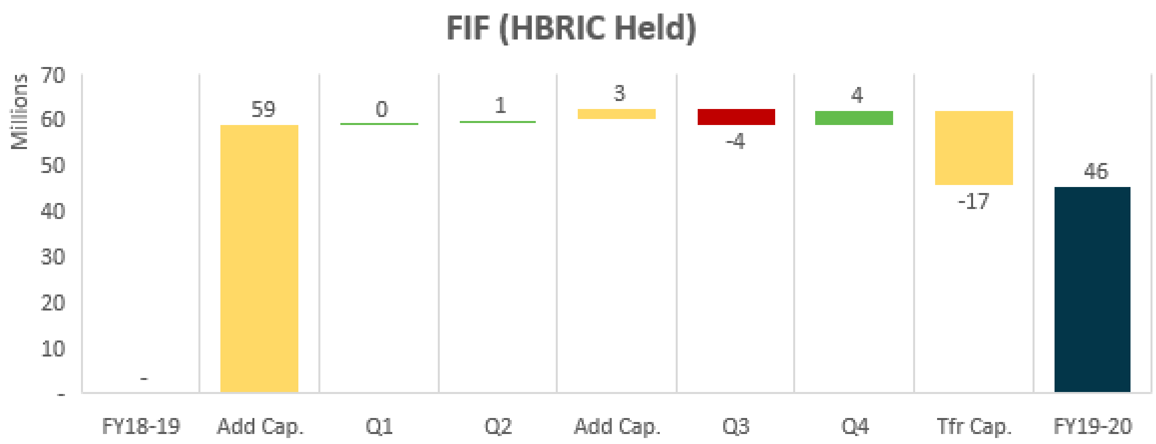
68. Subject to audit sign off, HBRIC's Net Profit after Tax was $218M.
69. Dividends passed from HBRIC to HBRC were $46.5M.
70. At year end, 30 June 2020, HBRIC held 55% of the capital in NPHL, which was valued $396M or $3.60 p/s.
71. HBRIC currently holds $1.1M Imputations Credits, which equates to ~$4m of funds able to be transferred to HBRC Tax Free.

Fund	FY18-19	Q1	Q2	Q3	FY19-20
	000	000	000	000	000
FIF	-	59,009	60,041	58,452	45,620
Total	**-**	**59,009**	**60,041**	**58,452**	**45,620**

Future Invest Fund HBRC (FIF HBRIC) - Income

	Annual Plan	Actual	Variance
Opening Balance - 01 July 2019		-	
Additional Capital Invested	n/a	45,019	
		45,019	
Maintain Capital Value	n/a	601	601
Fund Council Operating Costs*	n/a		
Fund Regional Reserves/Loans	n/a		
Closing Balance – 30 June 2020		45,620	45,620

72. The FIF held within HBRIC was not anticipated in the FY19-20 Annual Plan.
73. The FIF (HBRC) actual income of $0.6M is attributed to:
    73.1. Fund earned Dividends/Interest: $0.4M
    73.2. Fund Capital Gain: $0.2M
74. The FIF HBRIC balance of $45.6M includes $45.0M of protected capital.
75. This equates to a potential cash withdrawal for HBRC of up to $0.6M



Decision Making Process

76. Staff have assessed the requirements of the Local Government Act 2002 in relation to this item and have concluded that:

77. as this report is for information only, the decision-making provisions do not apply

78. 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:

    78.1. Monitor the performance of Council's investment portfolio.

Recommendations

That the Finance, Audit and Risk Sub-committee receives and notes the "2019-20 Annual Treasury Report".

Authored by:

Geoff Howes
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Attachment/s

There are no attachments for this report.

Item 11

HAWKE'S BAY REGIONAL COUNCIL

FINANCE AUDIT & RISK SUB-COMMITTEE

Wednesday 11 November 2020

Subject: QUARTERLY TREASURY REPORT FOR 1 JULY - 30 SEPTEMBER 2020

Reason for Report

1. This item provides an update of compliance monitoring of treasury activity and reports the performance of Council's investment portfolio for the quarter to 30 September 2020.

Background

2. The Investment management reporting requirements, outlined within Council's Treasury Policy, requires Office to inform to the Financial Audit & Risk Sub-Committee (FARS) on the Council's current investment allocation and investment performance.
3. As stated within the Policy, all Treasury investments are required to be reported on quarterly. As at Q1, 30 September 2020, the Treasury Investments to be reported on consist of:
   - 3.1. Liquidity
     - 3.1.1. Cash and Cash Equivalents
     - 3.1.2. Rates
     - 3.1.3. New debt
     - 3.1.4. Negative Interest Rates
   - 3.2. Externally Managed Investment Funds
     - 3.2.1. Long-Term Investment Fund (LTIF)
     - 3.2.2. Future Investment Fund (FIF)
   - 3.3. CCTO - HBRIC
4. Since 2018, HBRC has procured treasury advice and services from PwC. Their quarterly compliance report has been attached to this report.

Discussion

FY20-21 Performance

5. The table below shows the income to date against the FY20-21 Annual Plan.

Income	Annual Plan		YTD Annual Plan		YTD Actuals	
	$000	%[1]	$000	%[2]	$000	%[3]
Other financial assets	**5,644**	**51**	**1,411**	**71**	**5,056**	**358**
Management Funds	5,263	93	1,316	93	5,056	384
Interest	381	7	95	7	-	-
Investment property	**2,343**	**21**	**586**	**29**	**443**	**76**
Endowment leasehold land	**1,502**	**64**	**376**	**64**	**229**	**61**
Wellington Leasehold land	**841**	**36**	**210**	**26**	**214**	**100**
PONL Dividend	**3,000**	**27**	**-**	**-**	**-**	
Total	10,987		1,997		5,499	275

%[1] Annual plan - Asset income vs. Total Income
%[2] YTD planned asset income vs. Total Income
%[3] YTD asset income vs. YTD planned asset income

Key observations

6. The YTD income of $5.1M YTD equates to gross income the [LTIF & FIF] funds have increased by since 30 June 2020.
7. Of the $5.1M, $300K is what the funds have earned by way of interest, dividends & selling shares at a gain. Alternatively, $4.8M is by way of 'market' equity growth.

Liquidity - Cash & Cash Equivalents

8. Cash and cash equivalents:

Asset	30 Sep 2020		
	$000	%	%
Cash	**15,223**		**100.0**
HBRC Held Cash	14,149	92.9	
Works Group	502	3.3	
Other – managed trusts	572	3.8	
Short-term bank deposits	**-**		**-**
Cash & and cash equivalents	**6,522**		**100**

* $9m was placed in Term Deposits on 2 October 2020, ranging for a period between 17-56 days and returning on average 0.64%.

9. FY20-21 will see historical low interest rates continue throughout the year, which will limit Council' earning additional income via Term Deposits from surplus liquidity.
10. To highlight these low market rates, when placing the $9M in Term Deposits recently, the Retail Term Deposits before investment were:

Term up to:	BNZ	ASB	Kiwi Bank	ANZ	Westpac
			Interest Rate %		
30	.15	.15	.25	-	.33
60	.25	.21	.25	-	.68
90	.40	.30	.65	-	.79

11. It is expected that low interest rates will remain for a sustained period. The budgeted interest earned amount in the FY20-21 Annual Plan, was 4.5% or $0.4M for the period. Further analysis has since been completed on this significant assumption set in the 2018-28 LTP, and a 1.5% return or $0.2M, would be used as a deposit rate assumption going forward. It is expected the shortfall can mostly be mitigated through the daily management of the Council working capital via the earlier collection of rates and later borrowing based on this.

Rates and Rates Collection

12. Last year Council decided to change the due date for Rates Invoices from 1 October to 20 September and to apply the penalties on 21 September for any outstanding rates rather than 31 January which had become the pseudo due date. During the Annual Plan process it was decided to leave the penalty date as 31 January to allow those experiencing hardship to pay the rates without penalty however the due date remained as 20 September. This has seen 80% of all Rates revenue, $28.7M, now collected, compared to 23%, $6.5M at the same point last year.
13. The following table shows HBRC rolling monthly cash liquidity position. The impact of Rates being collected early is highlighted in the September liquidity position.

Cash Position	Apr 20	May 20	Jun 20	Jul 20	Aug 20	Sep 20
Millions (NZD)	Actual	Actual	Actual	Actual	Actual	Actual
Mean	6.5	3.3	4.1	6.5	3.3	9.7
High Point	15.8	6.2	6.3	15.8	6.2	18.3
Low Point	2.6	1.4	1.4	2.6	1.4	4.7
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.

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Debt Funding

14. Council raised $6.3M of funds through the LGFA tender on 8 July 2020, with principle repayments due in 2024 and 2025. The debt was to fund FY19-20 spending on Sustainable Homes and the Erosion Control Schemes.

15. New borrowings expected for the FY20-21 include:

    15.1. $7.6M – due to % rates increase and expected reduction in Investment Returns due to COVID-19

    15.2. $3.5M - Sustainable Homes

    15.3. $2.3M - Costal Erosions Schemes

    15.4. The drawn down of loans are based on cashflow requirements. As forecasting is still manual and phasing of budgets is not done, the exact timing of loan drawn downs is monitored on a weekly basis.

16. A significant forecasted cash item is the Napier Port Dividend, forecasted for December 2020 and will reduce the requirement to borrow to later in the year depending on the level of dividend.

17. Contrary to the interest earned rates mentioned earlier, the historical low OCR benefits Council where loans are expected to be raised at ~1.15%, ~1.15 less than the ~3.3% forecasted in the FY20-21 Annual Plan.

Negative Interest Rates

18. Recent forecasts have indicated that in the foreseeable future, there is a likely chance that the NZOCR will fall below 0% (currently 0.25%).

19. A negative OCR will largely concern wholesale bank rates, as banks will be driven into a position to lend money, rather than keep it and therefore paying interest the funds.

20. As a borrower, we can expect fixed rate loans will become highly competitive, however as borrowing does attract a margin (2.1% average in 2019), it will be unlikely that HBRC will be in a position where it’s being paid to borrow.

Managed Funds

21. The total capital invested by HBRC & HBRIC across the two funds was **$162.2M** as at 30 September 2020. This represents a YTD total income return of $5.1M (3%) or $4.7m after capital protection of the investment (2% as per policy).

22. Both the Long-Term Investment Fund (LTIF) and Future Investment Fund (FIF) have improved significantly since the last reported positions as at 30 June 2020.

Fund Totals

Fund	30 Sep 2019	31 Dec 2020	31 Mar 2021	30 Jun 2020	30 Sep 2020
	$000	$000	$000	$000	$000
LTIF	49,539	50,674	46,305	49,922	51,810
FIF (HBRC)	43,967	44,724	41,712	61,105	63,094
Total HBRC	93,506	95,398	88,017	111,027	114,904
FIF (HBRIC)	59,009	60,041	58,452	45,620	47,292
Total	152,515	155,439	146,469	156,647	162,196

Performance Long Term Investment Fund (LTIF)

FY20-21 Q1	Annual	Annual P.	YTD	YTD
Return	Plan	YTD	Total	
	$000	$000	$000	%
Gross of Fees			1,900	3.8
Net of Fees	1,677	419	1,418	3.7
Capital Protection (2% annualized)				.05
Real net return				3.2

23. The LTIF balance of $51.8M includes $48.2M of protected capital, which equates to a potential cash withdrawal for HBRC of up to $3.6M. It should be noted that the $3.6M is a life to date amount, not a FY20-21 amount.

24. The below table reflects what the LTIF has achieved year to date, against the FY20-21 Annual Plan.

FY20-21 Q1	Annual	Annual P.	YTD
	$000	$000	$000
Real Capital Growth	1,118	280	280
Operational Fund	1,667	419	419
Loan Reduction	559	140	719

Performance Future Investment Fund (FIF HBRC)

FY20-21 Q1	Annual	Annual Plan	Actual YTD	YTD
	Plan	YTD	Total	
	$000	$000	$000	%
Gross of Fees			1,984	3.3
Net of Fees	2,053	513	1,931	3.2
Capital Protection (2% annualized)				.05
Real return				2.7

25. The FIF balance of $63.1M includes $61.2M of protected capital, which equates to a potential cash withdrawal for HBRC of up to $1.5M. It should be noted that the $1.5M is a life to date amount, not a FY20-21 amount.

26. The following table reflects what the FIF HBRC has achieved to date, against the FY20-21 Annual Plan.

FY20-21 Q1	Annual	Annual Plan YTD	Actual YTD
	$000	$000	$000
Real Capital Growth	1,369	342	342
Operational Fund	2,053	513	513
Loan Reduction	684	171	1076

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Performance Future Investment Fund (FIF HBRIC)

FY20-21 Q1	Annual	Annual Plan	Actual YTD	YTD
Return	Plan	YTD	Total	
	$000	$000	$000	%
Gross of Fees			1,769	3.9
Net of Fees	1,533	383	1,707	3.7
Capital Protection (2% annualized)				.05
Real net return				3.2

27. The FIF HBRIC balance of $47.3M includes $46.3M of protected capital, which equates to a potential cash withdrawal for HBRC of up to $1.0M. It should be noted that the $1.0M is a life to date amount, not a FY20-21 amount.
28. The below table reflects what the FIF HBRIC has achieved to date, against the FY20-21 Annual Plan.

FY20-21 Q1	Annual Plan	Annual Plan YTD	Actual YTD
	$000	$000	$000
Capital Protection	1,022	255	255
Available for Dividend to HBRC	2,044	383	1,452

HBRIC

29. The Adopted FY20-21 annual plan, forecast $3M in dividends to be received from Napier Port Holdings Limited, via HBRIC.
30. Office's current forecast is the $3M will be received in December 2020.
31. There is speculative potential upside to this forecast. Earlier in the year, when the decision was made to cancel the interim dividend, the Napier Board did advise they intended to review the full financial year result and outlook in November 2020 before deciding on a final dividend and ensuring they stay within their dividend policy.

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 item is for information only, the decision-making provisions do not apply

portfolio.

Recommendation

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

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Attachment/s

⇩**1** HBRC Q1 2020-21 Treasury Report

Hawke's Bay Regional Council

Quarterly Treasury Reporting

As at 30 September 2020

Contents

1.0 Executive summary

Total assets under management (AUM) across the three respective portfolios was $162.24 million as at 30 September 2020, comprising $51.81 million in the Long Term Investment Fund (LTIF) and $110.43 million in the Port Future Investment Fund (PFIF). Total AUM is up from $156.7m as at 30 June 2020, an increase of 3.5% over the quarter.

Total capital contributed to the three portfolios since inception is $152.2m; adjusted for inflation, this equates to $155.98m, meaning the portfolio value at 30 September was $6.26m above the inflation adjusted contribution figure. Therefore, $6.26m 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 slight non-compliance in the investment portfolio asset allocations. The Jarden sleeve of the Port Future Investment Fund was marginally non-compliant due to a slightly elevated cash balance as at 30 September. This is currently being remedied by additional investment into NZ Fixed Income.

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 RBNZ's mandate is to achieve inflation at the targeted level (1 - 3%) and maintain employment at the maximum sustainable level, where neither is being achieved at present, further stimulus sooner rather than later is needed. A Funding for Lending Programme is likely to be announced in the 11 November MPS, and an OCR cut to -0.25% at the April 2021 meeting also remains the base case. Markets currently price an OCR of -0.25% by October 2021, meaning further downside to swap rates exist at present.

Negative interest rates will mean that Council's borrowing costs will continue to reduce where the debt is referencing BKBM. The cost of debt with the LGFA will continue to reduce as BKBM moves negative. With regards to the investment portfolio, negative interest rates will likely see an increase in the market value of the existing fixed income investments. However the yield on new fixed income securities is likely to decline. The impact on equity investments is harder to precisely determine, but may see an increase in the market value of dividend yielding shares.

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

2.0 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

3.0 Investment Management Reporting

Performance Summary - Mercer

The portfolios each returned 4.0% net of fees over the quarter, outperforming the benchmark by 1.3%. Strong relative performance was particularly felt within the Socially Responsible Global Shares Portfolios, with the unhedged portfolio outperforming its benchmark by 4.0%, and hedged outperforming by 3.0%.

	Mercer Net Returns				Mercer Benchmark Returns	
Quarter ending	LTF HBRC	HBRIC (port proceeds)	HBRC (port proceeds)		LTF HBRC	HBRIC & HBRC (port proceeds)
31/12/2018						
31/03/2019	3.7%				4.5%	
30/06/2019	2.7%				3.1%	
30/09/2019	3.0%	0.7%	0.7%		3.2%	0.7%
31/12/2019	1.2%	1.2%	1.2%		1.4%	1.4%
31/03/2020	(7.9%)	(7.9%)	(7.9%)		(8.7%)	(8.7%)
30/06/2020	7.6%	7.6%	7.6%		7.0%	7.0%
30/09/2020	4.0%	4.0%	4.0%		2.6%	2.6%
Financial YTD	4.0%	4.0%	4.0%		2.6%	2.6%
Days Invested in Financial Year	92	92	92		92	92
Financial YTD (annualised)	16.8%	16.8%	16.8%		10.7%	10.7%
Cumulative Return Since Inception	14.4%	5.0%	5.0%		13.0%	2.3%
Annualsed Return Since Inception	8.2%	4.8%	4.8%		7.5%	2.3%
Inception Date	18-Jan-19	16-Sep-19	16-Sep-19		18-Jan-19	16-Sep-19
Days Invested	621	380	380		621	380
Reported balance as at 30-Sep-20 ($)	26,041,054	32,273,255	23,059,540	**81,373,849**		
Fee adjusted balance as at 30-Sep-20 ($)						
Total Capital Contributions ($)	23,288,784	30,812,898	21,978,750	**76,080,432**		
Net Returns ($)	2,752,270	1,460,357	1,080,790	**5,293,417**		
Inflation adjusted capital ($)				**77,988,627**		

Performance Summary - Jarden

The LTIF and PFIF portfolios returned 3.5% and 2.9% respectively net of fees over the quarter; the LTIF return was in line with the benchmark, whilst the PFIF underperformed the benchmark by 0.6%. Returns were driven by another solid quarter for equity markets, supported by government and central bank stimulus as the economic outlook proves to be better than expected.

	Jarden Net Returns			Jarden Benchmark Returns	
Quarter ending	LTIF HBRC	HBRC - Port Consolidated		LTIF HBRC	HBRIC & HBRC (port proceeds)
31/12/2018	0.3%				
31/03/2019	2.7%			4.3%	
30/06/2019	2.3%			3.9%	
30/09/2019	1.9%	0.0%		3.7%	0.2%
31/12/2019	3.3%	1.6%		1.9%	1.9%
31/03/2020	(9.2%)	(5.4%)		(6.9%)	(6.9%)
30/06/2020	8.0%	5.5%		8.8%	8.8%
30/09/2020	3.5%	2.9%		3.5%	3.5%
Financial YTD	3.5%	2.9%		3.5%	3.5%
Days Invested in Financial Year	92	92		92	92
Financial YTD (annualised)	14.4%	12.0%		14.6%	14.6%
Cumulative Return Snce Inception	11.2%	4.4%		20.1%	7.0%
Annualised Return Snce Inception	6.4%	4.2%		11.4%	6.7%
Inception Date	18-Jan-19	15-Sep-19		18-Jan-19	15-Sep-19
Days Invested	621	381		621	381
Reported balance as at 30-Sep-20 ($)	25,855,128	55,095,352	**80,950,480**		
Fee adjusted balance as at 30-Sep-20 ($)			**80,919,842**		
Total Capital Contributions ($)	23,288,784	52,791,648	**76,080,432**		
Net Returns ($)	2,482,828	2,303,705	**4,786,532**		
Inflation adjusted capital ($)			**77,988,627**		

Long Term Investment Fund (LTIF)

Mercer (3 months ending 30 September 2020)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Operational Cash	127,737.16	120,193.5				0.5%	-	20.0%	Y
Index Cash Portfolio	1,007,238.39	1,008,068.0	0.1%	0.1%	0.1%	3.9%	-	20.0%	Y
NZ Sovereign Bonds	3,644,357.95	3,847,403.1	3.0%	2.6%	0.3%	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,927,885.30	3,126,366.4	1.3%	0.6%	0.7%	12.0%	5.0%	25.0%	Y
Global Credit	2,733,246.28	2,772,834.9	1.5%	1.5%	0.0%	10.6%	5.0%	25.0%	Y
Other Fixed Interest*	1,718,813.10	1,741,678.6	1.4%	0.1%	1.4%	6.7%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,763,226.25	1,845,343.9	4.8%	2.9%	1.9%	7.1%	-	18.0%	Y
Socially Responsible Overseas Shares	7,081,269.96	7,465,477	9.2%	5.8%	3.5%	28.7%	17.0%	37.0%	Y
International Listed Property	772,009.27	798,036.8	3.7%	1.2%	2.5%	3.1%	-	10.0%	Y
Unlisted Property	1,231,728.06	1,244,267.0	1.4%	(0.4%)	1.8%	4.8%	-	10.0%	Y
International Listed Infrastructure	785,817.29	781,032.7	(0.3%)	1.1%	(1.4%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,245,796.09	1,290,353.2	3.7%	0.3%	3.5%	5.0%	-	10.0%	Y
Total	**25,039,125.08**	**26,041,054.4**	**4.2%**	**2.6%**	**1.6%**	**100.0%**			

Jarden (3 months ending 30 September 2020)

LTIF HBRC

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	1,417,041.00	1,579,937.0	(0.1%)	0.1%	(0.2%)	6.1%	2.0%	8.0%	Y
NZ Fixed Income	5,824,350.00	5,379,965.0	1.4%	1.7%	(0.3%)	20.9%	15.0%	24.0%	Y
International Fixed Income	6,085,765.00	6,123,957.0	0.6%	0.7%	(0.1%)	23.8%	23.0%	28.0%	Y
NZ Property	424,087.00	629,166.0	10.2%	13.3%	(3.1%)	2.4%	1.0%	4.0%	Y
NZ Equities	3,402,147.00	3,637,458.0	7.5%	2.6%	4.9%	14.1%	13.0%	18.0%	Y
Global Equities	7,357,153.00	8,014,654.0	6.3%	7.4%	(1.1%)	31.1%	25.0%	34.0%	Y
International Property	400,218.00	406,474.0	1.6%	1.6%	0.0%	1.6%	1.0%	4.0%	Y
Total	**24,910,761.00**	**25,771,611.0**	**3.5%**	**3.5%**	**(0.0%)**	**100.0%**			

- The Long Term Investment Fund (LTIF) was $51.813 million in size as at 30 September 2020, up from $47.609 million as at 30 June 2020.
- Total capital invested into the PFIF is $46.578 million. Adjusted for CPI (actual inflation), this was $48.133 million as at 30 September, leaving $1.555 million in inflation reserves.
- The Mercer sleeve of the PFIF returned 4.0% net of fees over the September quarter, bringing the total cumulative return since inception to 14.4% (8.2% annualised).
- The Jarden sleeve of the PFIF returned 3.5% net of fees over the September quarter, bringing the total cumulative return since inception to 11.2% (6.4% annualised).
- Portfolio Compliance with Statement of Investment Policies and Objectives - both the Mercer and Jarden portfolios are compliant.

Port Future Investment Fund (PFIF)

Mercer (3 months ending 30 September 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	158,307.5	148,958.4				0.5%	-	20.0%	Y
Index Cash Portfolio	1,248,292.8	1,249,320.9	0.1%	0.1%	0.1%	3.9%	-	20.0%	Y
NZ Sovereign Bonds	4,516,533.4	4,768,171.7	3.0%	2.6%	0.3%	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	3,628,593.0	3,874,575.0	1.3%	0.6%	0.7%	12.0%	5.0%	25.0%	Y
Global Credit	3,387,372.6	3,436,435.6	1.5%	1.5%	0.0%	10.6%	5.0%	25.0%	Y
Other Fixed Interest^	2,130,163.1	2,158,500.8	1.4%	0.1%	1.4%	6.7%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	2,185,205.3	2,286,975.5	4.8%	2.9%	1.9%	7.1%	-	18.0%	Y
Socially Responsible Overseas Shares	8,775,974.4	9,252,130.2	9.2%	5.8%	3.5%	28.7%	17.0%	37.0%	Y
International Listed Property	956,768.2	989,024.6	3.7%	1.2%	2.5%	3.1%	-	10.0%	Y
Unlisted Property	1,526,507.8	1,542,047.6	1.4%	(0.4%)	1.8%	4.8%	-	10.0%	Y
International Listed Infrastructure	973,880.7	967,951.0	(0.3%)	1.1%	(1.4%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,543,942.6	1,599,163.3	3.7%	0.3%	3.5%	5.0%	-	10.0%	Y
Total	**31,031,541.40**	**32,273,254.6**	**4.2%**	**2.6%**	**1.6%**	**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	113,112.2	106,432.2				0.5%	-	20.0%	Y
Index Cash Portfolio	891,916.8	892,651.4	0.1%	0.1%	0.1%	3.9%	-	20.0%	Y
NZ Sovereign Bonds	3,227,105.0	3,406,902.9	3.0%	2.6%	0.3%	14.8%	5.0%	25.0%	Y
Overseas Sovereign Bonds	2,592,663.4	2,768,419.8	1.3%	0.6%	0.7%	12.0%	5.0%	25.0%	Y
Global Credit	2,420,309.1	2,455,365.1	1.5%	1.5%	0.0%	10.6%	5.0%	25.0%	Y
Other Fixed Interest^	1,522,021.3	1,542,268.9	1.4%	0.1%	1.4%	6.7%	-	10.0%	Y
Socially Responsible Trans-Tasman Shares	1,561,349.5	1,634,065.2	4.8%	2.9%	1.9%	7.1%	-	18.0%	Y
Socially Responsible Overseas Shares	6,270,515.2	6,610,732.9	9.2%	5.8%	3.5%	28.7%	17.0%	37.0%	Y
International Listed Property	683,619.7	706,667.3	3.7%	1.2%	2.5%	3.1%	-	10.0%	Y
Unlisted Property	1,090,704.0	1,101,807.3	1.4%	(0.4%)	1.8%	4.8%	-	10.0%	Y
International Listed Infrastructure	695,846.8	691,610.0	(0.3%)	1.1%	(1.4%)	3.0%	-	10.0%	Y
Unlisted Infrastructure	1,103,161.3	1,142,617.0	3.7%	0.3%	3.5%	5.0%	-	10.0%	Y
Total	**22,172,324.32**	**23,059,539.9**	**4.2%**	**2.6%**	**1.6%**	**100.0%**			

Total Future Investment Fund (PFIF)	**53,203,865.7**	**55,332,794.5**	**4.2%**	**2.6%**	**1.6%**

Jarden (3 months ending 30 September 2020)

HBRC Consolidated

Asset Class	Opening Balance	Closing Balance	Gross Return	Benchmark Return	Perf. vs Benchmark	Asset Allocation	SAA Ranges		Portfolio Compliant?
Cash	5,133,106.0	4,573,474.0		0.1%	(0.1%)	8.3%	2.0%	8.0%	N
NZ Fixed Income	15,279,084.0	12,283,857.0		1.7%	(1.7%)	22.3%	15.0%	24.0%	Y
International Fixed Income	10,754,068.0	12,712,861.0		0.7%	(0.7%)	23.1%	23.0%	28.0%	Y
NZ Property	763,364.0	1,185,631.0		13.3%	(13.3%)	2.2%	1.0%	4.0%	Y
NZ Equities	7,038,315.0	7,750,393.0		2.6%	(2.6%)	14.1%	13.0%	18.0%	Y
Global Equities	13,951,510.0	15,955,036.0		7.4%	(7.4%)	29.0%	25.0%	34.0%	Y
International Property	624,340.0	634,100.0		1.6%	(1.6%)	1.2%	1.0%	4.0%	Y
Total	**53,543,787.00**	**55,095,352.0**	**3.0%**	**3.5%**	**(0.5%)**	**100.0%**			
Total Future Investment Fund (PFIF)	**53,543,787.0**	**55,095,352.0**	**1.8%**	**2.0%**	**(0.3%)**				

- The Port Future Investment Fund (PFIF) was $110.428 million in size as at 30 September 2020, up from $106.748 million as at 30 June 2020.
- Total capital invested into the PFIF is $105.583 million. Adjusted for CPI (inflation), this was $108.349 million as at 30 September, leaving $2.079 million in inflation reserves.
- The Mercer sleeve of the PFIF returned 4.0% net of fees over the September quarter, bringing the total cumulative return since inception to 5.0% (4.8% annualised).
- The Jarden sleeve of the PFIF returned 2.9% net of fees over the September quarter, bringing the total cumulative return since inception to 4.4% (4.2% annualised).
- Portfolio Compliance with Statement of Investment Policies and Objectives - The Mercer portfolio remains compliant, while the Jarden portfolio is slightly overweight Cash. This overweight cash position is currently being resolved with additional investment in NZ Fixed Income.

Summary of Assets Under Management (AUM)

A summary of quarterly AUM can be found below. The inflation adjusted column adjusts the initial capital contribution by an annual inflation rate of 2% (or 0.5% per quarter).

Long Term Investment Fund (LTIF)

	LTIF - AUM			
	Mercer	Jarden	Total	Inflation Adj.
Initial capital				46,577,569
31/12/2018				
31/03/2019	20,467,057	20,403,260	40,870,317	46,763,879
30/06/2019	21,035,196	20,874,345	41,909,541	46,997,698
30/09/2019	24,960,088	24,579,337	49,539,425	47,232,687
31/12/2019	25,259,718	25,391,673	50,651,390	47,468,850
31/03/2020	23,247,769	23,057,262	46,305,031	47,706,194
30/06/2020	25,039,125	24,910,760	49,949,885	47,944,725
30/09/2020	26,041,054	25,771,612	51,812,666	48,184,449

Port Future Investment Fund (PFIF)

	Port Proceeds - AUM			
	Mercer	Jarden	Total	Inflation Adj.
Initial capital				105,583,295
31/12/2018				
31/03/2019				
30/06/2019				
30/09/2019	51,768,215	51,497,929	103,266,144	105,663,630
31/12/2019	52,389,658	52,326,900	104,716,558	106,191,948
31/03/2020	49,397,540	50,766,571	100,164,111	106,722,908
30/06/2020	53,203,866	53,543,786	106,747,652	107,256,523
30/09/2020	55,332,795	55,095,352	110,428,147	107,792,805

Combined Funds (LTIF & PFIF)

	Total AUM			
	Mercer	Jarden	Total	Inflation Adj.
Initial capital				
31/12/2018				
31/03/2019	20,467,057	20,403,260	40,870,317	46,763,879
30/06/2019	21,035,196	20,874,345	41,909,541	46,997,698
30/09/2019	76,728,303	76,077,266	152,805,569	152,896,317
31/12/2019	77,649,376	77,718,573	155,367,948	153,660,798
31/03/2020	72,645,309	73,823,833	146,469,142	154,429,102
30/06/2020	78,242,991	78,454,546	156,697,537	155,201,248
30/09/2020	81,373,849	80,866,964	162,240,813	155,977,254

4.0 Treasury Investments

Deal Date	Bank	Deposit	Amount (NZD $m)	Maturity	Interest Rate
30-Sep-2020	BNZ	Cheque/call	14.89	N/A	N/A

5.0 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-Sep-20
Liquidity Buffer:	10%		
Actual	**86%**		
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	**26%**	**40%**	**34%**
Policy Compliance	Y	Y	Y
Weighted Average Duration:			
Funding		**4.07 Years**	
Fixed Rate Portfolio (swaps and fixed rate loans)		**5.12 Years**	
Weighted average fixed rate (swaps & term loans/bonds)		**5.32%**	
All up cost of borrowing (On Drawn Debt)		**4.06%**	

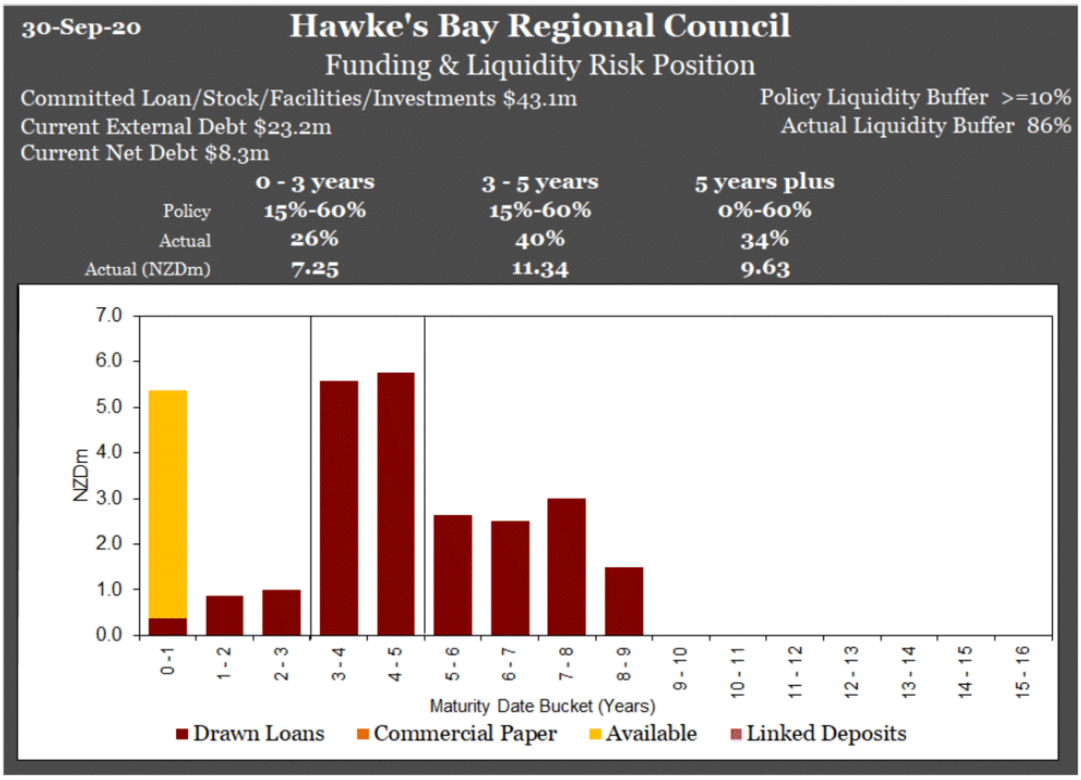
New treasury transactions in the period are outlined in Appendix 1.

6.0 Borrowing Limits

Ratio	Hawke's Bay Regional Council	LGFA Lending Policy Covenants	**Actual (as at 30 September 2020)**
Net external debt as a percentage of total revenue	<150%	<175%	34.6%
Net interest on external debt as a percentage of total revenue	<15%	<20%	1.8%
Net interest on external debt as a percentage of annual rates income	<20%	<25%	4.5%
Liquidity buffer amount comprising liquid assets and available committed debt facility amounts relative to existing total external debt	>10%	>10%	86.0%

7.0 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.



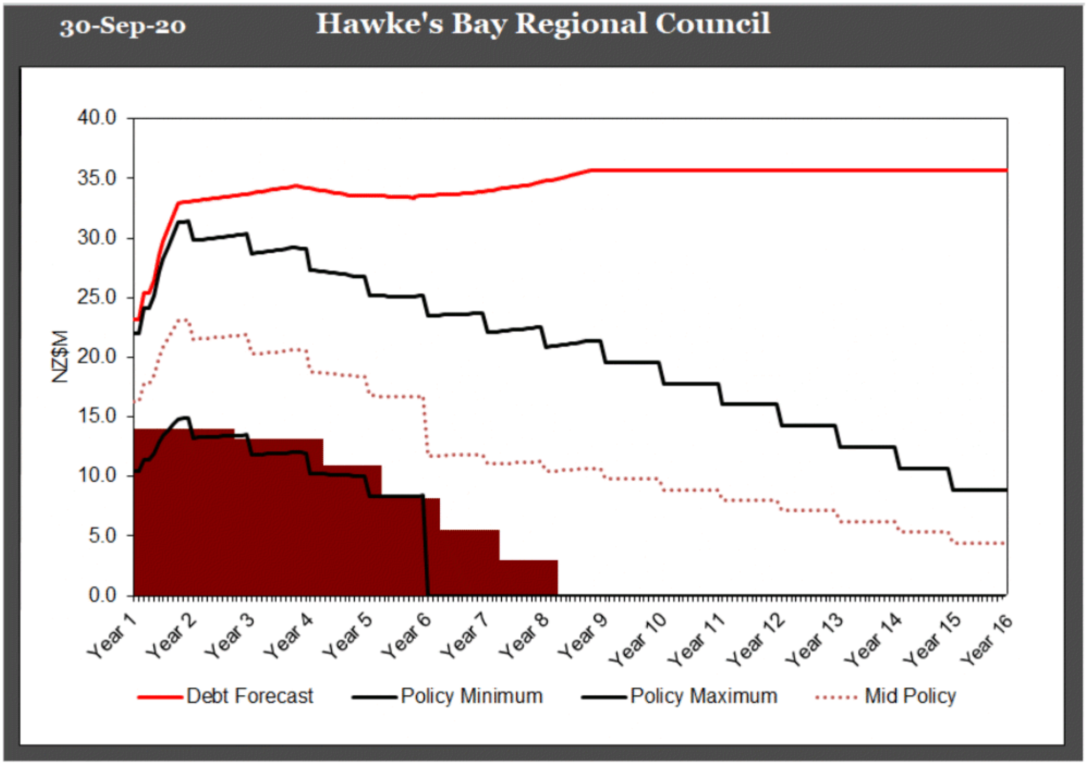
Debt Funding Strategy

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.

8.0 Interest Rate Risk Position

This section is based on the 2018 LTP debt forecast and may change upon the adoption of the new LTP. 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.

9.0 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	2.32	2.32
Excess amount	**2.68**	**2.68**

10.0 Cost of Funds vs Budget

Month		YTD	
Actual ($m)	**Budget ($m)**	**Actual ($m)**	**Budget ($m)**
0.19	0.13	0.22	0.38

11.0 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	14.90	Yes
Kiwibank	0.00	0.00	Yes
LGFA	0.00	0.00	Yes

12.0 Market Commentary

Equity markets

It was another good quarter for global equities despite a slight pullback through September. Markets remained buoyed by low interest rates, continued improvements in economic data, ongoing stimulus and a combination of TINA (there is no alternative) and FOMO (fear of missing out). Towards the end of the quarter concerns over a second or even third wave of COVID-19 in Europe and parts of the US together with delays in further US fiscal stimulus resulted in rising market volatility and a minor correction particularly in the strong performing technology and healthcare sectors. The extent of the correction was limited in our view by high cash weightings in many portfolios and a market behaviour of 'buying the dips'.

Most regions delivered positive returns in NZ Dollar terms despite the stronger NZ dollar with the technology heavy S&P 500 up 5.7%, the Nikkei up 3.5%, the MSCI European Index up 1.9% and the MSCI Emerging markets Index up 6.9% helped by a strong performance in the Chinese market. The notable exception was the FTSE 100 which was down 3.2% in NZ dollar terms as ongoing Brexit uncertainty and rising COVID-19 cases hurt both the equity market and the currency. Volatility did pick up in September as markets weighed the rising incidence of COVID and politicisation of another US fiscal package against higher equity market valuations.

The New Zealand market certainly took a breather in the September quarter following an eventful first two quarters of the year. While the headline index rose 2.6% for the three months to 30 September, it wasn't all smooth sailing beneath the surface. Major events included the announcement by Rio Tinto that it intends to close the Tiwai Point smelter, the re-emergence of COVID-19 community transmission in NZ, and the August reporting season.

With the potential closure of Tiwai Point far from a done deal at this point, it is creating a reasonable level of earnings uncertainty for the Electricity sector. The other key development over the quarter was the re-emergence of COVID-19 within the community. While the second round of lockdown measures was largely targeted at Auckland, there was still an impact on the wider country as well. This again highlighted the risks of becoming overly optimistic in regard to a post-COVID recovery, particularly for sectors directly in the crosshairs.

The September quarter is typically quite a telling period for the Australian market. The August reporting season usually decides (broadly) the years' winners and losers, as investors digest result announcements and outlook statements for the year ahead. This year has been slightly different, not least because of COVID-19. Many of the winners and losers (both sector and stock specific) were judged in the June quarter – mainly dictated by their expected level of earnings exposure to the COVID-19 disruption. This year, the September quarter has been more about consolidation, with most of the jostling for positions happening in the June quarter.

Funding markets

During the September quarter LGFA issued $1.3 billion of bonds across seven bond maturities via two bond tenders and a syndication with the highlight being the 2037 syndication opening up a new longer dated maturity.

The Statement of Intent (SOI) forecasts for long term borrowing were $2.53 billion (2020-21), $2.10 billion (2021-22) and $2.15 billion (2022-23).

Based upon updated council borrowing forecasts, LGFA have revised the projected annual programme to $2.83 billion (2020-21), $2.4 billion (2021-22) and $2.15 billion (2022-23). This implies an increase to the forecast funding requirement of NZ$300 million for each of the 2020-21 and 2021-22 years.

Having completed $1.3 billion of funding in Q1 2020-21, this implies a $1.5 billion borrowing requirement in the nine month period to 30 June 2021.

The 2020-21 bond tender programme dates remain unchanged but as always, LGFA reserve the right to replace one or more tenders with syndications and could prefund some of the 2021-22 funding requirements earlier if market conditions are conducive.

One council (South Waikato District Council) joined as a borrower and guarantor over the quarter bringing the total number of members to sixty-eight. Northland Regional and Westland District Councils both moved from non guarantors to become guarantors, bringing the total number of guarantors to fifty-six.

Total term borrowing by councils over the quarter was $1.10 billion bringing total term loans to $11.62 billion and short term loans of $283.6 million as at 30 September 2020.

LGFA released its annual report for the 2019-20 year to the NZX on 28 August 2020.

RBNZ purchases of LGFA bonds under the Large Scale Asset Purchase ("LSAP") Programme totalled $445 million during the quarter.

Interest rate markets

The RBNZ cut the OCR by 75bps in March to 0.25% and reaffirmed forward guidance at its September meeting that the OCR will remain at this level until at least March 2021, along with maintaining the QE programme at $100 billion until June 2022. QE 'capped' at 60% of nominal NZGBs on issue, 30% of new government inflation-indexed bonds, and up to 30% of LGFA bonds on issue.

Next preferred policy option is implementation of a Funding for Lending programme followed by a negative OCR. Business failures are inevitable, minimised through government/RBNZ initiatives. Domestic (and global) economic data is improving but the outlook remains uncertain. Extension of the mortgage deferral scheme should support the housing market while the number of 'interest only' mortgage restructurings and principal + interest deferrals remain elevated. Increased possibility that the OCR goes 'negative' in mid 2021.

Long-term NZ swap rates are biased lower with global rates likely to remain under structural pressure lower. The introduction of the domestic QE programme will manage and reduce the steepness at the long end of the curve to an extent, supporting a better functioning market.

Growth from our key export trading nations, Australia, China and Europe is markedly softer. U.S. Federal Reserve cut interest rates to near-zero (0.00%-0.25%) and significantly increased asset purchases. Fed's Powell commented 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 so there is 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.

13.0 Policy exceptions

Date	Detail	Approval	Action to rectify*
TBC	Jarden SIPO cash allocation non-compliant (above target range)	Y	Additional investment in NZ Fixed Income is currently being implemented to lower cash allocation.

*The Jarden sleeve of the Port Future Investment Fund was marginally non-compliant due to a slightly elevated cash balance as at 30 September. Specifically, a small portion of Fixed Income securities due to mature within six months were classified as cash. This is currently being remedied by additional investment into longer dated NZ Fixed Income.

14.0 New Treasury Transactions up to 30/09/2020

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