

**Mayor and Councillors**  
COUNCIL

24 JANUARY 2019

Meeting Status: **Public**

Purpose of Report: For Decision

## **KĀPITI INVESTMENT FUNDS**

### **PURPOSE OF REPORT**

- 1 This report asks the Council to cease further work with regard to the proposed establishment of the Kāpiti Resilience Fund and the Kāpiti Growth Fund (Kāpiti Investment Funds).

### **DELEGATION**

- 2 Council has the authority to consider this matter.

### **BACKGROUND**

- 3 Through the 2018 Long Term Plan process, the Council approved the establishment of two investment funds – the Kāpiti Resilience Fund and the Kāpiti Growth Fund. These funds provide the opportunity to provide alternate funding for projects that the Council might not normally be able to do.
- 4 A number of councils across New Zealand invest in managed funds of varying sizes or other commercial business opportunities to provide new ways of funding what our community want us to deliver.
- 5 The Council has engaged a firm of independent investment governance advisers to help set up the appropriate governance protocols for the two investment funds, and to ensure that the Council has robust risk management, monitoring and reporting processes in place.
- 6 These funds were planned as long term investments managed by professionals, much in the same way KiwiSaver operates, with the aim of achieving a return over the long term. The experts that advise the Council are highly experienced financial advisors with many years spent working in the New Zealand Super Fund.
- 7 In July, the Council's Treasury Management Policy was amended to ensure that it caters for and supports the establishment of the proposed funds.
- 8 The Council's Investment Policy Statement, adopted on Thursday 16 August 2018, sets out the Council's investment philosophy, expectations, objectives and guidelines to ensure any investment portfolio is monitored and managed appropriately.

- 9 At the Operations and Finance Committee meeting, where the Investment Policy Statement was approved, it was agreed that a report would be presented to Council before progressing with the next stage of analysis and due diligence required to implement the funds. This was to ensure that Councillors were comfortable with the level of risk following two detailed workshops on risk and governance held for elected members and presented by external professional fund advisors.

## ISSUES AND OPTIONS

### Issues

- 10 There has been some level of concern raised in the community and with elected members about the level of risk associated with the investment funds, particularly given that in the financial markets currently there is a level of uncertainty around the equity markets.
- 11 During the workshops there was also concern raised that future Councils may not understand that the investments need to be managed as long term investments and it is important that a long term view of return is maintained.
- 12 Due to the uncertainty around the equity markets, there has been a considerable amount of media attention about the downturn in KiwiSaver funds over the last few months, which has heightened the level of uncertainty about the Kāpiti Investment Funds. While funds have reduced it in the short term, it is important to ensure that a longer term view of investments is maintained.
- 13 Appendix 1 includes a summary of the investment earnings for a range of KiwiSaver fund types prepared by Morningstar. Morningstar is a group of independent analysts who regularly monitor the performance of KiwiSaver funds of different risk profiles. As the analysis shows, there are weak returns over the short term for the growth based investment funds due to the current downturn.
- 14 Current market conditions are not favourable for establishing new funds, based on the short term returns and the volatility in global equities. Between September and November 2018, 1-year yields have dropped significantly.
- 15 Concerns of a few in the community also prompted the Deputy Auditor General to meet with the Chief Executive to understand the proposal. He subsequently issued a letter confirming that the Council needs to be aware of the requirement to adequately assess risk and return when making a decision to enter into investment funds. This was discussed in detail with Councillors during the two Investment Governance workshops held during 2018.
- 16 Because the recommendation is to not proceed with the investment funds, officers have not undertaken the next stage of detailed analysis and due diligence required to progress towards implementing the investment funds. This was planned to be completed with external professionals.

## Option 1

- 17 Agree to not progress further with the next stage of analysis and due diligence required to implement the Kāpiti Investment Funds at this time.

## Option 2

- 18 Progress with the next stage of analysis and due diligence required to implement the Kāpiti Investment Funds during this triennium.

## CONSIDERATIONS

- 19 The Investment Policy statement and the Treasury Management Policy do not require amendment if the Council chooses not to progress at this time with the Kāpiti Investment Funds.

## Legal considerations

- 20 The decision on whether to proceed or not with the fund is within the delegations of the Council.

## Financial considerations

- 21 The additional insurance costs (\$150,000) and emergency management - WREMO costs (\$75,000) planned to be funded from investment fund earnings will require funding from rates or other sources if the Kāpiti Investment Funds do not proceed.
- 22 Any growth or resilience related projects that may arise will need to be funded from rates or other sources if the Kāpiti Investment Funds do not proceed.
- 23 The investment funds will be removed from the 2019/20 Annual Plan if the Council votes to not progress with the Kāpiti investment funds during 2018/19. There is no impact on rates for 2019/20 through this change, as the funds have not been set up as a means of offsetting rates related costs (other than one-off smoothing effects such as in 2018/19, in paragraph 21 above).

## Tāngata whenua considerations

- 24 Tāngata whenua have not been directly consulted with on whether or not to progress with the Kāpiti investment funds

## SIGNIFICANCE AND ENGAGEMENT

### Significance policy

- 25 This matter has a low to moderate level of significance under the Council's Significance and Engagement Policy.

### Consultation already undertaken

- 26 At the 16 August, 2018 Operations and Finance Committee meeting where the Investment Policy Statement for the investment funds was approved, it was agreed that officers would come back to a future Council meeting with a plan for consulting after the next stage of detailed analysis and due diligence was completed.

## Engagement planning

27 An engagement plan is not needed to implement this decision.

## Publicity

28 A media release will be completed to communicate this decision. The decision will also be reflected in the 2019/20 Annual Plan communications.

## RECOMMENDATIONS

29 That the Council resolves to not progress further with the Kāpiti Investment Funds.

### Report prepared by

### Approved for submission

Jacinta Straker  
**Chief Financial Officer**

Wayne Maxwell  
**Chief Executive**

## ATTACHMENTS

Appendix 1 – Investment Watch - Top 40 KiwiSaver funds by assets under management

Source: Morningstar - The Dominion Post - Monday, January 14, 2019 - Page 17

Appendix 1 – Investment Watch - Top 40 KiwiSaver funds by assets under management

<b>Investment Watch - Top 40 KiwiSaver funds by assets under management</b>	<b>Rtn 1Y %</b>	<b>Rtn 5Y %</b>	<b>Price Date</b>
AMP Kiwisaver Default (Default)	2.16%	4.78%	9/01/2019
AMP Kiwisaver LS Balanced Fund	1.37%	5.85%	9/01/2019
AMP Kiwisaver LS Growth Fund	1.37%	6.72%	9/01/2019
AMP KiwiSaver LS Moderate Balanced Fund	1.36%	5.36%	9/01/2019
AMP KiwiSaver LS Moderate Fund	1.37%	4.83%	9/01/2019
ANZ Default KiwiSaver Scheme Cnsv(Dflt)	2.27%	5.21%	9/01/2019
ANZ Kiwisaver-Balanced	1.93%	6.89%	9/01/2019
ANZ KiwiSaver- Balanced Growth	2.08%	7.92%	9/01/2019
ANZ KiwiSaver -Cash	2.25%	2.77%	9/01/2019
ANZ KiwiSaver- Conservative	1.62%	4.85%	9/01/2019
ABS KiwiSaver- Conservative Balanced	1.80%	5.88%	9/01/2019
ANZ Kiwisaver- Growth	2.11%	8.83%	9/01/2019
ASB KiwiSaver Scheme's Balanced	2.31%	7.86%	31/12/2018
ASB KiwiSaver Scheme's Cnsv (Default)	2.55%	5.25%	31/12/2018
ASB KiwiSaver Scheme's Growth	2.85%	9.19%	31/12/2018
ASB KiwiSaver Scheme's Moderate	2.47%	6.49%	31/12/2018
ASB KiwiSaver Scheme's NZ Cash	2.06%	2.69%	31/12/2018
BNZ KiwiSaver Conservative (Default)	1.73%	5.32%	8/01/2019
BNZ KiwiSaver Growth Fund	1.93%	8.50%	8/01/2019
BNZ KiwiSaver Moderate Fund	1.50%	6.48%	8/01/2019
Booster KiwiSaver Balanced	2.48%	6.59%	8/01/2019
Fisher Funds Conservative Kiwisaver Fund	3.01%	5.27%	8/01/2019
Fisher Funds Growth KiwiSaver Fund	4.24%	8.37%	8/01/2019
Fisher TWO KiwSaver Cash Enhanced(Dflt)	2.86%	5.34%	8/01/2019
Fisher TWO KiwSaver Scheme-Bal	3.35%	7.10%	8/01/2019
Fisher TWO KiwiSaver Scheme-Gr	3.42%	8.05%	8/01/2019
Generate KiwiSaver Focused Growth Fund	3.87%	10.32%	9/01/2019
Generate KiwiSaver Growth Fund	5.34%	9.73%	9/01/2019
Kiwi Wealth KiwiSaver Balanced	1.59%	6.83%	-
Kiwi Wealth KiwiSaver Conservative	2.28%	4.91%	-
Kiwi Wealth KiwiSaver Growth	0.87%	8.50%	-
Mercer KiwiSaver Conservative (Default)	2.28%	5.60%	-
Milford KiwiSaver Active Growth Fund	5.71%	10.59%	9/01/2019
OneAnswer KiwiSaver-Balanced	1.96%	6.97%	9/01/2019
OneAnswer KiwiSaver-Balanced Growth	2.10%	7.98%	9/01/2019
OneAnswer KiwiSaver-Conservative	1.64%	4.87%	9/01/2019
Westpac KiwiSaver - Moderate	2.62%	-	9/01/2019
Westpac KiwiSaver - Balanced Fund	2.66%	7.40%	9/01/2019
Westpac KiwiSaver- Conservative Fund	2.60%	5.27%	9/01/2019
Westpac KiwiSaver - Growth Fund	3.08%	8.54%	9/01/2019
<b>Source: Morningstar - The Dominion Post - Monday, January 14, 2019 - Page 17</b>			