

Lessons from New Plymouth Perpetual Investment Fund

Mark Butcher

MARK BUTCHER BACKGROUND

- 2014-current New Zealand Local Government Funding Agency Limited – Chief Executive
- 2017 – current Waikato Tainui – Group Investment Committee Chair (inaugural)
- 2019- current New Zealand Super Fund – Nominating Committee member
- 2017-2023 New Plymouth PIF Guardians Limited – Chair (inaugural)
- 2011-2014 New Zealand Local Government Funding Agency Limited – Director (inaugural)
- 2010-2014 Auckland Council – Treasurer (inaugural)
- Prior to 2010 Various management roles in Fund Managements and Financial Markets

NEW PLYMOUTH PERPETUAL INVESTMENT FUND

2004 – New Plymouth District Council received \$259.4 million proceeds from sale of PowerCo shares

2004 - Taranaki Investment Management Limited (“TIML”) formed – inhouse investment management

2016 – NPDC decided to disestablish TIML effective 2017

- Positive investment returns 2004 to 2017
- Volatility of returns and illiquidity
- Unsustainable level of distributions in early years
- Concentrated investment portfolio – Tasmanian Farms

March 2017 – New Plymouth Perpetual Investment Fund (“PIF”) established

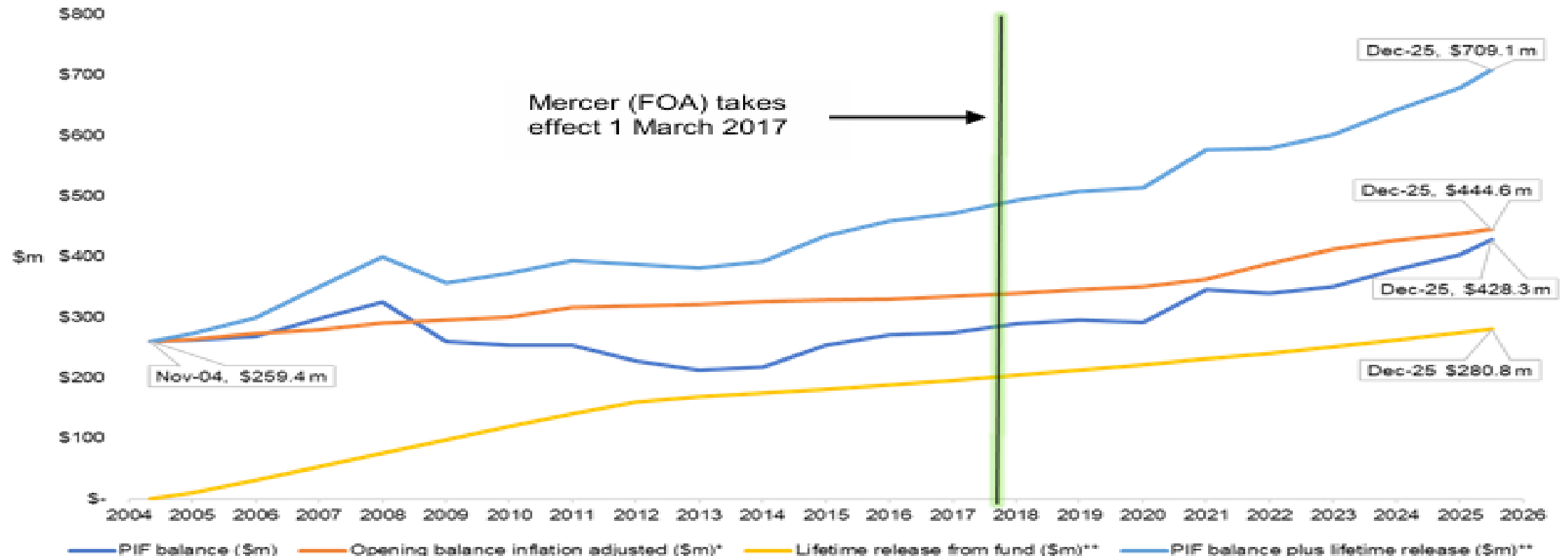
- New Plymouth PIF Guardians Limited established to manage the PIF
- Council Controlled Organisation – management company not asset owner
- 4 independent directors
- Mercer appointed as Full Outsourced Agent (“FOA”) for the PIF
- Target Return CPI+3.3% measured over a rolling 5 year average
- Statement of Investment Policies and Objectives
- Release (Distribution) Rule

July 2023 - New Plymouth District Council (Perpetual Investment Fund) Act 2023

- PIF is protected for future generations
- Benefits are ring-fenced to residents living in the district boundary as at 2023.

NEW PLYMOUTH PIF –FINANCIALS

PIF balance, release payments compared to real value of initial balance to Dec-25



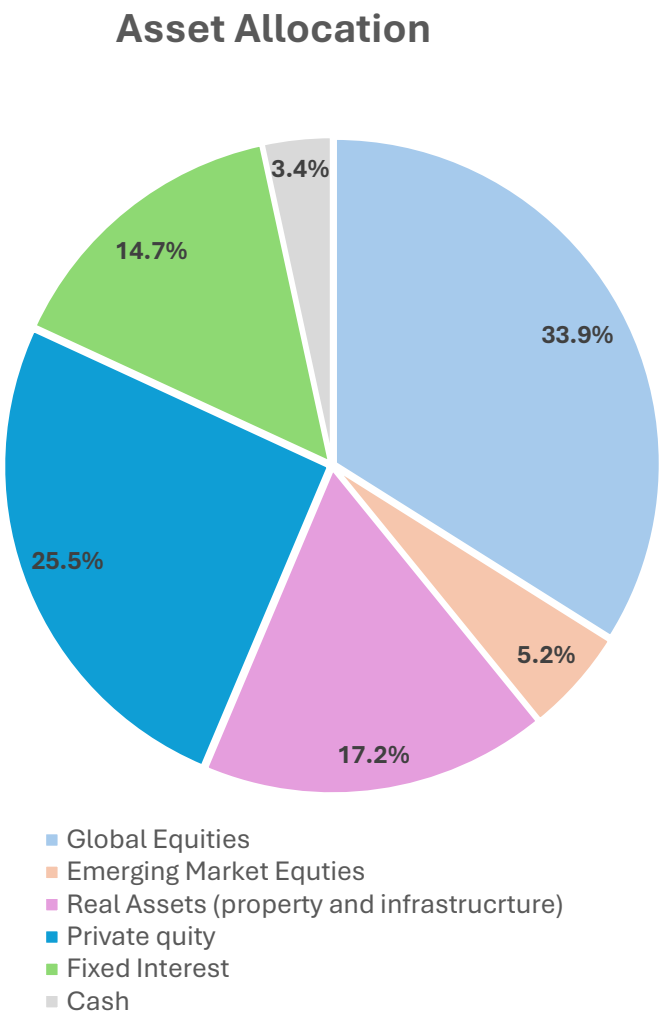
* Trend line does not include any additional investments or releases/withdrawals since the Fund was initially created.

** Trend line only adds lifetime releases from the Fund to actual balance at each year end, and therefore omits hypothetical compounding returns which would have been achieved if release amounts remained invested along with the existing balance.

NEW PLYMOUTH PIF – DETAILS AND NUMBERS (continued)

	Since Inception (November 2004)	5 years	1 year
Annual Returns (after fees and taxes)	7.50%	9.60%	12.30%
Return relative to CPI +3.3%		+1.7%	+5.9%
Distributions to Council (Release payments)	\$280.8m	\$53.5m	\$11.9m

Growth Assets	81.9%
Income Assets	18.1%



STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (SIPO)

- ☐ Investment objective

- ☐ Primary e.g. maintain real value (after CPI) after generating a return to maintain a sustainable distribution
- ☐ Secondary e.g. investment returns to exceed the benchmark return

- ☐ Asset class investment objectives

- ☐ Fees

- ☐ Risk tolerance quantification e.g. fall in the real value of the fund of more than 10% in any one year, expected at no more than once every twenty years

- ☐ Investment strategy

- ☐ Distribution calculation - need to be agreed, transparent and stable

- ☐ Investment Policy

- ☐ Asset classes
- ☐ Asset allocation ranges
- ☐ Currency hedging
- ☐ Liquidity management
- ☐ Concentration risk
- ☐ Rebalancing of portfolio
- ☐ Sustainable investment

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES (continued)

- ☐ Allocation of responsibilities
- ☐ Terms of investment mandates and constraints on the Fund
- ☐ Process for reviewing the investment strategy and updating the SIPO
- ☐ Process if a breach occurs
- ☐ Reporting requirements – typically quarterly
 - ☐ Covers qualitative and quantitative aspects
 - ☐ Performance reporting over 3-month, 1 year, 3 years, 5 years since inception time horizon

ROLES AND RESPONSIBILITIES

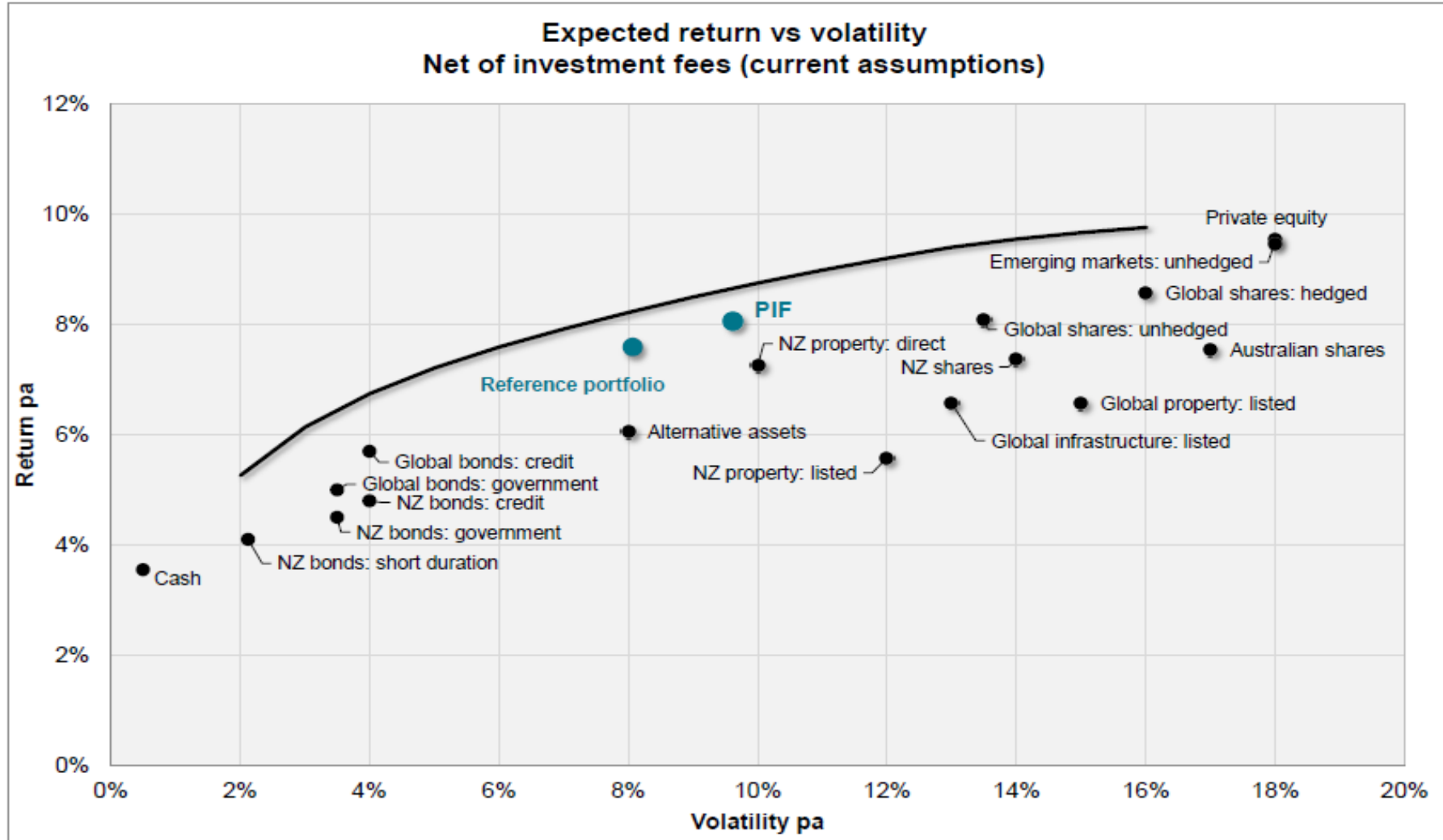
D = decision

R= recommend

A= assist

Key Areas	Activities	Council	PIF Guardians	Council staff	Full Outsourced Agent	Portfolio Admin and Fund Managers	Custodian
Strategic Objectives	Develop and approve objectives for the Fund	D	R	A			
SIPO development, approval and review	Prepare SIPO. Approve the SIPO including risk tolerance	A	D	A	A		
Asset allocation, diversification	Establish asset allocation including all investment guidelines and metrics	A	D	A	A		
FOA due diligence	Assess FOA. Evaluation of recommendations		D	R			
FOA implementation	Approve contracts and transaction assets		D	A	A	A	A
Asset allocation implementation	Invest asset in accordance with asset collation and SIPO		A	A	D	A	A
Fund manager monitoring	Quantitative and qualitative reviews of fund managers		A	A	D	A	
Performance reporting	Quarterly Reports, total returns, manager performance attribution	Receive and note	Receive and note		D	A	A
Rebalancing assets	Maintaining specific policy ranges		A	A	D	A	A
Service provider costs and review	Value for money assessment		D	A	A	A	
Annual assessment	Assessment of governance effectiveness	D	R	A			

RISK AND RETURN FOR ASSET CLASSES AND PORTFOLIO



ENDOWMENT FUND RISKS

- Market
- Liquidity
- Distribution
- Inflation
- Investment Manager
- Concentration
- Interest Rate
- Operational
- Governance and Fiduciary
- Regulatory and legal
- Reputational and ESG
- Intergenerational

MOST IMPORTANT CONSIDERATIONS

- Distribution rule
- Ring fencing of assets
- Agreement on roles and responsibilities
- Long term horizon focus
 - Reporting
 - Review of portfolio
 - Long run expected returns and losses
- Statement of Investment Policies and Objectives (“SIPO”)
- Growth vs. Income assets
- Asset class decisions
- External Manager selection
- Transition from existing investments to new structure

OTHER COUNCIL INVESTMENT POOLS

- Auckland Council - Future Fund
- Hawkes Bay Regional Council – HBRIC managed funds portfolio
- Bay of Plenty Regional Council - Quayside

QUESTIONS