

## **STATEMENT OF INTENT**

*FOR THE YEAR TO 30 JUNE 2016*

Taranaki Investment Management Limited (the Company) is a Council Controlled Organisation established pursuant to the Local Government Act 2002. Control in the Company is vested in the New Plymouth District Council (the Council).

The Statement of Intent sets out the overall intentions and objectives of Taranaki Investment Management Limited for the period 1 July 2015 to 30 June 2016 and the two succeeding years.

### **OBJECTIVES**

The Company operates with the responsibility of:

- 1 Managing the Council's Perpetual Investment Fund in terms of an agreement entered into with the Council on 14 December 2004 and as subsequently updated by memorandum of amendment with Council (hereinafter referred to as "the Agreement"), and within Investment and Treasury Policy guidelines as revised from time to time by TIML and approved by Council.
- 2 Providing the Council with advice on the Council's other equity and risk-based investments when requested.

In respect of the Council's investments the Company's objectives are:

- To meet its obligations in respect of the management of the Perpetual Investment Fund as set out in the Agreement;
- To act for or assist the Council in its role as a diligent, constructive and enquiring shareholder/investor;
- To protect and enhance the income streams from and the value of the PIF investments.

### **CONTRIBUTION TO NPDC AND THROUGH THEM TO OVERALL AIMS & OUTCOMES**

The Company's activities provide an investment return on the Council's investment fund, which enables a release payment to be made to the Council on a quarterly basis.

The release payment is based on international best practice “spending” rules and is payable on a sustainable basis, which over the long term allows the real capital of the PIF to be maintained for current and future generations at an agreed level with the shareholder.

## **GOVERNANCE & MANAGEMENT**

The Board of Directors is appointed by the shareholders to govern the Company in the interests of the shareholder and in accordance with the Company’s constitution and relevant law. The Board has adopted the principles set out in the Agreement.

The present Board comprises four independent Directors noting that the constitution allows for three to five Directors.

The management team comprises of a Chief Executive and full-time staff who manage the Perpetual Investment Fund within Company policies and provide such other commercial advice as is requested by Council pursuant to the Agreement. The Company pays the Council in respect of shared services where that is the most efficient option.

The Chief Executive reports to the Board of Directors of the Company.

## **NATURE AND SCOPE OF ACTIVITIES TO BE UNDERTAKEN**

The Agreement sets out the nature of the relationship between the Company and its shareholder, including each party’s responsibilities.

The Company will:

- Manage the Council’s Perpetual Investment Fund in accordance with the founding principles set by the Council for the Fund and its Investment and Treasury Policies.
- Provide qualitative reports to the Council through the Finance Sub-Committee on a quarterly basis, meeting the requirements identified in the Agreement.
- Review on an as requested basis the Council’s other investments.
- Identify and seek further ways of growing/optimising the value of the Council’s investments and the associated income streams. This will require the Company to keep the relevant growth strategies and profitability of its investments under continual review.
- Meet with NPDC and Councillors.
- Discuss with NPDC and Councillors:
  - The operations and strategy of the PIF
  - The execution of its investment program
  - Changes to its asset allocation policies
- Increase the information flow to Councillors about investments deemed as “CCO’s”, and familiarise relevant councillors through site visits.

## ACCOUNTING POLICIES

The TIML accounting policies for the year ended 30 June 2016 will be consistent with Council accounting policies for the year to 30 June 2016.

## PERFORMANCE TARGETS

The performance of Taranaki Investment Management Limited will be assessed against the Agreement terms, the Statement of Intent, Industry benchmarks detailed below for the performance of the PIF, and the terms of TIML's investment policy objectives.

### Benchmarks for PIF Performance:

Release payment target:

Forecast 2016 \$7.34m

Gross investment performance targets:

Real after tax return target	3.3%
5 year expected return to 2020	6.0% * see note 5 page 5
Expected portfolio return – long term	7.6%
Expense target cap	0.65%

Benchmarks	Actual Benchmark %pa over 10 years
NZ Equities – (NZX50)	6.7
Australia (ASX 200)	4.1
US (S&P 500)	2.2
UK (FTSE 100)	-(1.7)
HK (Hang Seng Index)	1.4
NZ Bonds (ANZ Govt Bond Index)	6.0
Alternative assets (Absolute return target)	12.0
PIF after tax %pa return since inception	5.8

**Target Asset Allocation:**

<b>Debt Asset Class</b>	<b>Target Asset Mix</b>
Cash and short term deposits	5.0%
NZ fixed interest securities and Bonds	5.0%
<b>Total Debt Asset Class</b>	<b>10.0%</b>
<b>Equity Asset Class</b>	<b>Target Asset Mix</b>
New Zealand Equities	5.0%
Australian Equities	5.0%
US Equities	10.0%
European Equities	10.0%
Emerging Market Equities	10.0%
<b>Total Equity Asset Class</b>	<b>40.0%</b>
<b>Property and Alternative Asset Class</b>	<b>Target Asset Mix</b>
REITS, Syndicates, Listed or Direct Property Assets	20.0%
All other alternative asset classes	30.0%
<b>Total Real &amp; Other Asset Class</b>	<b>50.0%</b>
<b>Total Portfolio</b>	<b>100%</b>

**TIML Financial Performance:**

TIML is operated on a full cost recovery basis and is therefore budgeted to operate at a nil net cost. The sum below reflects its expected management costs, which are charged to NPDC.

<b>Year Ended 30 June</b>	<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>
Revenue	\$1,407,000	\$1,435,000	\$1,463,000
Costs	\$1,407,000	\$1,435,000	\$1,463,000
Net Profit	\$0	\$0	\$0
Net Profit after tax to average Shareholder's funds	0.0%	0.0%	0.0%
PIF performance target after tax and fees before TIML costs	6.0%	6.0%	6.0%

Notes:

1. *The projections are inflation adjusted.*
2. *The above costs exclude costs relating to transactions investigated by TIML which may or may not ultimately proceed. Such costs may be material. They will be capitalised against the relevant investment if the investment proceeds and in the event that the transaction does not, will be expensed against the PIF. Such treatment is normal for an actively-managed fund, and represents best practice. Such expenses are disclosed as part of the regular performance reporting of the Fund.*
3. *The above costs equate to an investment management fee of up to 0.75% of the value of the Perpetual Investment Fund, which compares with industry norms of 1-1.25% for similar funds.*
4. *Actual costs have been restricted to 0.65% in prior years.*
5. *The expected return for the period has been conservatively forecast below the long term expected return, allowing for a phased execution of the asset allocation transition to a more diversified portfolio.*

### **Quarterly Reporting:**

To provide on a quarterly basis a report to the shareholder covering activities undertaken by the Company, and the performance of and significant issues relating to the Perpetual Investment Fund and where required in respect of the other investments and the industries in which they operate. The report will provide the information outlined in the Agreement.

### **Timely Response:**

To provide investment advice within three months to the shareholder on any significant developments that may have an impact on either the income stream to the Council or the value of the Council's investments, and provide advice prior to any major transactions.

### **Review of the Council's Other Investments:**

To review the Council's other investments when requested and advise the Council on its position with regards to hold/growth/divestment strategies.

### **Advice to the Council and Proper Enquiry of Investment Entities:**

The Company will provide advice to the shareholder and make proper enquiry of the investment entities in respect to:

- Improvement of performance.
- Protection/enhancement of the income stream.
- Consideration of the debt/equity and growth strategies of the investments with a view to improving the income stream from and value of the Council's investments.

### **DIVIDEND POLICY**

As the TIML Management Company operates on a simple cost recovery basis with no margin, it does not pay dividends.

However the Council receives a quarterly release payment from the PIF managed by TIML as outlined in the “Contribution to NPDC” section of this SOI.

## **INFORMATION TO BE PROVIDED**

The following information will be made available:

- A draft Statement of Intent, including an annual budget, for inclusion in the Council’s Annual Plan process (by 1 March each year).
- A Statement of Intent, including an annual budget prior to the commencement of each financial year.
- A six monthly report on operations including a comparison against the Statement of Intent and the budget within two months after the end of that six monthly reporting period.
- An Annual Report for the year which will also be made available to the public within two months after the end of each financial year.

## **PROCEDURES FOR SHARE ACQUISITIONS**

The Council will be consulted prior to the acquisition of shares by the Company for the Fund in any other company where the value of the shares concerned will constitute a major transaction as defined in Section 129(2) of the Companies Act 1993.

## **ACTIVITIES FOR WHICH COMPENSATION IS SOUGHT**

There are no current activities for which specific compensation is sought from the shareholder. TIML currently provides the investment management services defined in the Agreement, on a full cost reimbursement basis from the Perpetual Investment Fund as noted above.

## **DIRECTORS ESTIMATE OF VALUE**

The Directors anticipate the nominal par value of the Council’s investment in the Company to be \$1,000, being the net equity invested at historical cost. This estimate will be re-assessed in the same manner on an annual basis.

## **CAPITAL EXPENDITURE FORECASTS**

There are no anticipated capital expenditure projects over the next three years, apart from those resulting from any occupancy changes, replacement of office furniture and equipment and computer systems as required from time to time.

The Company will comply with relevant accounting standards in relation to capitalisation of lease expenditure.

## APPENDIX

### TIML Budget for 2015/2016

#### Budget Items

Net staff costs	\$609,000
NPDC Shared Support Services	\$92,000
Audit Fees	\$15,000
Director Fees and Expenses	\$380,000
Director Recruitment	\$20,000
Professional Advice	\$46,000
General Operating Expenses	\$145,000
Custodial and Reporting Costs	\$100,000
<b>Total TIML Costs</b>	<b>\$1,407,000</b>