



Auckland Future Fund Distribution Policy



Auckland Council Long-term Plan 2024-2034

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Purpose and Objectives

This policy sets out the guidelines for distributions from the Auckland Future Fund (AFF or the Fund), a regional wealth fund established by Auckland Council in 2024.

This policy states under what circumstances distributions may be made from the Fund, limits on those distributions and the frequency with which distributions may be made.

It should be noted that the Auckland Future Fund (as a whole) is a strategic asset, owned and managed by the AFF Trust. Assets and investments within the Fund are not themselves strategic assets. This distribution policy should be read in conjunction with both the Auckland Future Fund Policy and the Auckland Future Fund Trust Deed.

The Auckland Future Fund is a long-term fund which should be managed and applied for the benefit of the current and future communities of the Auckland Region.

The purposes of the Auckland Future Fund are to:

- a. Protect the real value of the Trust's assets over time, so they can continue to benefit future generations; and
- b. Provide a strong return to council to fund services and infrastructure.

In implementing this policy, the Trustee shall not act in any way which is inconsistent with the Trust Deed.

Protection of the real value of the Fund

Consistent with the Purposes of the Fund, the Trustee will preserve the real value of the Fund over time (the **Guiding Principle**). By 'real value' in this context, council means the capital of the Fund on the settlement date plus annual growth based on the midpoint of RBNZ's targeted inflation rate from time to time.

The surplus of the Fund's value over its 'real value' (on average over time) is intended to be distributed to the council in accordance with this Policy.

Allowable Distributions

Regular Distributions to Auckland Council

One of the Fund's purposes is to provide a strong return to council to fund services and infrastructure which occurs by way of regular distributions.

On an agreed date (or dates) in each financial year (to be agreed as part of the Statement of Intent), the Trustee shall make one or more distributions to Auckland Council in an aggregate amount equal to the applicable Distribution Amount.

The Distribution Amount will be the amount equal to the applicable Distribution Rate (defined below) as a percentage of the capital value of the Fund (based on the average monthly value of the fund over the preceding three years), provided that:

- for the financial year ending 30 June 2025 the Distribution Amount will be the amount equal to the applicable Distribution Rate calculated as a percentage of the capital value of the Fund as at the date

the Fund was settled on the AFF Trust, pro-rated for the portion of the financial year that the Fund has been invested, and

- for the financial years ended 30 June 2026 and 30 June 2027 the Distribution Amount will be the amount equal to the applicable Distribution Rate calculated as a percentage of the capital value of the Fund as at the date the Fund was settled on the AFF Trust.

Distribution Rate

The Distribution Rate will be calculated, as below, by assessing the expected long-term median return on the Fund, deducting the expected costs of operating and transacting the Fund, and then retaining a portion of that net return to protect the long-term real value of the Fund.

Forecast long term median annual return (Gross Return)	x%
Less: operating and transaction costs	y%
Net Return	x% - y%
Less: retention to preserve capital value	z% ¹
Distribution Rate	Net return - z%

Provided that when setting the relevant Distribution Rate, the Trustee shall have regard to the long-term performance of the Fund against the Guiding Principle. This means that:

- If the Trustee is confident that the Fund will be compliant with the Guiding Principle in the long term, it may set a Distribution Rate which may result in the short-term infringement of the Guiding Principle; and
- Conversely, the Trustee may set a lower Distribution Rate to the extent necessary for long-term compliance with the Guiding Principle.

The Trustee shall base its determination of the Distribution Rate on advice from suitably qualified professional advisors and provide council with an explanation of how each component of the relevant Distribution Rate has been calculated including professional advice relied on. The Trustee’s determination shall be final and binding in the absence of manifest error.

The Trustee is permitted to sell and convert capital assets of the Fund into cash to the extent necessary to enable the Trustee to make distribution payments under this policy.

Distributions for Financial Years ending 30 June 2025, 2026, and 2027

The initial Distribution Rate to be used for the regular distribution of earnings to council for the financial years ending 30 June 2025, 30 June 2026 and 30 June 2027 shall be 5.24% p.a. The initial Distribution Rate was calculated by assessing the expected long-term median return on the Fund², deducting the expected costs of operating and transacting the Fund³, and then retaining a portion of that net return to

¹ Midpoint based on RBNZ targeted inflation rate.

² Based on the median annual rate of return expected for an 80/20 growth/income investment fund (Source: Russell Investments)

³ Indicative annual cost of fund management as a percentage of fund balance (Source: PwC)

protect the long-term real value⁴ of the Fund. At the time of establishment, this has been assessed as follows:

Forecast long term median annual return (Gross Return)	7.64%
Less: operating and transaction costs	0.40%
Net Return	7.24%
Less: retention to preserve capital value	2.00% ⁴
Distribution Rate	5.24%

Amendments to this Policy

Any proposed amendments to this policy (other than amendments of a minor or technical nature) will be made through a long-term plan or long-term plan amendment process.

⁴ Based on midpoint of RBNZ's targeted inflation rate (source: Stats NZ).