Iwi as investors – how are they faring?

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Over the past 25 years the Crown has agreed to Treaty settlements for historical grievances with over 50 iwi. These settlements have amounted to over $1.6b and have helped create a significant and fast-growing group of asset owners in New Zealand.

How are these assets governed? How have the funds been invested? And how have the investments performed? In a recent report, TDB Advisory provides an overview of the structures, investment strategies and performances of some of the post-settlement iwi. We estimate that the combined assets of the post-settlement entities now total around $5.5b. The TDB report considers seven of the iwi with combined assets of around $3.8b.

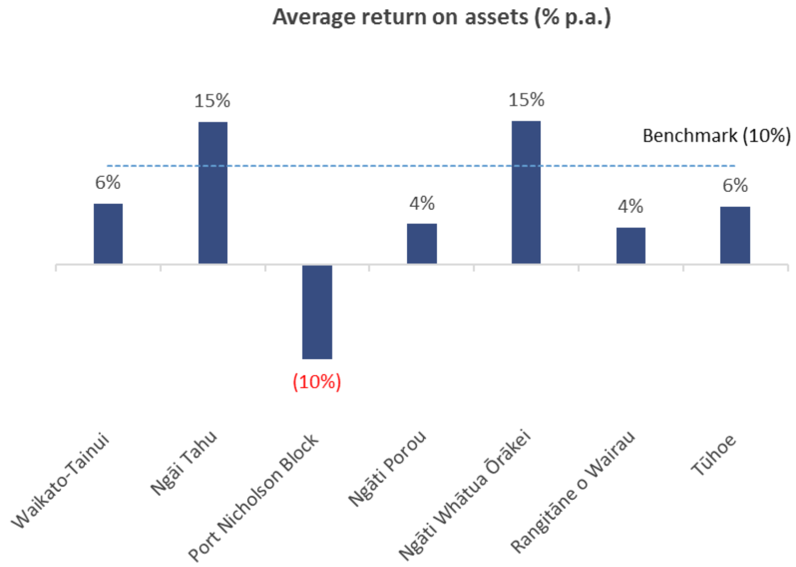
Ngāi Tahu and Waikato-Tainui are the two largest iwi investors with total assets of over $1b each. Other iwi covered in the TDB report include Port Nicholson Block, Ngāti Whātua Ōrākei, Rangitāne o Wairau, Tuhoe and Ngāti Porou. The diagram presents the value of the total assets and locations of the seven iwi. It should be noted that Waikato-Tainui and Ngāti Whātua Ōrākei have debt-to-capital ratios of just over 20%, and Ngāi Tahu has a ratio of 10%, but otherwise the iwi have little debt. Debt permits iwi to increase the size of their total assets but increases the riskiness of their balance sheets.

The iwi typically have similar corporate structures: an overarching trust often makes decisions about wider objectives and distributions to beneficiaries, while a commercial arm manages the iwi's assets.

In terms of investment strategies, the iwi generally have a strong bias towards property investment, dominated by properties in their rohe (local areas). This asset bias partly reflects their initial settlement packages which typically include local property and some rights to future property purchases in the region.

Five of the seven iwi have asset portfolios dominated by property. With the exception of Rangitāne o Wairau, these iwi are also fairly actively involved in the management of their assets. Two of the iwi, however - Tuhoe and Ngāti Porou – have taken a very different approach to investment: they have diversified, largely passively-managed portfolios, dominated by investments in equities and fixed-interest securities through managed funds.

There have been significant differences in the financial performances of the iwi: the diagram below compares the returns of each iwi over the three years from 2013 to 2015 (the period when data is available for all seven iwi).



Ngāi Tahu and Ngāti Whātua Ōrākei have performed very well over the past three years with average returns of 15% per annum. Waikato-Tainui, Tuhoe, Rangitāne o Wairau and Ngāti Porou have averaged returns in the 4% to 6% range – returns that are below our benchmark return of 10%. Wellington-based Port Nicholson Block has struggled, consistently losing money each year. It should be noted that these are the returns to the iwi groups as a whole and the returns to the iwi's commercial arms will be higher. Further, the returns are not risk adjusted and each iwi may have very different risk preferences which will affect their own benchmark or target return.

While there have been clear success stories in the industry - as stated above, Ngāi Tahu and Waikato-Tainui now have combined assets of over $2.5b – some iwi have struggled. It takes time to become a well-structured organisation, with good investment strategies and a well-balanced portfolio. Further, many of the smaller iwi have relatively high administration costs which are difficult to avoid as relatively small assets owners. There may be scope in future for the smaller iwi in particular to work together to achieve some savings in administration costs and other synergies.

Although there are strong cultural and historical reasons for the bias towards local property, from a financial perspective it exposes the iwi to the risks of holding a large proportion of its assets in a single asset class. In some cases, high risk strategies pay off: Ngāti Whātua Ōrākei, for example, has enjoyed the benefits in recent years of a portfolio consisting largely of Auckland property. On the other hand, high risk investments, such as those undertaken by Taranaki-based iwi Ngāti Tama, have an obvious downside: when things went wrong a $14.5m settlement in 2003 ended up worth less than $2m in 2013.

Post-settlement iwi entities are a relatively new group of large investors in New Zealand and the outlook is a positive one. They differ from other large investors in that they typically have limited access to new capital and constraints on the sale of certain assets. On the other hand, many iwi have first rights of refusal on some Crown assets and they enjoy the benefit of being subject to the Maori authority tax rate of 17.5%.

Iwi tend to be fairly conservative as investors as they can be reluctant to report negative returns. This apparent aversion to risk, however, is at odds with the typically undiversified nature of their investment portfolios. Finally, it should be noted that iwi have wider social and cultural objectives that go beyond maximising their financial returns. However, the better their investment portfolios are performing, the better they are able to achieve these wider non-financial objectives.

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This article was published in the National Business Review on 11 December 2015.