

# Financial and Investment Strategy

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## Introduction and Purpose

The Finance and Investment Strategy sets out InternetNZ's financial goals, and the principles which underpin its financial and investment decisions. It is the key document by which Council sets long term financial parameters for the annual planning and budgeting process - the Strategic Framework and Goals guide the operational parts of that planning process.

For some time, the need for a financial strategy has surfaced at Council meetings. Staff and some Council members have worked to consider the issues such a Strategy would cover. In late 2019 and early 2020 Council developed this Strategy, which is published as part of our commitment to transparent governance.

An Investment Policy (see <https://InternetNZ.nz/governance>) sets out the approach to investing our financial assets consistent with this Strategy.

Overall, this Strategy makes it clear that InternetNZ will retain a level of financial reserves that will allow us to deal with unexpected events, while otherwise maximising our contribution to New Zealand.

## Guiding Principles

The following key principles guide our financial and investment decisions.

Principle	Position
Organisational Longevity	InternetNZ's role is long term. For financial purposes, we assume the organisation has a role at least for the next decade and probably longer. This affects our investment time horizon and risk appetite.
Risk appetite	Our risk appetite is varied. For prepaid domain name fees it is low/conservative, and for other assets it is medium/moderate.
Boundaries	We will take an ethical <sup>1</sup> investment approach.

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<sup>1</sup> What this means in practice is still evolving, with Council scheduled to discuss it in May 2020.

Specific risks or boundaries	<p>We will not invest in .nz connected entities or assets, to avoid a conflict of interest (e.g. buying a registrar or reseller).</p> <p>We prefer general investment strategies to sector specific ones, and we do not use investment of our reserves to mitigate business risks.</p> <p>Investments will be in New Zealand and offshore, but will always comply with all applicable laws and regulations.</p>
Angel investor	We will not engage in any angel investment - we will only invest in managed funds. If we change this in future, we will consult members and stakeholders.

We aim to be efficient and prudent in the work we do or fund, and to apply appropriate competitive and due diligence processes and tensions so as to maximise the impact of the money we spend.

## Financial Targets

Consistent with the above objectives, we propose setting the following targets - for Council discussion and deliberation.

Target / Limit	Description
Target: Net Equity minus Reserves: <b>\$5.5m</b>	<p>The balance sheet should show net equity around \$9m, on average. Minus operational reserves of \$3.5m at February 2020, this leads to a target of \$5.5m.</p> <p>A net equity anchor is useful because it nets out changing levels of domain name registration fee pre-payments, and because it incorporates both operating and capital financial matters.</p>
Lower Limit: Net Equity minus Reserves: <b>\$3.5m</b>	The balance sheet must not show net equity of less than \$7m. Minus operational reserves leads to a limit of no less than \$3m at any point.
Target: Portfolio return: 3.5%+ per annum	<p>The annual average return on the cash invested should equal or exceed <b>3.5%</b>. This is around 0.5% above recent averages.</p> <p>Note: global events such as the current COVID-19 pandemic may challenge achievement of these targets.</p>

The required Operational Reserves are calculated as part of the annual Budget process. Financial reports will report on the Targets for Net Equity minus Reserves (Quarterly) and Portfolio Return (annually). The implications of these assumptions are that we are neither seeking to significantly increase nor significantly erode the current level of financial reserves.

## Investment approach

The key aspects of the investment approach are as follows:

**Operational Reserves:** short term availability - would be held at bank on short term deposit or savings / current accounts, as we do today.

**Funds held on trust:** domain name prepayments - would be held in a cash-based investment fund. We currently invest all such funds in short-run term deposits.

**Discretionary Reserves:** all remaining funds - would be held in growth-based managed funds. We currently (31 Dec 2019) have around \$3.1m invested in such funds.

These are detailed in the [Investment Policy](#).

## Review Process

This Strategy will be reviewed by Council on an annual basis, with the first review slated for February 2021.

While the Strategy will be reviewed, Council's guidance is that the financial targets embedded in it are unlikely to change in the short or medium term. The organisation can plan its work consistent with these, subject to the annual Budget process.

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**President**

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**Group Chief Executive**

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