



# Public Infrastructure Partners LP: Report to NZSIF

August 2013



# Agenda

1. Summary of Fund Activities During Period

2. Portfolio Review

3. Investment Outlook

4. Fund Return Outlook

5. Financial Summary

6. Team

7. Conclusion



## Fund activities year end 31 March 2013

- Fund Manager assessed 23 investment opportunities during period
- Successfully reached financial close on Bendigo Health Village
- Continued to work on MCEC purchase plan items
- Successfully brought Hobsonville Point Primary School into operations
- Embarked upon Transmission Gully PPP
- Increasing staffing and capability



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# MCEC investment review

## Operational PPP in 2 parts

- Melbourne Convention Centre (constructed as part of PPP)
  - 5,000 seat hall, meeting and banquet rooms, six-star Green Star rated building
- Melbourne Exhibition Centre (pre-existing facility taken over)
  - 30,000m<sup>2</sup> facility on adjacent site

## State of Victoria as counterparty

- Revenue streams based upon asset availability
- No revenue is derived from use of the facility

## Concession ends in 2034

## Services included in the contract

- General services, helpdesk, building management, utilities management, cleaning, security, car parking, grounds and garden maintenance, and pest control
- The primary service provider for both facilities is Brookfield Multiplex Services
- Some general services (e.g., reporting, interface obligations) are retained by Project Co

## Project may be extended

- Extension delayed



# MCEC operational update

## Management and governance

- Steven Proctor & Paul Newfield appointed to MCEC PPP board as PIP Fund representatives (alongside two Plenary Directors)
- CDPQ have no directors at the investor level
- Board meetings are held quarterly

## Plan at purchase date

- Outstanding matters: Main foyer tiles, black water treatment
- Matters completed: Meeting room projector vibration, mezzanine debt take out, banquet hall acoustics, walkway stone work
- Contractor bonds extended to cover remaining works
- Contractor has settled on the main foyer tiles i.e. this is now a SPV risk

## Service delivery and abatements

- Good performance all round
- Availability Failures: low, passed to Brookfield Multiplex (sub contractor)
- Quality Failures: Quality Failure points have remained below abatement threshold every month (lift entrapment, CCTV failure, helpdesk logging failure)

## Current issues

- Land Tax resolved
- Start of term condition survey
- Soft service benchmarking
- Some staff turnover at the helpdesk



# Hobsonville Schools investment review

## Investment summary

- Financial Close: 5th April 2012
- Investment date: October 2013

## New build PPP on 2 sites

- Hawkins Construction will build the schools under a turnkey, date certain, fixed price contract
- Primary School: Now open
- Secondary School: Completed 14th February 2014

## Ministry of Education as counterparty

- 25 year operating period
- Revenue streams based upon asset availability
- MoE provides teaching services and staff

## Services included in the contract

- General services, helpdesk, building management, utilities management, cleaning, security, car parking, grounds and garden maintenance, and pest control
- The primary service provider for both facilities is Programmed Facilities Management
- Some general services (e.g., reporting, interface obligations) are carried out by Morrison & Co

## Concession ends in 2039



# Hobsonville Schools operational update

## Management & Governance

- Steven Proctor & Peter Coman appointed to PPP board as PIP Fund representatives (alongside one McConnell Group Director)
- Board meetings are held monthly presently (during construction and ramp up)
- Andrew Lamb acts as the PIP Fund's technical representative day to day

## Plan at investment date

- Outstanding Matters: Complete secondary school on time
- Matters Completed: Complete primary school on time
- Achieve a high, "Defect Free", standard of project delivery

## Service delivery and abatements

- In December a tornado at site killed three construction workers
- The project received an extension of time from the Ministry of Education for the secondary school
- All parties worked hard to deliver the primary school on time despite the tornado

## Current issues

- Primary school officially opened by the Prime Minister in June
- Primary school won an "Excellence" award from the NZ Property Council in June
- The Manager is working hard to ensure the secondary school is handed over without defects
- Donation was given to the Trust set up for the families of the tornado tragedy





# Bendigo Health Village investment review

## Investment summary

- Financial Close: 12th April 2013
- Operational Commencement: March 2014

## New build on a single site

- 120 new build units of nurses and doctors accommodation located 700m from Bendigo Hospital
- H Troon, a regional builder, is working under a fixed price construction contract
- Vendor (Qualitas Property Partners) appointed as project delivery manager during construction phase
- 30 year lease with minor maintenance obligations
  - Effectively “triple net” lease
  - Lease payment 100% linked to CPI
  - Zero occupancy risk
- Practical completion in March 2014. Staged handover over of apartments anticipated from September 2013
- Investor takes residual value risk on the site and buildings

## Bendigo Health Care Group as counterparty

- Provider of state sponsored healthcare for the region
- Incorporated under the Health Services Act 1988 (Vic.)
- Currently building a new \$600 million hospital at Bendigo

## Lease ends in 2044



# Bendigo Health Village operational update

## Management & Governance

- Steven Proctor, Peter Coman and Paul Newfield appointed to the investment company as PIP Fund representatives
- Development Control Group meetings are held monthly during construction and ramp up
- Qualitas Property Partners and Andrew Lamb act as the PIP Fund's technical representatives

## Plan at purchase date

- Ensure that GST can be recovered on the build - a positive ruling has been received
- Ensure that the buildings are delivered on time and to a high standard
- Build a strong rapport with the hospital; there is more land adjacent to the site that could be used for an extension

## Service delivery and abatements

- Nothing material - a small fire occurred in two apartments that were to be handed over in August (i.e. early) and this has resulted in a small delay to the accelerated timetable that was being targeted

## Current issues

- The Manager is working hard to ensure the first phase of apartments is handed over without defects



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# New Zealand PPP market overview

## Positive momentum continuing to develop in NZ market

- New Zealand market has seen a lot of activity in the last 12 months
- Treasury's National Infrastructure Unit ("NIU") sponsored transactions have increased
  - Transmission Gully surprised market with announcement at the end of 2012
  - Further RONS PPPs under consideration
  - Follow on schools and prison PPP projects under business case and market sounding reviews
  - Several government agencies – social housing, defence, health, tertiary education – are yet to be sold on PPP as a better procurement option
- Christchurch rebuild, particularly for PPP opportunities, has been a disappointment
  - Failure to establish a programme and timetable for anchor projects
  - Several projects – hospital, justice precinct – assessed as PPPs are now being considered for more traditional D&C procurement
- The Manager continues to work hard engaging with local authorities about the PPP procurement option
  - Convention centres for Queenstown, Wellington
  - Auckland transport – City Rail Link, Cycle-path, ancillary PT infrastructure (rail stations, park n ride, carparks)
  - Water and waste





# Transmission Gully PPP

## 100% availability-based PPP for the DBFM roading project

### Size and scope

- An alternative route into Wellington that will be more resilient to earthquake events than the present road
- 27 km road with 29 bridges and three intersections
- Estimated \$1bn cost

### Timetable

- RFP issued May 2013 to two shortlisted bidders
- RFP due October 2013
- Financial close mid 2014

### Revenue profile

- 100% availability based – NZTA will retain traffic risk
- Toll collection to be procured separately and is not a project risk
- Elements of roadside tolling infrastructure to be included in PPP

### Consortium partners

- Fletcher (CJV partner, D&C Partner and sponsor) – one of NZ's largest roads and structure builders
- Fulton Hogan (CJV partner, O&M Partner and sponsor) – one of NZ's largest roads builders
- John Laing (co-investor and provide Asset Management team with roads experience) – an international PPP investor with a large portfolio of PPP roads
- Macquarie (financial adviser and sponsor)

### PIP commitment

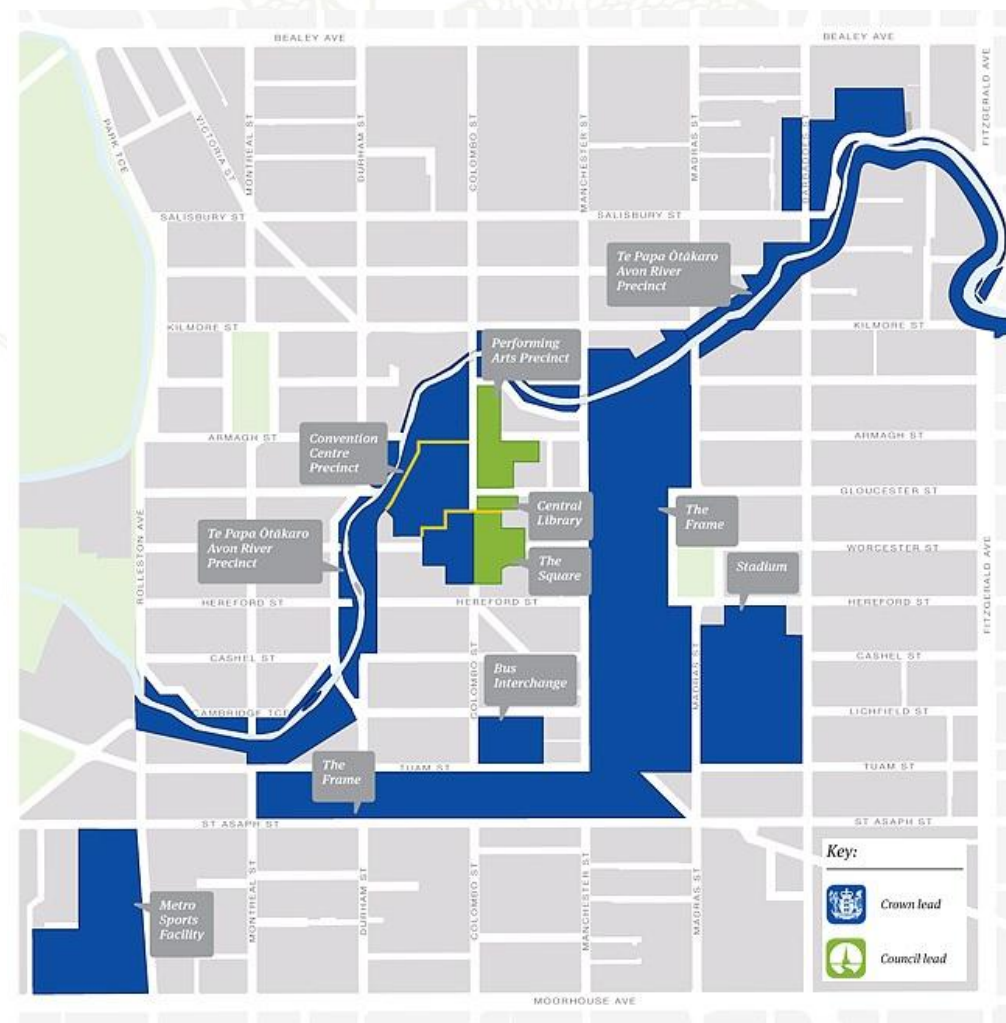
- PIP team of four heavily engaged in all aspects of proposal



# NZ PPP pipeline looking promising

## Christchurch “Anchor Projects”: Cost envelope agreed

Project	CCC Contribution (\$m)	Crown Contribution including land (\$m)	Project Lead Construction
The Frame	0	481	Crown
Convention Centre	0	284	Crown
Stadium	253	37	Crown
Metro-Sports Facility	147	70	Crown
Bus Interchange	40	51	Crown
Avon River Precinct	6	89	Crown
The Square	5	5	Joint Crown & CCC
Performing Arts	158 incl town hall	8	CCC
Central Library	60	19	CCC
Car Parking	70	0	CCC/Private
Transport Plan	27	44	Crown/CCC
Horizontal Infrastructure	1.14bn	1.8bn	Crown/CCC
<b>Total</b>	<b>\$1.9bn</b>	<b>\$2.9bn</b>	



Crown and Christchurch City Council cost-sharing negotiations – project lead



# Australian PPP market overview

## Strong pipeline of large greenfield projects, active secondary market

- ~A\$40bn pipeline of greenfield projects
  - The majority of this pipeline consists of very large projects, particularly availability-based road and rail projects
  - International PPP specialist funds have been attracted by scale and returns on offer in greenfield Australian PPPs. They are putting significant bid cost contributions on the table to secure consortium positions
- Secondary market for operational PPPs remains active
  - Solid deal flow as banks and industrial sponsors look to exit operational PPP assets
  - Strong competition for these assets, with equity returns being bid down as investors value the low risk, non-correlated nature of operational PPPs
- PIP Fund has a three-pronged strategy for accessing the Australian PPP market
  - Pursue **small greenfield projects** that match our equity cheque capacity and are 'below the radar' for international PPP funds (e.g. Bendigo Health Village)
  - Leverage the **ASIP-Leightons relationship** to gain access to larger greenfield projects
  - **Selectively participate in secondary market bids**, with a disciplined approach to return hurdles
- Australia continues to offer PIP attractive deals and helps mitigate NZ pipeline risk
  - The PIP Fund's primary focus is on NZ
  - However we continue to see attractive returns on offer in the Australian greenfield PPP market
  - Given long gestation periods, participation in Australian bids provides optionality in case the NZ pipeline falls away or our NZ bids are unsuccessful



# Current opportunity

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## **Funds level investment return forecasts**

Current transactions (before base management fees)

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## Funds level investment return forecasts

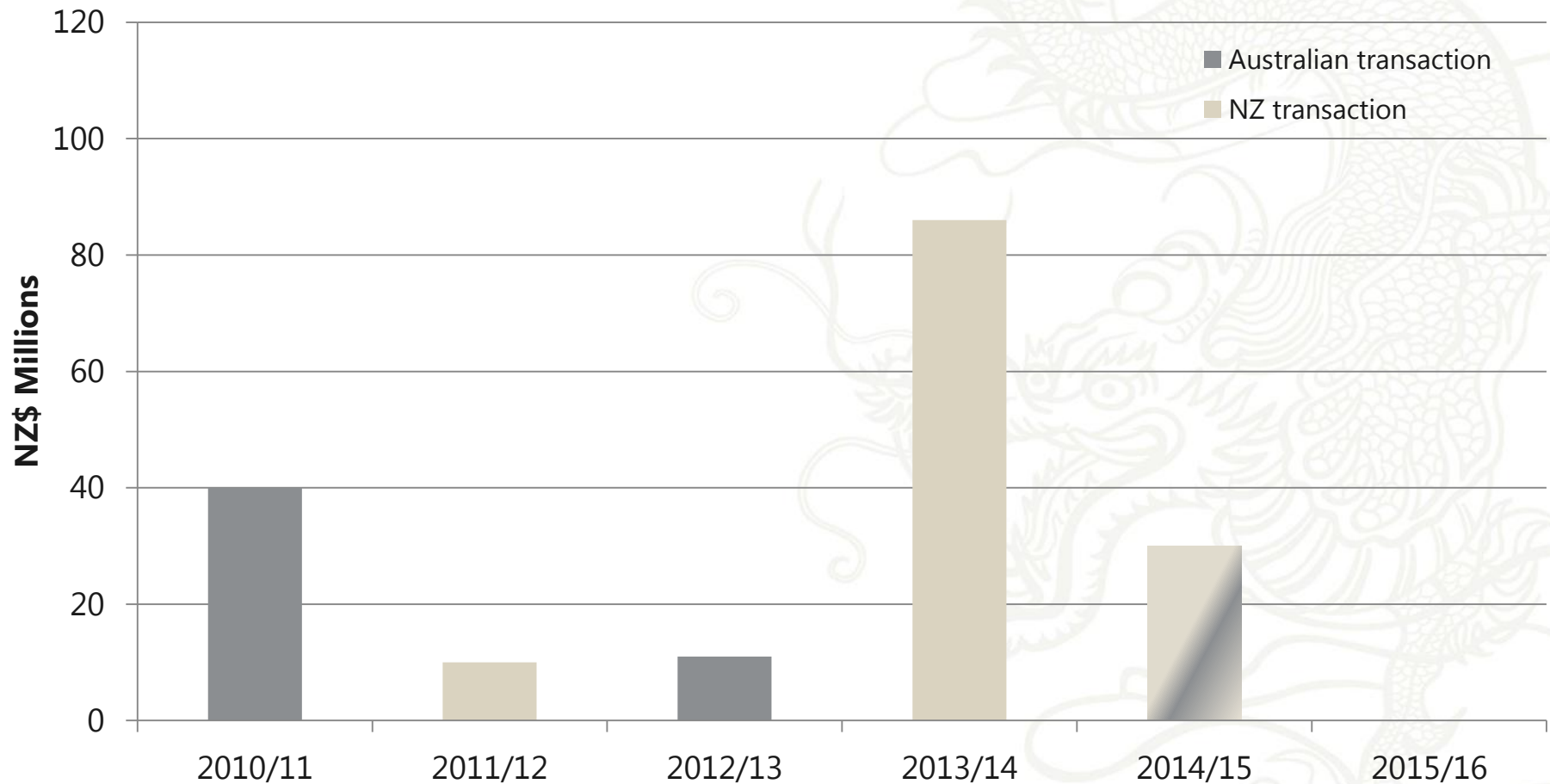
Fully invested scenario (before base management fees)

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## Investment portfolio outlook

Estimated commitments by country by year



NZ project pipeline is growing but project delivery has been slower than anticipated. The delayed investment profile presents a risk that not all commitments will be drawn, although this now feels less likely





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# Distributions and drawings

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# Public Infrastructure Partners Team

## Investment Team



**Peter Coman**



**Steven Proctor**



**Paul Newfield**



**Rose Anderson**



**Andrew Lamb**



**Steve Penney**



**Nicole Patterson**



**Fiona Cameron**



**Phillip Grayson**



**Sarah Porter**

## Financial Team





# Additional Capability

## New Investment Team Members



**William Smales**



**Michael Brook**



**David McKinnon**



**Project Manager / Employers Representative**



**Analyst / Modeller**



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# Conclusion

## Fund prospects good

- 20012/13 has been a busy year
  - Expanded asset portfolio: 3 assets, 2 of which are in the construction phase
  - 23 investment opportunities evaluated, bids prepared for multiple projects
  - Transmission Gully PPP bid a resource intensive process
- Further expansion of activity expected in 2013/14
  - Transmission Gully bid remains a key focus
  - One secondary purchase possible this year
  - PIP well positioned for upcoming NZ projects and selected Australian bids
  - Morrison & Co PPP specialist team expanding to support broadened portfolio and strong project pipeline
- PIP Fund prospects looking good overall
  - Return expectations from current assets remain attractive
  - Project pipeline has strengthened considerably since last year, though uncertain project timing and bid processes means some risk remains regarding our ability to deploy all committed capital within the investment period



# Questions?

