

NZSIF ANNUAL SHAREHOLDERS MEETING

19 AUGUST 2013 11.30AM

CHAIRMAN'S ADDRESS to SHAREHOLDERS

BACKGROUND

NZSIF RAISED \$41M IN MARCH 2010. NZSIF INVESTS AS A LIMITED PARTNER INTO THE PIP FUND (THE PUBLIC INFRASTRUCTURE PARTNERS LIMITED PARTNERSHIP). THE PIP FUND IS AN INSTITUTIONAL FUND ESTABLISHED BY MORRISON & CO TO INVEST IN PUBLIC PRIVATE PARTNERSHIPS – PPPs, THAT DELIVER SOCIAL INFRASTRUCTURE ASSETS SUCH AS SCHOOLS, HOSPITALS, CONVENTION CENTRES AND LOCAL GOVERNMENT FACILITIES TO THE COMMUNITY.

THE FINAL CLOSE FOR THE PIP FUND WAS 31 DEC 2010. THE PIP FUND HAS NINE LIMITED PARTNERS WITH COMMITMENTS TOTALLING \$176.5M. NZSIF'S INTEREST IN THE PIP FUND IS 22.95%, AND WE ARE THE SECOND LARGEST INVESTOR IN THE FUND, THE LARGEST BEING THE NZ SUPER FUND.

FINANCIAL PERFORMANCE 2013

NZSIF PRODUCED A PROFIT FOR THE PERIOD OF \$710,861 (2012 \$921,888), A RETURN ON SHAREHOLDER FUNDS OF 5.53% (2012: 7.73%).

THE QUALITY OF NZSIF'S EARNINGS IMPROVED WITH THE DISTRIBUTIONS RECEIVED FROM THE PIP FUND WHICH WERE GENERATED BY THE MELBOURNE CONVENTION & EXHIBITION CENTRE. THIS REPRESENTED 73% OF OUR INCOME WITH THE BALANCE BEING AN INCREASE IN THE FAIR VALUE OF THE MCEC. THIS COMPARES WITH 93% OF LAST YEARS EARNINGS BEING DERIVED FROM AN INCREASE IN FAIR VALUE OF THE MCEC INVESTMENT.

AT BALANCE DATE NZSIF HAD ASSETS OF \$11.76M. NET ASSET BACKING AT 31 MARCH 2013 WAS 28.5 CPS, WHICH WAS AFTER THE CAPITAL RETURNS TOTALING 2.80 CPS IN MAY AND JULY 2012.

THE MOST RECENT SALE PRICE FOR NZSIF SHARES WAS 26.5c (30 JULY).

NZSIF HAS 41M \$1 SHARES ON ISSUE PAID TO 30 CPS, LESS 2.8CPS RETURNED.. TO DATE WE HAVE MET CALLS TO THE PIP FUND OF \$11.2M (27.3 CENTS PER NZSIF SHARE)]

CASHFLOWS AND DISTRIBUTIONS

FOR THE 2013 YEAR WE PAID AN INTERIM CASH DIVIDEND OF 0.73 CPS IN 30 NOVEMBER 2012, AND A FURTHER DIVIDEND OF 0.79 CPS WAS PAID ON 19 JULY MAKING A TOTAL OF 1.52 CPS (2012: 1.01 CPS).

MCEC IS PROVIDING SOLID REGULAR CASHFLOWS FOR THE PIP FUND, ENABLING THEM TO MAKE DISTRIBUTIONS TO THE LIMITED PARTNERS. NZSIF HAS THEN BEEN ABLE TO PASS THESE DIVIDENDS THROUGH TO YOU.

WE ANTICIPATE THAT CASHFLOWS FROM BOTH HOBSONVILLE SCHOOLS AND BENDIGO WILL COMMENCE TO THE PIP FUND FROM JUNE 2014. THIS MEANS INCREASED DIVIDENDS FROM NZSIF TO OUR SHAREHOLDERS IN DUE COURSE.

INVESTMENT PROGRESS

THE PIP FUND HAS SECURED THREE INVESTMENTS TO DATE

- **THE MELBOURNE CONVENTION AND EXHIBITION CENTRE (MCEC)**
- **HOBSONVILLE SCHOOLS**

AND THE RECENTLY ANNOUNCED

- **BENDIGO HEALTHCARE GROUP ACCOMMODATION FACILITY**

MELBOURNE CONVENTION AND EXHIBITION CENTRE (MCEC)

MCEC WAS AN ESTABLISHED OPERATIONAL PPP ASSET AT THE TIME OF THE INVESTMENT. THIS SETS ITSELF APART FROM TRADITIONAL PPP INVESTMENTS INVOLVING GREENFIELD PROJECTS THAT REQUIRE A DESIGN AND BUILD PHASE BEFORE THEY BECOME OPERATIONAL.

ESTABLISHED OPERATIONAL PPP ASSETS MITIGATE THE USUAL DEVELOPMENT RISKS ASSOCIATED WITH PPP GREENFIELD PROJECTS.

THE TOTAL PIP FUND INVESTMENT IN MCEC WAS NZ\$40 MILLION.

THE MCEC INVESTMENT IS SIGNIFICANT WITH TOTAL ASSETS OF APPROX. A\$820M AND LONG TERM FUNDING IN PLACE. AS A FIRST-UP INVESTMENT FOR NZSIF THIS INVESTMENT REPRESENTED A COMMITMENT OF NZ\$9.2 MILLION, BEING 22.4% OF NZSIF'S COMMITTED CAPITAL OF \$41 MILLION.

HOBSONVILLE SCHOOLS

IN APRIL 2012 LEARNING INFRASTRUCTURE PARTNERS (A PIP FUND CONSORTIUM) ENTERED INTO A CONTRACT WITH THE GOVERNMENT TO PROVIDE NEW ZEALAND'S FIRST PUBLIC PRIVATE PARTNERSHIP (PPP) FOR THE DESIGN, CONSTRUCTION, FINANCE AND MAINTENANCE OF AUCKLAND'S HOBSONVILLE POINT PRIMARY AND SECONDARY SCHOOLS, FOR THE NEXT 25 YEARS.

THE PRIMARY SCHOOL WAS COMPLETED AND OPENED IN JANUARY 2013. THE SECONDARY SCHOOL IS TARGETED TO BE COMPLETED AND OPEN FOR TERM 1 2014, DESPITE THE SETBACK CAUSED BY A DEVASTATING TORNADO WHICH STRUCK THE SITE LAST DECEMBER. OUR THOUGHTS ARE WITH ALL AFFECTED BY THIS TRAGEDY.

THE PIP FUND IS INVESTING EQUITY OF \$10 MILLION, OF WHICH NZSIF'S SHARE IS \$2.3M. THE PIP FUND OWNS 97.5% OF LIP, WHILE HAWKINS CONSTRUCTION HAS A 2.5% EQUITY INTEREST.

WE ANTICIPATE PAYING OUR SHARE OF THIS INVESTMENT IN OCTOBER 2013. THIS WILL ENTAIL A CALL ON SHAREHOLDERS OF 8 CPS (IN SEPTEMBER/OCTOBER). TO COVER THE \$2.3M INVESTMENT PLUS WORKING CAPITAL NEEDS.

THE PIP FUND CONSORTIUM (LEARNING INFRASTRUCTURE PARTNERS) HAS DEBT FUNDED THE SCHOOLS PROJECT THROUGH TO OCTOBER 2013. WESTPAC BANK HAS PROVIDED THE SENIOR DEBT.

BENDIGO HEALTHCARE GROUP ACCOMMODATION FACILITY

WE ANNOUNCED THIS INVESTMENT ON 18 APRIL 2013. THE ACCOMMODATION FACILITY IS BASED IN BENDIGO, VICTORIA AUSTRALIA. THE TOTAL EQUITY INVESTMENT IS AU\$8.7 MILLION, EQUIVALENT TO APPROXIMATELY NZ\$10.8 MILLION.

THE BENDIGO INVESTMENT IS IN TWO TRANCHES. THE INITIAL TRANCHE (\$1.45M OR THE EQUIVALENT OF 3.5 CENTS PER NZSIF SHARE) WAS PAID FROM NZSIF'S EXISTING CASH RESOURCES. WE EXPECT THAT THE SECOND TRANCHE WILL BE PAYABLE ON COMPLETION OF THE PROJECT IN THE FIRST QUARTER OF CALENDAR YEAR 2014, AND A FURTHER CALL OF 4 CPS WILL BE MADE THEN.

THE BENDIGO FACILITY COMPRISES:

- 96 ONE BEDROOM AND 24 TWO BEDROOM RESIDENTIAL APARTMENT UNITS FOR NURSES AND DOCTORS WORKING IN THE BENDIGO HOSPITAL.

INVESTMENT FACTORS INCLUDE:

- 30 YEAR PROPERTY LEASE WITH INFLATION LINKED CASH FLOW;
- THERE IS NO OCCUPANCY RISK;
- PROJECT ENTITY OWNS THE LAND, AND RETAINS OWNERSHIP OF THE LAND AND BUILDINGS AT THE END OF THE LEASE;
- BENDIGO HEALTHCARE GROUP (BHCG) (THE TENANT) IS A PUBLIC HEALTH PROVIDER FOR THE STATE OF VICTORIA UNDER THE HEALTH SERVICES ACT 1988.

UPCOMING INVESTMENT OPPORTUNITIES

CURRENTLY, PIP IS PART OF ONE OF THE TWO CONSORTIA BIDDING TRANSMISSION GULLY, A ROADING PROJECT NORTH OF WELLINGTON, AND THERE ARE A NUMBER OF OTHER INVESTMENT POSSIBILITIES OVER THE NEXT 12 MONTHS. OUR PREFERENCE REMAINS FOR SUITABLE NEW ZEALAND PPP PROJECTS, ALTHOUGH PIP CONTINUES TO REVIEW SMALLER AUSTRALIAN PPP OPPORTUNITIES AND THIS COULD SEE THE PIP FUND INVEST FURTHER INTO AUSTRALIAN ASSETS.

OUR INVESTMENT MANAGER'S WILL COVER THE PIPELINE OF OPPORTUNITIES IN THEIR PRESENTATION WHICH FOLLOWS THE ASM.

THE DIRECTORS OF NZSIF ARE HEARTENED BY RECENT PROGRESS, THE QUALITY OF AND NUMBER OF INVESTMENT OPPORTUNITIES BEING CONSIDERED AND THE OUTLOOK FOR NZSIF.

I AM HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

NEW ZEALAND SOCIAL INFRASTRUCTURE FUND LTD

KIM ELLIS

CHAIRMAN