

NEW ZEALAND SOCIAL INFRASTRUCTURE FUND

ANNUAL SHAREHOLDERS MEETING

18 AUGUST 2014 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 TOTTALLING \$176.5M. NZSIF HAS A 22.95% INTEREST IN THE PIP FUND AND WE ARE THE SECOND LARGEST INVESTOR IN THE FUND, BEHIND THE NZ SUPER FUND.

FINANCIAL PERFORMANCE 2014

- NZSIF PRODUCED A PROFIT FOR THE PERIOD OF \$758,498 (2013: \$710,861), A RETURN ON SHAREHOLDER FUNDS OF 6.48% (2013: 5.53%).
- NZSIF RECEIVED LOWER DISTRIBUTIONS FROM THE PIP FUND WITH EARNINGS GENERATED BY THE MELBOURNE CONVENTION & EXHIBITION CENTRE BEING AFFECTED BY THE STRONG NZ DOLLAR AND AUSTRALIAN NON-RESIDENT WITHHOLDING TAX DEDUCTED, BUT BENEFITTED FROM STRONG REVALUATION GAINS FROM ALL OUR INVESTMENTS.
- AT BALANCE DATE NZSIF HAD ASSETS OF \$16.9M.
- NET ASSET BACKING AT 31 MARCH 2014 WAS 41.1 CENTS PER SHARE (CPS).

NZSIF HAS 41M \$1 SHARES ON ISSUE PAID TO 42 CPS, OR NET 39.2CPS (LESS 2.8CPS CAPITAL RETURNED IN 2012). TWO CALLS TOTTALLING 12CPS WERE PAID DURING THE FINANCIAL PERIOD.

THE MOST RECENT SALE PRICE FOR NZSIF SHARES WAS 38c.

CASHFLOWS AND DISTRIBUTIONS

FOR THE 2014 YEAR WE PAID AN INTERIM DIVIDEND OF 0.48 CPS IN DECEMBER 2013, AND A FINAL DIVIDEND OF 0.62 CPS WAS PAID IN JULY 2014 MAKING A TOTAL OF 1.10 CPS (2013: 1.52 CPS). THERE WERE NO IMPUTATION CREDITS AVAILABLE AS THE INCOME WAS SOURCED FROM THE MCEC INVESTMENT.

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

TO DATE WE HAVE NOT HAD THE BENEFIT OF CASHFLOWS FROM HOBSONVILLE SCHOOLS OR BENDIGO. WE ANTICIPATE THAT CASHFLOWS FROM BOTH WILL COMMENCE TO THE PIP FUND DURING THE SECOND HALF OF 2014. THIS MEANS NZSIF HOPES TO BE PASSING THROUGH INCREASED DIVIDENDS 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**
- **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\$826 MILLION AND LONG TERM FUNDING IN PLACE. AS A FIRST-UP INVESTMENT FOR NZSIF THIS REPRESENTED A COMMITMENT OF NZ\$9 MILLION, BEING 22.4% OF NZSIF'S COMMITTED CAPITAL OF \$41 MILLION.

MCEC PERFORMED TO EXPECTATIONS DURING 2014, PRODUCING STRONG CASHFLOWS, WITH NO REVENUE REDUCTIONS FOR INVESTORS.

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 JANUARY 2013. THE SECONDARY SCHOOL WAS COMPLETED AND OPENED MID-FEBRUARY 2014. THE PIP FUND INVESTED EQUITY OF \$10 MILLION, OF WHICH NZSIF'S SHARE WAS \$2.25 MILLION.

THE PIP FUND OWNS 97.5% OF LIP, WHILE HAWKINS CONSTRUCTION HAS A 2.5% EQUITY INTEREST.

WESTPAC BANK PROVIDED THE SENIOR DEBT.

BENDIGO HEALTHCARE GROUP ACCOMMODATION FACILITY

IN APRIL 2013 WE ANNOUNCED THIS INVESTMENT, BEING A HEALTHCARE WORKERS' ACCOMMODATION FACILITY BASED IN BENDIGO, VICTORIA, AUSTRALIA. STAGE 1 WAS SUCCESSFULLY DELIVERED TO THE HOSPITAL IN OCTOBER 2013.

STAGE 2 WAS COMPLETED IN FEBRUARY 2014 (3 THREE MONTHS EARLY).

THE TOTAL EQUITY INVESTMENT FOR THE PIP FUND WAS A\$8.7 MILLION, EQUIVALENT TO APPROXIMATELY NZ\$10.8 MILLION. NZSIF HAS INVESTED NZ\$2.3 MILLION.

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;
- A PIP FUND ENTITY OWNS THE LAND, AND RETAINS OWNERSHIP OF THE LAND AND BUILDINGS AT THE END OF THE LEASE;
- BENDIGO HEALTHCARE GROUP (BHCG) IS THE TENANT.
- BHCG IS A PUBLIC HEALTH PROVIDER FOR THE STATE OF VICTORIA.
- BHCG EMPLOYS 3,000 STAFF, HAS A A\$300 MILLION BUDGET AND IS CURRENTLY BUIDLING A NEW A\$600 MILLION HOSPITAL.

INVESTMENT OPPORTUNITIES

THE PIP FUND CONSORTIUM WAS UNSUCCESSFUL IN ITS BID FOR THE TRANSMISSION GULLY ROADING PROJECT IN WELLINGTON.

IN APRIL 2014 THE CORRECTIONS DEPARTMENT ANNOUNCED THAT NEXT STEP PARTNERS A PIP FUND CONSORTIUM WAS SHORTLISTED TO DEVELOP A PROPOSAL FOR DESIGNING, BUILDING, FINANCING AND MAINTAINING A NEW MAXIMUM SECURITY FACILITY AT AUCKLAND PRISON-PAREMOREMO. WHILE THE GOVERNMENT IS YET TO MAKE A FINAL COMMITMENT, WE ARE EXPECTING TO FUND EARLY STAGE WORKS FROM LATE 2014. THIS WILL BE RETURNED BY THE GOVERNMENT WITH INTEREST, IF NO FINAL COMMITMENT IS MADE.

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

THE DIRECTORS OF NZSIF ARE ENCOURAGED BY THE INVESTMENT PROGRESS, AND THE OUTLOOK FOR NZSIF.

THE PIP FUND EXPECTS THAT THEY WILL HAVE FULL INVESTMENT COMMITMENTS BY 29 OCTOBER 2015 – THE END OF THE PIP FUND'S INVESTMENT PERIOD.

I AM HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

NEW ZEALAND SOCIAL INFRASTRUCTURE FUND LTD

KIM ELLIS

CHAIRMAN