



Public Infrastructure Partners LP: Report To NZ SIF August 2014



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Public Infrastructure Partners LP

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Discussion Points

1. Summary of Fund Activities During Period

2. Team

3. Portfolio Review

4. Investment Outlook

5. Fund Return Outlook

6. Financial Summary

7. Conclusion



Fund Activities Year End 31 March 2014

- Fund Manager assessed 24 investment opportunities during period
- Successfully brought Hobsonville Point Secondary School into operations
- Successfully brought Bendigo Hospital Accommodation into operations
- The MCEC purchase plan items were completed
- We submitted a fully funded bid for the Transmission Gully PPP and the East West Link PPP (though unsuccessful)
- Secured a place as the single bidder for the Auckland East Prison PPP
- Total Fund distributions NZ\$2.8 million (moving to quarterly distributions)
- Portfolio revaluation gain of NZ\$7.1 million
- Outperformance v's target of c. 10.5%
- Increasing staffing and capability



Fund Activities – Opportunities Reviewed Year Ended 31 March 2014

	Investment Opportunities Reviewed / Actioned	Offer Letters / Proposals Submitted	Detailed Bid & Negotiations	Concluded Transactions
NEW ZEALAND	<ul style="list-style-type: none"> • Counties Manukau DHB* • Christchurch School* • Christchurch car park opportunity* • Christchurch Justice Precinct • Northlands Health Opportunity • Christchurch Social Housing • Christchurch Bus Interchange • Bay of Plenty DHB Laboratory • Christchurch University Research Zone* 	<ul style="list-style-type: none"> • Christchurch Convention Centre • Auckland Bicycle Bridge ("Skypath")* • Iwi owned government accommodation* • Queenstown Convention Centre • Mangere Refugee Resettlement Centre 	<ul style="list-style-type: none"> • Transmission Gully PPP road • National Grouped Schools* • Auckland East Prison PPP* 	
AUSTRALIA	<ul style="list-style-type: none"> • Adelaide Courts Project 	<ul style="list-style-type: none"> • New Royal Adelaide hospital • Queensland University Accommodation 	<ul style="list-style-type: none"> • East West Link PPP Road • Victoria Schools PPP • Mater Hospital PPP • University Of Wollongong Student Accommodation PPP* 	



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Public Infrastructure Partners Team

Some growth in the team



Peter Coman



Steve Penney



Jeff Hoffmann



Fiona Cameron



Steven Proctor



Andrew Lamb



Priya Grewal



Phillip Grayson



Paul Newfield



Rose Anderson



Martin Pugh



Sarah Porter



Nicole Patterson



Campbell Twist

Finance Team



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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) 30,000m2 facility on adjacent site

State of Victoria as counterparty

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

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 (eg, 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 on the MCEC Board (the CDPQ-Plenary holding entity is represented by the Plenary Directors)
- Board meetings are held quarterly

Plan at purchase date

- Outstanding matters: Black water treatment plant being converted to rain water capture
- Other snagging items identified at acquisition have been managed to completion

Service delivery and abatements

- Good performance all round – no deductions in the year
- Capital expenditure lower than expected

Current issues

- Start of term condition survey for Exhibition Centre completed – required upgrades by paid by the state
- Soft service benchmarking –completed
- MCEC Expansion – on hold
- SPV Management Services provision to be contracted out
- Some staff turnover at the helpdesk



Hobsonville Schools Investment Review

Investment summary

- Financial Close: 5th April 2012
- Commitment: \$9.8 million
- Investment date: October 2013

New build PPP on 2 sites

- LIP has completed the construction of 2 schools and commenced all facility management of the schools under contract with PFM
- Primary School: Opened in 2013 and Operational for 18 months
- Secondary School: Completed on 14th February 2014 and Operational

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 and governance

- Steven Proctor & Peter Coman appointed to PPP board as PIP Fund representatives (alongside one McConnell Group Director)
- Andrew Lamb acts as the PIP Fund's technical representative day to day
- Board meetings are held monthly presently
- Monthly meetings are held with the Ministry of Education, the two school Principals and PFM management. These meetings review all operational matters and service delivery

Service delivery and abatements

- Performance has generally been good and the Ministry has raised no substantive matters
- Over the year the Primary School had some issues with the indoor environment balancing and these required modifications to building services and design. These have been addressed and works completed to the satisfaction of the Ministry
- The secondary school was completed on 14 February 2014, in accordance with Contract requirements. A number of minor snags have been attended to and completed. A Works Completion Certificate is due to be issued in accordance with Contract Conditions by the Ministry
- PFM are managing all daily FM requirements and are performing to both Ministry and LIP expectations
- Deductions were passed to the subcontractor: \$9k

Current issues

- An Early Childhood Centre is being established at the Primary School following agreement with the Ministry. Works have been completed to accommodate the Centre and occupation will commence in August
- Modifications to the HVAC system at both schools has been implemented to improve the thermal comfort of the staff and students. This will be monitored and adjusted to meet the functional requirements of the occupiers but is expected for a new developments
- All maintenance and service requirements are being met by PFM on performance targets
- No substantive Health and Safety issues have occurred since operational commencement



Bendigo Health Village Investment Review

Investment summary

- Financial Close: 12th April 2013
- Commitment: \$12 million
- Operational Commencement: March 2014

New build on a single site

- 120 new build units of nurse's and doctor's accommodation located 700m from Bendigo Hospital
- 30 year lease with minor maintenance obligations
- Effectively "triple net" lease
- Lease payment 100% linked to CPI
- Zero occupancy risk
- 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 and governance

- Steve Penney, Steven Proctor, Peter Coman, and Paul Newfield, appointed to the investment company as PIP Fund representatives
- Quarterly meetings are held with the tenant to discuss maintenance and any issues with the buildings
- David Atkins (the Superintendent to the Construction contract) has been contracted to act as the PIP Fund's asset manager for the next 12 months during the defects and liability period

Current strategy

- The Manager engages in regular communication with the tenant and has established a strong rapport
- The Manager continues to work with the tenant and asset manager to ensure that defects are rectified in a timely fashion that does not impact on the tenant's enjoyment of the buildings under the contract
- The Manager has re-financed the construction facility into a 5 year term loan with Westpac, which is 100% fixed using an interest rate swap

Service delivery and abatements

- Some minor defects have resulted in some apartments requiring attention from sub-contractors, who have been prompt in their response to rectify these defects
- There is no abatement regime

Current issues

- A number of the apartments were built on a 'podium' structure which forms the roof of the car park building. It appears that the waterproofing on this structure has failed resulting in non-structural damage to the car park ceiling. The builder has not responded to this issue in an appropriate manner
- The Manager is in the process of taking expert legal and technical advice with regards to the process to rectify this defect. The builder's bank guarantee is still held by the manager and therefore the Manager does not anticipate incurring any material costs associated with this defect.



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Pipeline Building and Refreshing

PPP Pipeline deals

Transaction	Sector	PIP Equity (~NZ\$m)	PIP Comments
East Auckland Prison	Justice	40	Single bidder, early ground works to commence at the start of the Auckland "ground works season". Financial close forecast for Q2 2015.
Wollongong Student Accommodation	Education	35	"Monetise" the existing portfolio of ten residences (~1,900 beds) Design and build, manage, maintain two new facilities (1,064 beds across two sites ~34 year concession / sub-lease arrangement.
Nationwide Grouped Schools	Education	30	Provide four new secondary schools. Two in Christchurch, one in Queenstown and one in Auckland.
Auckland Harbour Bridge Cycle-lane	Transport	25	A pedestrian and bicycle bridge across the Waitemata Harbour. Project now proceeding through ACC review process. ACC have provide development cost support to the fund.
Iwi Owned Government Let Offices	Accommodation	10	Specialist government office accommodation proposed in JV with Iwi group.
Puhio-Warkworth PPP Road	Transport	50 to 70	NZTA evaluating the next project to come to market following Transmission Gully. The project may include an off-shoot to the Whangaparoa Peninsula.
Student Accommodation Secondary Purchase	Education	Undisclosed	An opportunity to buy an existing portfolio of assets and enter into a strategic partnering arrangement.
Ao Tawhiti School	Education	15	An urban school situated in the heart of Christchurch. The manager submitted an EoI with the grouped schools design group for this school in June. An announcement is imminent.
University of Canterbury Research and Innovation Zone	Accommodation	15	Produce a laboratory for the Crowns Research Institute on a site in University of Canterbury.
Counties Manukau DHB Health Precinct	Health	40	A health precinct idea on CMDHB land with multiple health related tenants. Potentially a longer term developer led development programme.
Christchurch Social Housing	Accommodation	TBC	Christchurch Council seeking the rebuild delivery of 300 to 400 affordable houses. PIP together with Arrow & Creating Communities are one of ~8 shortlisted targets.
Other Christchurch Opportunities	Various	n/a	See separate slide.



High Probability Live Projects

Projects requiring significant manager input

- **Auckland Prison (NZ)**
 - Circa \$250 million capital cost
 - Early works to commence in October
 - No custodial services
 - Vertical construction in Q2 2015
 - Operational Q1 2018
 - CPI protection
- **Wollongong Student Accommodation (Aus)**
 - Circa \$235 million capital cost
 - Operational from Q4 2014
 - New construction 2017
 - Demand risk back-stopped by University
 - CPI protection

Preferred Proponent in August 2014
- **Grouped Schools (NZ)**
 - Circa \$200 million capital cost
 - No education service
 - Vertical construction in Q2 2015
 - Phased operational from Q1 2017
 - CPI protection
- **Skypath (NZ)**
 - Circa \$35 million capital cost
 - Construction in Q2 2015
 - Operational from Q2/3 2016
 - Demand risk back-stopped by ACC
 - HoTs with ACC in Q3 2014
 - CPI protection



Christchurch Pipeline

Christchurch Projects: mostly little progress

Anchor Projects CCC and CCDU

Project	CCC (\$m)	Crown (\$m)	Likelihood of private investment
The Frame	0	481	None
Convention Centre	0	284	Some
Stadium	253	37	Low probability
Metro-Sports Facility	147	70	Low probability
Bus Interchange	40	51	None
Avon River Precinct	6	89	None
The Square	5	5	None
Performing Arts	158	8	None
Central Library	60	19	Low probability
Car Parking	70	0	Low probability
Transport Plan	27	44	None
Horizontal Infrastructure	1.14bn	1.8bn	None



Other Projects

Project	CapEx (\$m)	Likelihood of private investment
Ao Tawhiti School	40	Medium probability
University Research & Innovation Zone	40	Medium probability
Hospital Car Park	30	Low probability



Australian PPP Market Overview

Strong pipeline of large greenfield projects, active secondary market, returns compressed (especially in secondary)

2013/14: Three pronged strategy

- Pursuit of small greenfield projects has been fruitful (Bendigo, Wollongong)
- Leighton's relationship provided access to East West Link PPP, but the bid was unsuccessful
- Participated in secondary market processes through to shortlist stage, but withdrew without incurring material bid costs as strong competition meant the assets were pricing at a level that was unattractive for PIP

2014/15: Primary / greenfield transactions

- The medium term Australian pipeline remains strong, but given long lead times there is a relatively shorter list of projects that will fall within PIP's investment period
- Strong competition for these assets, with equity returns being bid down as investors value the low risk, non-correlated nature of operational PPPs
- Continue to target smaller greenfield projects and seek ASIP co-investment opportunities

2014/15: Secondary Market

- Market very hot
- Several projects are for sale presently (or close to sale)
- We are unlikely to make secondary market acquisitions at current pricing levels (sub 9% pre-tax)

Conclusions

- The PIP Fund's primary focus is on NZ (based on return and opportunities)
- Australian opportunities are likely to be pursued in joint venture with ASIP and are likely to be greenfield
- If we are successful in the current set of higher probability NZ bids, we would only have capacity for one more Australian investment (potentially Wollongong)
- In any case, given long gestation periods, it is likely that only one or two potential projects would fall within the PIP Fund commitment period (two schools are coming to market soon)



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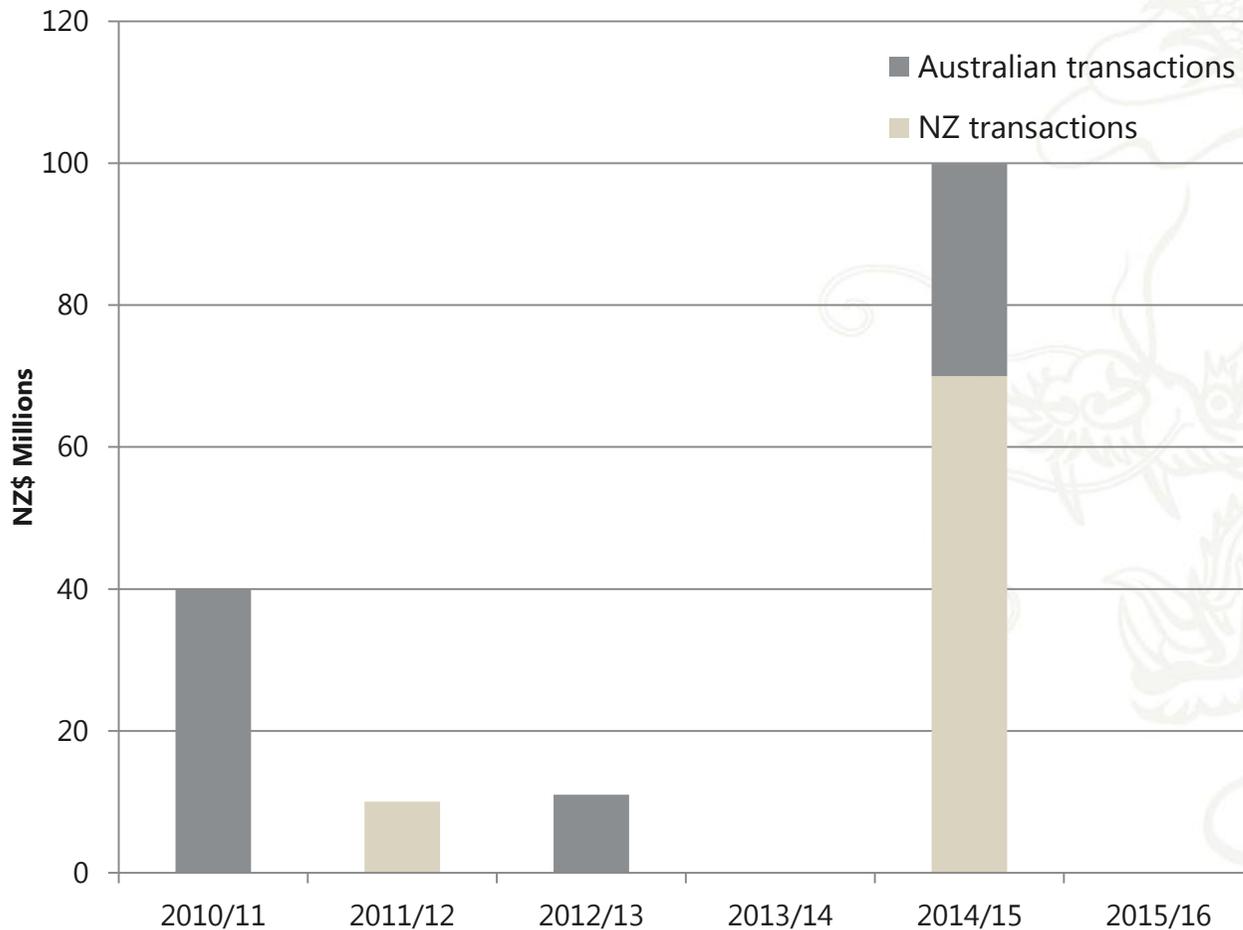
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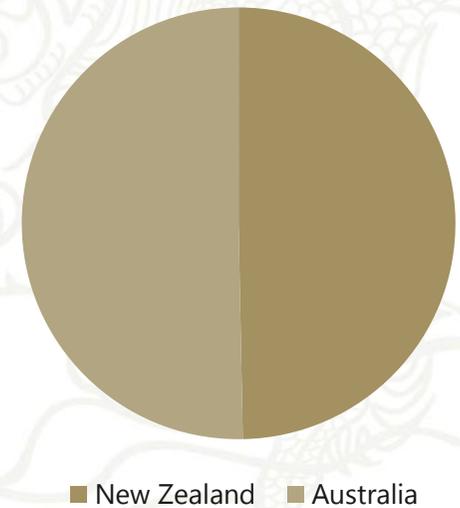


Investment Portfolio Outlook

Estimated commitments by country by year

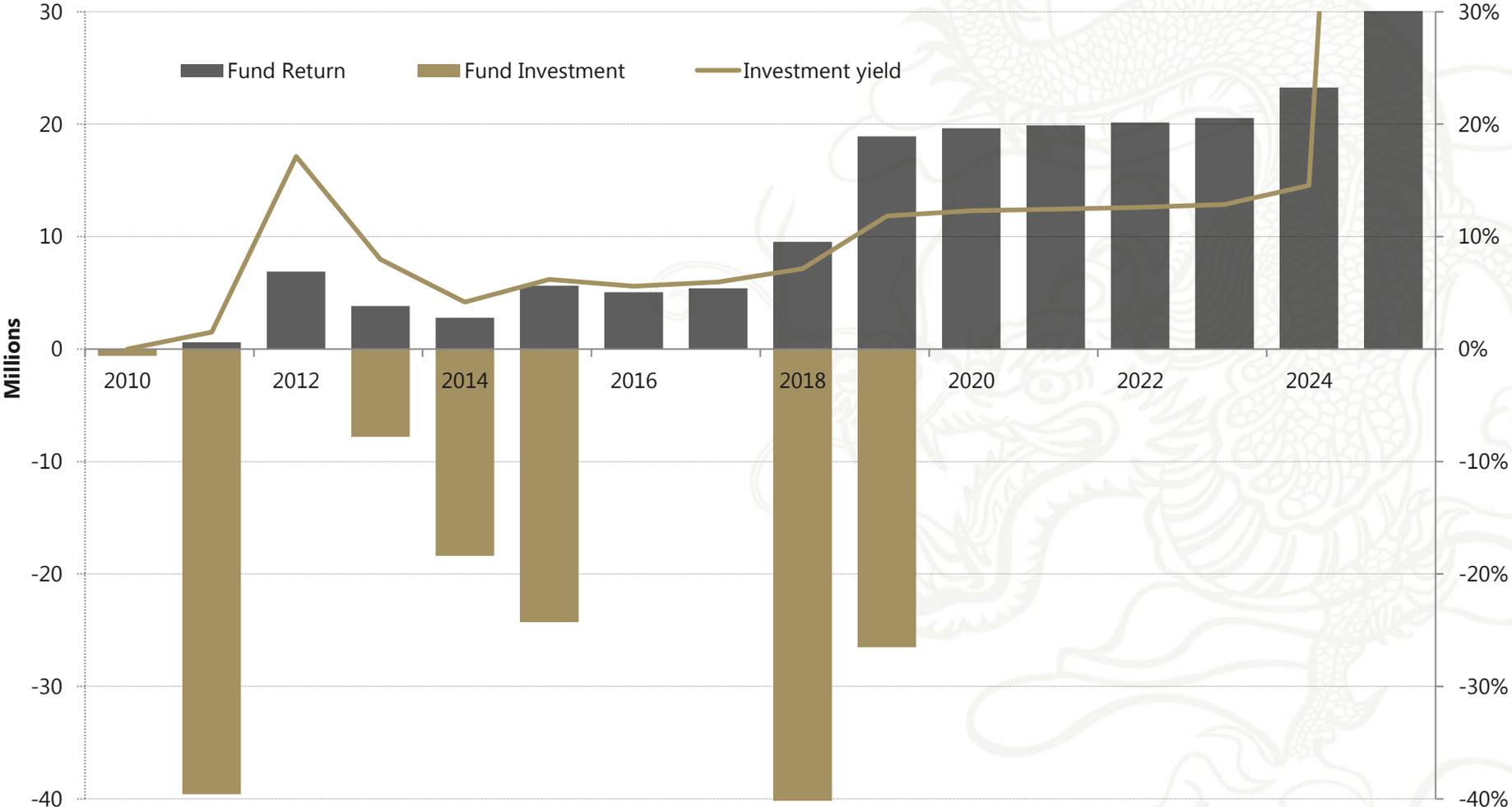


Resulting Country Concentration



Funds Level Investment Return Forecasts

Fully invested scenario (before base management fees)



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Conclusion

Fund prospects good

- 2013/14 has been a busy year
 - Portfolio assets all moved to the operations/yielding phase
 - 24 investment opportunities evaluated, bids prepared for multiple projects
 - Strong annual return
 - Secured positions in projects that are likely to result in the fund being fully invested
- Further expansion of activity expected in 2014/15
 - Submit bid for Grouped Schools
 - Submit bid for Auckland East Prison
 - Submit bid for SkyPath project
 - Complete bidding for Wollongong Accommodation project
- PIP Fund prospects looking good overall
 - Return expectations from current assets remain attractive



Questions?

