

NEW ZEALAND SOCIAL INFRASTRUCTURE FUND

ANNUAL SHAREHOLDERS MEETING

18 AUGUST 2015 11.30AM

CHAIRMAN'S SHAREHOLDER ADDRESS

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.

2015 HIGHLIGHTS

- HIGHLIGHTS FOR THE YEAR INCLUDED OUR FOURTH (UNIVERSITY OF WOLLONGONG STUDENT ACCOMMODATION) AND FIFTH (NEW ZEALAND SCHOOLS 2) INVESTMENTS, AND POTENTIALLY A SIXTH INVESTMENT MOVING TOWARDS A FINAL INVESTMENT DECISION (AUCKLAND PRISONS).
- *UNIVERSITY OF WOLLONGONG STUDENT ACCOMMODATION*
IN DECEMBER 2014 THE PIP FUND MADE AN INVESTMENT IN THE UNIVERSITY OF WOLLONGONG STUDENT ACCOMMODATION (WOLLONGONG). THE INVESTMENT COMPRISES TWO PARTS. THE FIRST WAS THE ACQUISITION OF THE EXISTING ACCOMMODATION FACILITY. SUBJECT TO RECEIVING PLANNING CONSENT A FURTHER INVESTMENT OF APPROXIMATELY THE SAME SIZE WILL BE MADE IN DEVELOPING NEW ACCOMMODATION UNITS.
- *NEW ZEALAND SCHOOLS 2*
IN FEBRUARY 2015 THE PIP FUND CONSORTIUM 'FUTURE SCHOOLS PARTNERS' (FSP) WAS ANNOUNCED AS THE PREFERRED BIDDER FOR NEW ZEALAND SCHOOLS 2 PPP (NZ SCHOOLS 2). IN MAY 2015 EDUCATION MINISTER HEKIA PARATA SIGNED A CONTRACT WITH FSP. THE CONTRACT INCLUDES THE DESIGN AND CONSTRUCTION IN THE FIRST TWO YEARS AND THE FINANCE AND MAINTENANCE OF FOUR SCHOOLS THROUGHOUT NEW ZEALAND OVER 25 YEARS.
- *AUCKLAND PRISON*
IN APRIL 2014 THE CORRECTIONS DEPARTMENT ANNOUNCED THAT NEXT STEP PARTNERS (NSP), A PIP FUND CONSORTIUM, WAS SHORTLISTED TO DEVELOP A PROPOSAL FOR DESIGNING, BUILDING, FINANCING AND MAINTAINING A NEW MAXIMUM SECURITY FACILITY AT AUCKLAND PRISON. THE SCOPE OF WORK DOES NOT INCLUDE THE PROVISION OF CUSTODIAL SERVICES. NSP ACHIEVED PREFERRED BIDDER STATUS IN APRIL 2015 AND HAS COMPLETED THE EARLY STAGE EARTHWORKS FOR THIS

PROJECT. THE CORRECTIONS DEPARTMENT IS STILL TO CONFIRM IF THE PROJECT WILL PROCEED AS A PPP. IF THE PROJECT DOES NOT PROCEED AS A PPP THEN NSP WILL RECEIVE ITS COSTS BACK PLUS INTEREST.

DISTRIBUTIONS

ON 2 JULY 2015 THE BOARD DECLARED A FINAL DIVIDEND RELATING TO THE 2015 FINANCIAL YEAR OF 0.75 CENTS PER SHARE (CPS). NZSIF DECLARED THREE DIVIDENDS RELATING TO CASH FLOWS GENERATED IN THE FINANCIAL PERIOD TOTALLING 4.87 CPS.

I AM PLEASED TO ADVISE THAT TODAY THE BOARD APPROVED A FURTHER DIVIDEND OF 0.75 CPS TO BE PAID MID-SEPTEMBER.

FINANCIAL PERFORMANCE 2015

- NZSIF PRODUCED A SMALL LOSS FOR THE PERIOD OF \$2,437 (2014: PROFIT \$758,498), A NEGATIVE RETURN ON EQUITY OF 0.01% (2014: +6.5%).
- NZSIF'S EARNINGS WERE IMPACTED BY THE NEGATIVE MOVEMENT IN FAIR VALUE OF INVESTMENTS IN THE PIP FUND OF (\$1,706,384). THE KEY CONTRIBUTING FACTOR WAS THE NEGATIVE AUSTRALIAN DOLLAR IMPACT ON THE AUSTRALIAN INVESTMENTS (\$739,863) – THE MELBOURNE CONVENTION & EXHIBITION CENTRE (MCEC), BENDIGO HEALTHCARE GROUP ACCOMMODATION FACILITY (BENDIGO) AND WOLLONGONG. THE AUSTRALIAN INVESTMENTS HAVE SINCE THE END OF THE FINANCIAL PERIOD RECOVERED THIS LOSS IN VALUE BECAUSE OF A FALL IN THE NEW ZEALAND DOLLAR THERE WAS A FAIR VALUE GAIN IN THE VALUE OF THE NEW ZEALAND INVESTMENTS OF \$977,359. THE HIGH LEVEL OF DIVIDENDS PAID BY THE PIP FUND (\$1,943,880) ALSO CONTRIBUTED TO THE NEGATIVE MOVEMENT IN THE PIP FUND VALUE BUT AS THESE DISTRIBUTIONS ARE INCOME TO NZSIF THEY HAD NO IMPACT ON NZSIF'S REPORTED EARNINGS.
- NET ASSET BACKING AT 31 MARCH 2015 AFTER THE DECLARATION OF A 1.63 CPS DIVIDEND ON 31 MARCH 2015 WAS 51.4 CPS.

CAPITAL

NZSIF HAS 41M \$1 SHARES ON ISSUE PAID TO 57 CPS, OR NET 54.2 CPS (LESS 2.8CPS CAPITAL RETURNED IN 2012). A CALL OF 15 CPS WAS PAID DURING THE 2015 FINANCIAL PERIOD.

THE MOST RECENT SALE PRICE FOR NZSIF SHARES WAS 53 CENTS.

CASHFLOWS AND DISTRIBUTIONS

AS MENTIONED NZSIF PAID DIVIDENDS OF 4.87 CPS RELATING TO THE 2015 FINANCIAL PERIOD (2014: 1.10 CPS). THERE WERE NO IMPUTATION CREDITS AVAILABLE.

THE PIP FUND IS RECEIVING CASH FLOWS FROM MCEC, HOBSONVILLE SCHOOLS, BENDIGO AND WOLLONGONG (STAGE ONE).

THE PIP FUND IS NOW PASSING DISTRIBUTIONS THROUGH ON A QUARTERLY BASIS ENABLING NZSIF TO MAKE DISTRIBUTIONS AT THE SAME FREQUENCY.

THE FORECAST FOR THE 2016 FINANCIAL YEAR IS FOR A LOWER LEVEL OF DISTRIBUTIONS THAN THE 4.87CPS PAID RELATING TO THE 2015 PERIOD. EXPECTATIONS FOR 2016 ARE FOR DIVIDEND PAYMENTS OF APPROXIMATELY 0.75 CPS EACH QUARTER.

WE EXPECT FROM 2017-18 AND BEYOND THAT DISTRIBUTIONS WILL INCREASE AS WOLLONGONG (FOLLOWING COMPLETION OF STAGE 2) NZ SCHOOLS 2, AUCKLAND PRISONS (IF THIS PROCEEDS AS A PPP) START CONTRIBUTING.

NOTE THAT NZSIF OPERATING COSTS ARE NOW BEING MET FROM OPERATING INCOME AND SO ARE DEDUCTED BEFORE DISTRIBUTIONS ARE PAID TO SHAREHOLDERS.

INVESTMENT PROGRESS

THE PIP FUND HAS COMPLETED FOUR INVESTMENTS TO DATE

- ***MELBOURNE CONVENTION AND EXHIBITION CENTRE (MCEC)***
- ***HOBSONVILLE SCHOOLS***
- ***BENDIGO HEALTHCARE GROUP ACCOMMODATION FACILITY***
- ***WOLLONGONG UNIVERSITY STUDENT ACCOMMODATION FACILITY (STAGE ONE)***

MELBOURNE CONVENTION AND EXHIBITION CENTRE (MCEC)

THE PIP FUND'S FIRST INVESTMENT. THE EQUITY 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 2015, PRODUCING STRONG CASHFLOWS, WITH NO REVENUE DEDUCTIONS 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

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.

WOLLONGONG UNIVERSITY STUDENT ACCOMMODATION

THE WOLLONGONG INVESTMENT WAS ANNOUNCED IN DECEMBER 2014.

THE PIP FUND MADE AN INITIAL STAGE ONE INVESTMENT OF A\$14.6 MILLION FOR A 39 YEAR CONCESSION TO OPERATE AND MAINTAIN THE EXISTING STUDENT ACCOMMODATION FACILITIES (1,900 BEDS ACROSS NINE SITES, WITH 273 EXISTING BEDS BEING DECOMMISSIONED OVER THREE YEARS). STAGE TWO INVOLVES THE DESIGN AND BUILD, MANAGEMENT AND MAINTENANCE OF TWO NEW FACILITIES (TOTALLING 1,060 BEDS) TO BE BUILT OVER THE NEXT THREE YEARS. THE PIP FUND IS A 50/50 EQUITY INVESTOR ALONGSIDE BALFOUR BEATTY INVESTMENTS.

NZSIF HAS CONTRIBUTED NZ\$4 MILLION FOR ITS INITIAL STAGE ONE EQUITY INVESTMENT WITH A SIMILAR SIZED INVESTMENT EXPECTED FOR STAGE TWO ONCE PLANNING CONSENT IS RECEIVED.

SUBSEQUENT INVESTMENT – NEW ZEALAND SCHOOLS 2

IN MAY 2015 THE PIP FUND CONSORTIUM 'FUTURE SCHOOLS PARTNERS' SIGNED A 25 YEAR CONTRACT WITH EDUCATION MINISTER HEKIA PARATA FOR THE DESIGN, CONSTRUCTION, FINANCE AND MAINTENANCE OF FOUR SCHOOLS THROUGHOUT NEW ZEALAND. THE SCHOOLS ARE ORMISTON JUNIOR COLLEGE IN AUCKLAND, ARANUI COMMUNITY CAMPUS AND ROLLESTON SECONDARY SCHOOL IN CANTERBURY AND WAKATIPU HIGH SCHOOL IN QUEENSTOWN. THE SCHOOLS ARE DUE TO OPEN IN 2017 AND 2018.

OTHER INVESTMENT OPPORTUNITIES

AUCKLAND PRISON

IN APRIL 2014 THE CORRECTIONS DEPARTMENT ANNOUNCED THAT NEXT STEP PARTNERS (NSP), A PIP FUND CONSORTIUM, WAS SHORTLISTED TO DEVELOP A PROPOSAL FOR DESIGNING, BUILDING, FINANCING AND MAINTAINING A NEW MAXIMUM SECURITY FACILITY AT AUCKLAND PRISON. THE SCOPE OF WORK DOES NOT INCLUDE THE PROVISION OF CUSTODIAL SERVICES. NSP ACHIEVED PREFERRED BIDDER STATUS IN APRIL 2015 AND HAS COMPLETED THE EARLY STAGE EARTHWORKS FOR THIS PROJECT. THE CORRECTIONS DEPARTMENT IS STILL TO CONFIRM IF THE PROJECT WILL PROCEED AS A PPP. IF THE PROJECT DOES NOT PROCEED AS A PPP THEN NSP WILL RECEIVE ITS COSTS BACK PLUS INTEREST.

SECONDARY INVESTMENT – UNIVERSITY STUDENT ACCOMMODATION

THE PIP FUND HAS EXCLUSIVITY ON A FINAL INVESTMENT, AN EXISTING UNIVERSITY STUDENT ACCOMMODATION FACILITY, ANTICIPATED TO BE A C\$20 MILLION EQUITY INVESTMENT, WHICH FOR NZSIF EQUATES TO C\$4.6 MILLION. PIP FUND HAS ADVISED THAT IF NEGOTIATIONS ARE SUCCESSFUL FINANCIAL CLOSE AND OPERATIONAL COMMENCEMENT IS EXPECTED Q4 2015.

AUCKLAND SKYPATH PROJECT

A HARBOUR BRIDGE CYCLE AND PEDESTRIAN LANE. THE RESOURCE CONSENT APPLICATION HAS BEEN APPROVED BUT IS STILL AWAITING A DECISION FROM COUNCIL ON WHETHER THIS WILL PROCEED AS A PPP PROJECT. THE PIP FUND FUNDED THE DEVELOPMENT WORK BUT NO LONGER EXPECTS THE INVESTMENT TO FALL INTO PIP FUND'S INVESTMENT PERIOD GIVEN THE TIME TAKEN FOR THE PROJECT TO REACH THIS STAGE. THE PIP FUND WILL RECEIVE A RETURN ON ITS DEVELOPMENT COSTS THAT WILL BE REPAID AT FINANCIAL CLOSE.

INVESTMENT TIMELINE

THE PIP FUND INVESTMENT PERIOD COMMENCED 30 OCTOBER 2009 AND RUNS UNTIL 29 OCTOBER 2015, UNLESS EXTENDED BY APPROVAL OF THE ADVISORY COMMITTEE.

WITH NZ SCHOOLS 2 NOW COMMITTED, AND ASSUMING AUCKLAND PRISON ACHIEVES FINANCIAL CLOSE; THE SECONDARY INVESTMENT IS COMPLETED; AND WOLLONGONG STAGE TWO RECEIVES PLANNING CONSENT AND PROCEEDS, THE PIP FUND WILL BE CLOSE TO REACHING ITS FULL INVESTMENT COMMITMENT INSIDE THE TARGET INVESTMENT TIMELINE OF OCTOBER 2015.

OUR INVESTMENT MANAGER WILL COVER THE PERFORMANCE OF INVESTMENTS AND THE INVESTMENT OPPORTUNITIES IN THEIR PRESENTATION WHICH FOLLOWS THE ASM.

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

WE THANK OUR SHAREHOLDERS FOR THEIR CONTINUED SUPPORT.

I AM HAPPY TO TAKE ANY QUESTIONS YOU MAY HAVE.

THANK YOU.

NEW ZEALAND SOCIAL INFRASTRUCTURE FUND LTD

KIM ELLIS

CHAIRMAN