

NZSIF



New Zealand
Social Infrastructure
Fund Limited

Interim Report

For the six months ended 30 September 2020



Melbourne Convention & Exhibition Centre



Bendigo Key Worker Village



Hobsonville Point Primary School



Auckland Prison

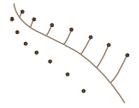


University of Wollongong Student Accommodation



New Zealand Schools 2 – Rolleston College

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Report to Shareholders

3 December 2020

Dear Shareholder

I am pleased to present New Zealand Social Infrastructure Fund Limited's (NZSIF) report for the six months to 30 September 2020. The report includes the financial statements for the period.

Highlights for the period included:

- The resilience of the investment assets was demonstrated during the period as the effects of Covid-19 were felt across the world. Nearly all the investment assets are performing well and generating their expected cash flows for PIP Fund 1.
- The University of Wollongong Student Accommodation has seen a substantial fall in occupancy. However the returns to PIP Fund 1 were largely protected by the revenue underwrite provided by the University. Just prior to period end the University commenced a process to acquire the student accommodation.
- *Net Asset Value (NAV)*
NZSIF's NAV at 30 September 2020 increased to \$1.63 per share (largely due to distributions withheld to assist in the funding of the NZ Schools expansion projects, and foreign exchange movements since 31 March 2020).
- Significant progress was made on the NZ Schools expansion projects and the follow-on investment opportunity.

Developments post period end:

- As a result of the impact of Covid-19, the PIP Fund 1 sales process was terminated.
- Follow-on investments and funding were finalised for the NZ Schools expansion project with NZSIF investing \$7.5 million.
- Distributions will recommence December 2020.

Background

Limited Partnership and Capital

NZSIF is a Limited Partner in the Public Infrastructure Partners LP Fund (PIP Fund 1). The PIP Fund 1 is an institutional fund established by Morrison & Co (the Manager) to invest in public private partnerships (PPPs) that deliver social infrastructure assets such as schools, hospitals, accommodation facilities, and local government facilities to the community.

The final close for PIP Fund 1 was 31 December 2010. PIP Fund 1 has nine limited partners with capital

commitments of \$176.5 million. NZSIF has a 23% interest in PIP Fund 1 and is the second largest investor, behind the New Zealand Superannuation Fund.

Covid-19

The Manager monitored the Covid-19 situation and confirmed that there were no significant developments that would result in a material change to the reported value of, nor the potential cashflows expected from PIP Fund 1.

The sales process that the Manager was undertaking for PIP Fund 1 formally ceased without an outcome. This was caused by Covid-19 related factors.

Investment Portfolio

Melbourne Convention and Exhibition Centre

MCEC was PIP Fund 1's first investment, with NZ\$40 million invested in 2010 for an ownership interest of 49.9%. NZSIF's net investment was NZ\$9 million. The contract counterparty is the State of Victoria with the concession due to expire in January 2034. The MCEC investment represents ~22% of PIP Fund 1's committed capital.

MCEC is a substantial development with net assets of A\$902 million (*MCE Trust Annual Report June 2019*). PIP Fund 1's revenue streams are based on availability of the facility and are not demand or patronage driven.

The MCEC investment continues to perform to expectations producing strong cash flows, with no revenue deductions for equity investors. Generally, when faced with revenue deductions (for disruption in any of the facilities' services) these deductions are passed through to the operations management company, Brookfield Multiplex.

Melbourne Convention and Exhibition Centre Expansion Project

The State of Victoria entered into a contract with a PIP Fund 1 consortium to develop a 20,000m² expansion, including a 9,000m² extension of the exhibition centre. The expansion opened 9 July 2018. This was a A\$15 million follow-on investment with NZSIF's share being NZ\$3.7 million.



Melbourne Convention & Exhibition Centre

The State of Victoria is the contract counter party and the expiration of the concession in January 2034 aligns with the original Melbourne Convention and Exhibition Centre PPP contract.

Covid-19

On 11 March 2020, the World Health Organisation classified the global Covid-19 outbreak as a pandemic. As a place of large gatherings from 15 March all events were cancelled. While the original intention was to re-open the centre to the public by 30 June 2020, a new outbreak of Covid-19 cases in Melbourne in late June led to a second lock-down that lasted for more than 100 days. This was one of the longest Covid-19 lockdowns in the world and the closure of the centre was extended until 31 August 2020. The Centre has, subject to complying with Covid-19 government guidelines and restrictions, commenced offering virtual hosting services for events on a case by case basis.

Facility Management services continue to be delivered (though some demand-based services such as event cleaning are not required) and there has been no impact from the shut-down on the availability-based payment stream.

Hobsonville Schools

In January 2013 Learning Infrastructure Partners (LIP, a PIP Fund 1 consortium) delivered New Zealand’s first public private partnership (PPP) being the design, construction, financing and maintenance of Auckland’s Hobsonville Point primary and secondary schools, for 25 years.

The 25-year concession is with the Ministry of Education and expires in 2039.

PIP Fund 1 invested equity of \$10 million, of which NZSIF’s share was \$2.25 million.

The primary school opened in January 2013 and the secondary school in mid-February 2014. The Primary school has a 690 student capacity and the secondary school 1,500 students.

The schools are designed as open learning environments and continue to operate well with all planned and reactive maintenance tasks being completed within the required timeframes.



Hobsonville Point Primary School

School Expansion

Due to the roll growth at the primary school, the Ministry of Education is looking to proceed with an expansion of this facility from 690 students to 860 students. The Ministry and the PIP Fund 1 ProjectCo continue to execute Change Notices to advance the expansion. The Preliminary Design has been completed, with a D&C contractor procurement strategy currently with the Ministry for review.

The expansion project also includes the provision of temporary staff and learning accommodation utilising modular buildings (a double unit and a quad unit) which will be on site until the end of the expansion construction. The construction of the double modular unit has been completed and is being utilised by the school. Construction of the quad modular unit will be completed early December.

Covid-19

The July school holidays provided the opportunity for the Asset and Facilities Management provider to catch up on maintenance deferred during the first Covid-19 lockdown event. On 12 August, the New Zealand Government moved Auckland to Covid-19 Alert Level 3. This reintroduced additional cleaning requirements and safe working practices at the facilities, in line with previously agreed procedures with the Ministry, until the Auckland Region reverted to Alert Level 1 on 5 October.

New Zealand Schools 2

Financial close was reached in April 2015, and in May 2015 the PIP Fund 1 consortium 'Future Schools Partners' signed a 25-year contract with the Ministry of Education for the design, construction, finance and maintenance of four schools throughout New Zealand. The 25-year concession expires in 2043. The Partnership has a 90% interest in the project, with the PIP Fund 2 holding the balance.

The schools are Ormiston Junior College in Auckland, Haeata Community Campus and Rolleston College in Canterbury, and Wakatipu High School in Queenstown.

PIP Fund 1's equity investment was \$22 million, with NZSIF's share being \$5 million.

Good engagement is being maintained with the schools and

Ministry through the Monthly Project Governance Group meetings. The project continues to operate well with all reactive maintenance tasks generally completed within the required timeframes. Abatements continue to be minimal.

Expansion

The Ministry and the PIP Fund 1 ProjectCo continue to execute Change Notices to advance the expansions of Wakatipu High School (an extra 600 students) and Rolleston College (an extra 700 students). Wakatipu is at detailed design stage with a construction contractor now on site under an Early Works Agreement. The preliminary design has been completed for Rolleston College, with a D&C construction contractor procurement strategy currently with the Ministry for review.

Both expansion projects include the provision of temporary staff and learning accommodation utilising modular buildings which will be on site during the period of construction. Due to the tight delivery timeframe, the offsite construction of these units is underway via a letter of intent from the Ministry, finalisation and execution of the contract documentation to follow.

Covid-19

The July school holidays provided the opportunity for the Asset and Facilities Management provider to catch up on maintenance deferred during the first Covid-19 lockdown event. On 12 August, the New Zealand Government moved Auckland to level 3 and the rest of the country to level 2. This reintroduced some additional cleaning requirements and safe working practices at the facilities, in line with previously agreed procedures with the Ministry until the country reverted to level 1 in mid-September.



Rolleston College

Bendigo Key Worker Village
(Bendigo, Victoria, Australia)



The Bendigo investment was completed in March 2014. This is a doctors and nurses residential facility based in Bendigo, Victoria, Australia, consisting of 120 accommodation units.

Investment factors:

- The Bendigo Healthcare Group (BHCG), the tenant, is a public health provider for the State of Victoria under the Health Services Act 1988
- PIP has entered into a 30-year property lease, with inflation linked cash flows
- There is no occupancy risk
- A PIP Fund 1 entity owns the land and retains ownership of the land and buildings at the end of the lease.

The BHCG employs 3,000 staff and has a A\$300 million annual budget. The Bendigo Hospital Project commissioned the development of a new A\$630 million hospital, which was completed in 2017

The total equity investment in the accommodation facility was A\$8.7 million, equivalent to NZ\$10.8 million. NZSIF's share of this investment was NZ\$2.3 million.

BHCG continues to pay rent on time and maintain the facilities to the required standard.



Bendigo Key Worker Village

Covid-19

Covid-19 risks remain, with maintenance staff split into three physically distanced teams to ensure works can continue should one member or one team become compromised. Shared spaces have been closed until further notice. Physical quarterly visits by PIP Fund 1 executives have halted and been replaced with teleconferencing until Covid-19 risks reduce and trans-Tasman travel resumes without isolation requirements

University of Wollongong Student Accommodation Facility
(Wollongong, NSW, Australia)



The Wollongong investment was made in December 2014.

PIP Fund 1 took a 50% interest in the University of Wollongong concession to operate 1,900 existing student accommodation beds along with the design and build of an additional 1,000 beds in a two stage development. The contract counter party is the University of Wollongong (UoW) and the concession is for a term of 39 years expiring 2053.

PIP Fund 1 is a 50/50 equity investor alongside another Morrison & Co managed fund. NZSIF contributed NZ\$7.6 million for its share of the investment.

Project Status

The UoW issued a notice of voluntary termination on 16 September, specifying that the Project Deed would terminate on the 18 January 2021.



University of Wollongong Student Accommodation

The voluntary termination mechanics contain a pre-agreed valuation formula to set the price that the UoW can use to buy-back equity in the project.

The parties are currently working constructively to achieve a satisfactory conclusion of the sales process, with payment expected by mid-April 2021.

Covid-19

Covid-19 has had a material impact on the university accommodation sector, although the impact on the PIP Fund 1's investment has been mostly mitigated by the 85% occupancy underwrite by the University.

Auckland Prison

Financial close was reached in 2015 with Next Step Partners (NSP), a PIP Fund 1 consortium, to design, build, finance and maintain both the new Auckland prison facility, and the existing prison facility. The contract counter party is the Department of Corrections with the concession expiring in 2042.

The NSP consortium comprised the PIP Fund 1, Fletcher Construction (Building and Interiors), Cushman and Wakefield and Westpac. Fletcher Construction was responsible for the design and construction of the new facility, Cushman and Wakefield is responsible for the Asset Management and Facilities Maintenance (AM/FM), and Westpac provided the debt.

PIP Fund 1's equity investment was \$30 million, with NZSIF's share \$7 million.

Custodial operations are not included in the contract and both facilities are operated by Corrections.

The Facility

Auckland Prison is located near Albany, northwest of Auckland City and has a designated capacity for 681 male prisoners, ranging from minimum to maximum security classification.

The new facility has been functioning as an operational prison since October 2018.

The provision of asset and facilities services has been running smoothly and has generated positive feedback from Corrections.

The refurbishment of the West Facility recommenced in September 2018. Despite a six week delay due to Covid-19, refurbishment works progressed well with the refurbishment of the final unit completing on 20 October 2020.

Covid-19

Covid-19 has had a minimal impact on Auckland Prison, as an essential service.



Auckland Prison

Investment Portfolio Mix

The portfolio investment composition is shown below.

Chart 1 – NZSIF Investment Mix 30 September 2020

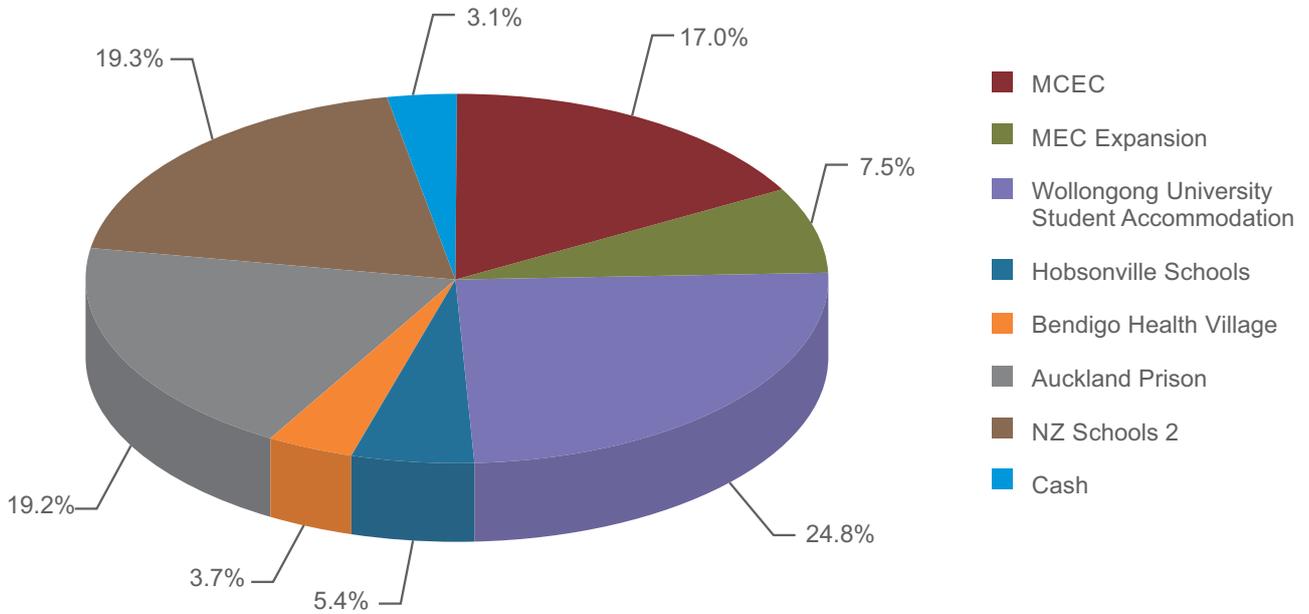
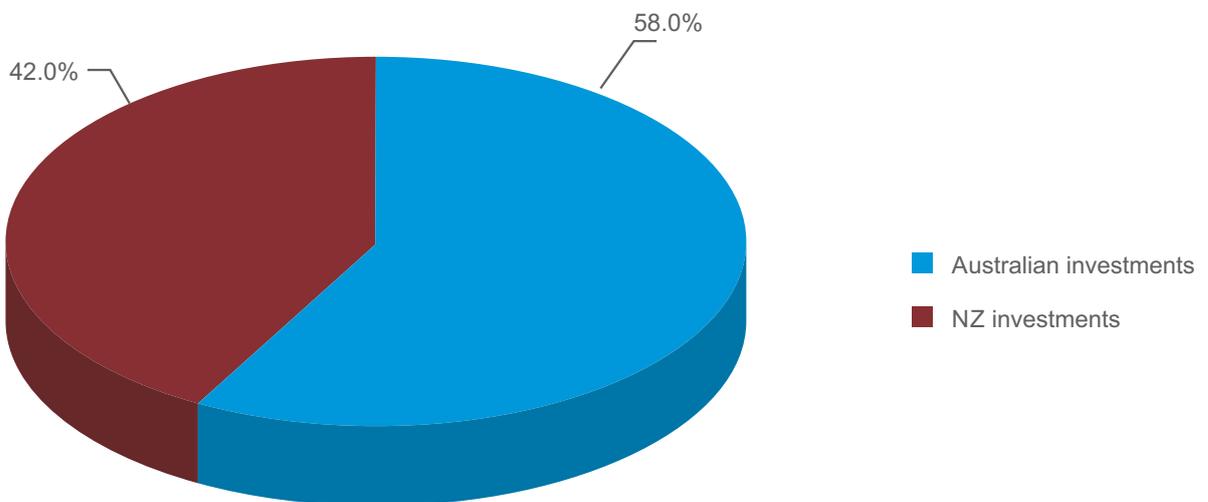


Chart 2 – Investment Concentration by Country 30 September 2020



Investment Commitment

As at 30 September 2020 the limited partners had contributed 99.6% of their committed capital to PIP Fund 1. The Manager has cancelled the outstanding 0.4% commitment.

NZSIF Capital Position and Net Asset Value

Shareholders have contributed capital of \$41 million (\$1.00 per share) and received capital returns of \$1.47 million (3.6cps), a net contribution of 96.4cps.

NZSIF's net asset value (NAV) based on the financial statements as at 30 September 2020 was \$1.63 per share (Mar 2020: \$1.53).

PIP Fund 1 Investment Valuation

The valuation method used by PIP Fund 1 to value its project investments is the discounted cash flow method, which is appropriate for valuing PPP projects. PIP Fund 1 engages a third-party expert to value the Fund's assets (excluding Bendigo), at the end of each financial year (31 March). In the case of Bendigo a property valuer determines fair value. At interim accounting periods PIP Fund 1 assets are valued at fair value based on the valuation at the end of the previous 31 March financial year end, with adjustments for any income earned less any distributions received in the period, and any exchange rate movement on Australian investment assets.

NZSIF Investment Valuation & Returns

NZSIF's policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss.

NZSIF's investment in PIP Fund 1 at 30 September 2020 was valued at \$66.9 million (September 2019: \$56.4 million) a \$10.5 million increase in the fair value of its investment over this 12 month period. The contributing factors were an increase in the net assets of PIP Fund 1 due to retention of distributions and a positive gain from the FX rate movement.

Distributions

NZSIF has paid total distributions of 29.8cps (including capital returns of 3.6cps) to 30 September 2020. The last distribution paid was 2 cps in December 2019. The manager of PIP Fund 1 then made the decision to suspend distributions and apply those cashflows to the initial costs involved in the design and planning stages for the expansion of the three NZ Schools projects as these are value accretive for investors.

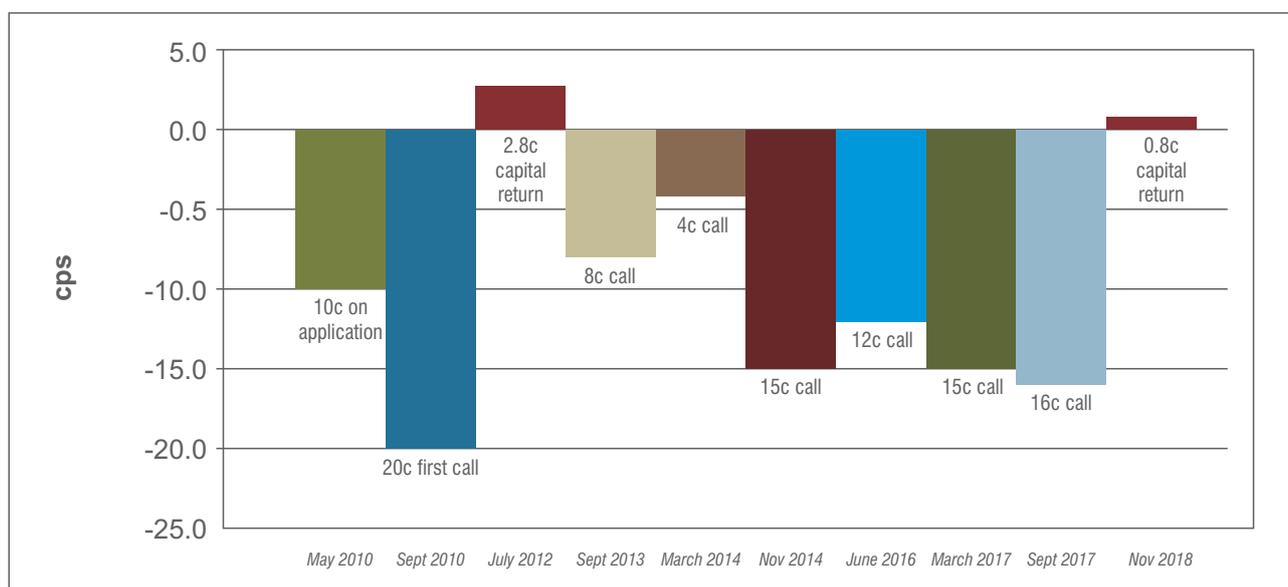
Financial Statements

The unaudited interim financial statements covering the six-month period to 30 September 2020 are provided in this report for your information.

NZSIF's reported profit was \$3,999,238 (September 2019: \$2,596,603). This was mainly the result of an increase in the net assets of the PIP Fund 1 of \$2,401,338 and a positive gain from the FX rate movement of \$1,769,491. The movement in fair value of investment in the PIP Fund is shown in the statement of comprehensive income.

Expenses were \$171,083 (Sept 2019: \$164,449).

Chart 3 – NZSIF Calls & Capital Returns to 30 September 2020



The value of the NZSIF investment in PIP Fund 1 was \$66,860,780 (Sept 2019: \$56,413,469). Liabilities totalled \$89,355 (Sept 2019: \$28,823).

Capital and Net Asset Value

Issued capital was \$39,103,795. Combined with retained earnings of \$27,684,118 total capital was \$66,787,913. This represents a net asset value of \$1.63 per share as at 30 September 2020.

Outlook

Follow-on Investment Opportunity

PIP Fund 1's assets include significant investments in the NZ Schools 1 and NZ Schools 2 PPPs. A number of these schools are at capacity and as advised, the Ministry of Education requested PIP Fund 1 expansions at three schools (see below). The Manager needed to source additional equity for the expansion investment. A number of the existing PIP Fund 1 investors, including NZSIF, took the opportunity to make a follow-on investment on terms in line with existing NZSIF investments. PIP Funds 2 and 3 invested alongside PIP Fund 1 also providing funding alongside PIP Fund 1 for the follow on investment opportunities.

The NZSF board believes this is an attractive opportunity. The investment by NZSIF is for approximately \$7.5m, which is to be initially funded by way of a bank facility. It is the NZSIF Board's intention to use its share of the UoW sales proceeds to pay down this loan, with any remaining balance to be repaid over 5 years. Due to the likely short-term nature of this loan, an equity issue was not warranted.

PIP Fund 1 Sales Process Concluded

The PIP Fund 1 had been progressing negotiations with a final preferred bidder for the PIP Fund 1 assets and a sale was anticipated. However due to the impact of Covid-19 and the withdrawal of the University of Wollongong Student Accommodation asset from the sales process, further negotiations failed to reach a successful conclusion.

Although a sale is currently off the table PIP Fund 1 may receive unsolicited approaches that meet its criteria, and a sale of all or some of the PIP Fund 1 assets may occur in time.

Given this development directors have lifted their do not sell recommendation.

Distributions

The PIP Fund 1 was applying distributions to the early costs involved with the school expansion projects. With the recent capital contributions for these projects the PIP Fund 1 is now in a position to recommence distributions. The PIP Fund 1 has confirmed the payment of a

distribution in December. Once we have allowed for our working capital and loan obligations, we expect to pay a distribution of 0.75 cps before Christmas.

We then anticipate payment of regular distributions each quarter to recommence, with the actual payments being subject to cash flow timings including our ongoing loan repayment commitments.

We will keep you up to date through media releases, via the NZSIF website www.nzsif.co.nz or by writing directly to you. All shareholder reports plus news updates are available to view on the website.

If you have any queries regarding your investment in NZSIF, please discuss with your Investment Adviser or you may call Peter Lalor at NZSIF Management on 07 927 7927.

Thank you for your continuing support of NZSIF.

Yours sincerely

**NEW ZEALAND SOCIAL INFRASTRUCTURE
FUND LIMITED**



**Kim Ellis
Chairman**

Interim Financial Statements

Statement of comprehensive income

For the six months ended 30 September 2020

	Note	Unaudited 6 months Sep 2020 \$	Audited 12 months Mar 2020 \$	Unaudited 6 months Sep 2019 \$
Distribution income		-	3,796,776	3,140,588
Interest income		103	6,376	4,179
Movement in fair value of Investment in PIP Fund	3	4,170,829	5,892,767	(383,715)
Total investment income		4,170,932	9,695,919	2,761,052
Administrative expenses		(171,083)	(331,904)	(164,449)
Interest expense		(616)	-	-
Profit/(loss) before tax		3,999,233	9,364,015	2,596,603
Income tax credit/(expense)	4	5	-	-
Profit/(loss) for the period		3,999,238	9,364,015	2,596,603
Other comprehensive income/(loss) for the period		-	-	-
Total comprehensive income/(loss) for the period		3,999,238	9,364,015	2,596,603

Statement of changes in equity

For the six months ended 30 September 2020

	Share capital	Retained earnings/ (losses)	Total equity
Balance at 1 April 2020	39,103,795	23,684,880	62,788,675
Total comprehensive income for the period	-	3,999,238	3,999,238
Balance at 30 September 2020	39,103,795	27,684,118	66,787,913

For the year ended 31 March 2020

	Share capital	Retained earnings/ (losses)	Total equity
Balance at 1 April 2019	39,429,239	17,685,421	57,114,660
Total comprehensive income for the period	-	9,364,015	9,364,015
Redemption of capital	(325,444)	325,444	-
Dividends paid/payable	-	(3,690,000)	(3,690,000)
Balance at 31 March 2020	39,103,795	23,684,880	62,788,675

For the six months ended 30 September 2019

	Share capital	Retained earnings/ (losses)	Total equity
Balance at 1 April 2019	39,429,239	17,685,421	57,114,660
Total comprehensive income for the period	-	2,596,603	2,596,603
Dividends paid/payable	-	(2,870,000)	(2,870,000)
Balance at 30 September 2019	39,429,239	17,412,024	56,841,263

Statement of financial position

As at 30 September 2020

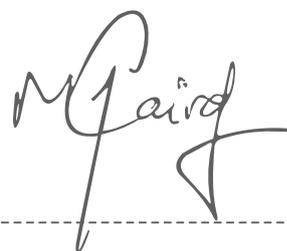
	Note	Unaudited 6 months Sep 2020 \$	Audited 12 months Mar 2020 \$	Unaudited 6 months Sep 2019 \$
Assets				
Property, plant and equipment		49	65	97
Investment in PIP Fund	3	66,860,780	62,689,951	56,413,469
Total non current assets		<u>66,860,829</u>	<u>62,690,016</u>	<u>56,413,566</u>
Cash and cash equivalents	7	1,401	137,347	440,903
Receivables and prepayments	6	13,224	28,071	12,838
Taxation receivable		1,814	1,780	2,779
Total current assets		<u>16,439</u>	<u>167,198</u>	<u>456,520</u>
Total assets		<u>66,877,268</u>	<u>62,857,214</u>	<u>56,870,086</u>
Equity				
Share capital		39,103,795	39,103,795	39,429,239
Retained earnings/(losses)		27,684,118	23,684,880	17,412,024
Total equity attributable to equity holders		<u>66,787,913</u>	<u>62,788,675</u>	<u>56,841,263</u>
Liabilities				
Bank overdraft	7	61,087	-	-
Trade and other payables		28,268	68,539	28,823
Total current liabilities		<u>89,355</u>	<u>68,539</u>	<u>28,823</u>
Total liabilities		<u>89,355</u>	<u>68,539</u>	<u>28,823</u>
Total equity and liabilities		<u>66,877,268</u>	<u>62,857,214</u>	<u>56,870,086</u>

For and on behalf of the Board



Director

24 November 2020



Director

24 November 2020

Statement of cash flows

For the six months ended 30 September 2020

	Note	Unaudited 6 months Sep 2020 \$	Audited 12 months Mar 2020 \$	Unaudited 6 months Sep 2019 \$
Cash flows from operating activities				
Distributions received		-	3,796,776	3,140,588
Interest received		103	6,376	4,179
Interest paid		(616)	-	-
Income taxes refunded		-	29,656	26,877
Income taxes paid		(29)	(1,780)	-
Cash paid to suppliers		(196,491)	(343,036)	(200,096)
Net cash from operating activities	8	<u>(197,033)</u>	<u>3,487,992</u>	<u>2,971,548</u>
Cash flows from financing activities				
Dividends paid		-	(3,690,000)	(2,870,000)
Proceeds from called capital		-	-	-
Net cash from financing activities		<u>-</u>	<u>(3,690,000)</u>	<u>(2,870,000)</u>
Cash flows from investing activities				
Investment in PIP Fund	3	-	-	-
Net cash from investing activities		<u>-</u>	<u>-</u>	<u>-</u>
Net movement in cash and cash equivalents		(197,033)	(202,008)	101,548
Cash and cash equivalents at beginning of period		137,347	339,355	339,355
Cash and cash equivalents at end of period	7	<u>(59,686)</u>	<u>137,347</u>	<u>440,903</u>



Notes to the financial statements

1. General information

(a) Reporting entity

New Zealand Social Infrastructure Fund Limited (the “Company”, or “NZSIF”) is a company incorporated and domiciled in New Zealand. NZSIF is registered under the Companies Act 1993 and is an FMC Reporting Entity in terms of the Financial Markets Conduct Act 2013.

The interim financial statements of the Company have been prepared for the six months ended 30 September 2020, in accordance with the Financial Reporting Act 2013 and the Financial Markets Conduct Act 2013.

The Company is primarily involved in investing into public-private partnerships as a limited partner of the Public Infrastructure Partners Limited Partnership (the “PIP Fund”).

As at balance date there was a working capital deficit. This is a timing issue and the company has sufficient funding to ensure it can continue to meet its obligations as and when they fall due.

The interim financial statements were approved by the Directors on 24 November 2020.

(b) Statement of compliance

These financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). They do not include all the information required for full annual financial statements, and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 March 2020.

(c) Basis of measurement

The interim financial statements are prepared on the historical cost basis except that certain financial instruments are stated at their fair value (see note 2(a)).

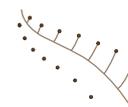
(d) Functional and presentation currency

The interim financial statements are presented in New Zealand dollars, which is the Company’s functional currency, and rounded to the nearest dollar.

(e) Use of estimates and judgements

The preparation of interim financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. At 30 September 2020 the only estimates are in relation to the valuation of the investment in PIP Fund (see note 3).



Notes to the financial statements

2. Significant accounting policies

The accounting policies applied by the Company in these interim financial statements are the same as those applied by the Company in its annual financial statements as at and for the year ended 31 March 2020. No valuations by an independent valuation expert are used for interim reporting periods (see Note 3: Key estimates and judgements).

(a) Investment in the PIP Fund

NZSIF invests in the PIP Fund as a limited partner.

The Company's investment in the PIP Fund is classified at fair value through profit or loss and presented as a non-current asset in the statement of financial position. The investment is stated at fair value, with any resultant change in fair value recognised in profit or loss.

3. Investment in PIP Fund

The Company currently has one investment, which is in the PIP Fund.

The fair valuation of the investment in the PIP Fund as at 30 September 2020 is \$66,860,780 (31 March 2020: \$62,689,951, 30 September 2019: \$56,413,469) which is recorded in the statement of financial position. The movement against the previous valuation is shown as a fair value movement through profit or loss, being an increase of \$4,170,829 (31 March 2020: increase of \$5,892,767, 30 September 2019: decrease of \$383,715).

The following table is a reconciliation of the opening balance to the closing balance for fair value measurement of the Company's PIP Fund Investment:

	Unaudited Sep 2020	Audited Mar 2020	Unaudited Sep 2019
Opening balance	62,689,951	56,797,184	56,797,184
Movement in fair value of investment in PIP Fund	4,170,829	5,892,767	(383,715)
Closing balance	<u>66,860,780</u>	<u>62,689,951</u>	<u>56,413,469</u>

The movement in fair value of PIP Fund investment is made up of:

Movement in FX rates	1,769,491	(529,748)	1,014,114
Movement in net assets of PIP Fund Investment	2,401,338	6,422,515	(1,397,829)
Movement in fair value of PIP Fund Investment	<u>4,170,829</u>	<u>5,892,767</u>	<u>(383,715)</u>



Notes to the financial statements

3. Investment in PIP Fund (continued)

Total gains or losses included in profit or loss for the period in the above table are presented in profit or loss as follows:

Investments	Unaudited Sep 2020	Audited Mar 2020	Unaudited Sep 2019
Total gains/(losses) included in profit or loss for the period	4,170,829	5,892,767	(383,715)
Total gains/(losses) for the year included in profit or loss for assets held at the end of the reporting period	4,170,829	5,892,767	(383,715)

Key estimates and judgements

Company policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss. The General Partner of the PIP Fund arranges annual valuations of the operating project investments at each 31 March balance date, by an independent valuation expert, using valuation methodologies approved by the Advisory Committee of the PIP Fund. As there is no quoted market price for the PIP Fund, the Company, for the purposes of its 30 September 2020 half year financial statements, estimated the fair value of its investments in the PIP Fund after considering its proportional share of the net assets attributable to partners of the PIP Fund from the PIP Fund unaudited financial information as at 30 September 2020 and whether there have been any significant changes to forecast future cash flows and any foreign exchange movements that would impact on the valuations of operating project investments.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 September 2020	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	66,860,780	66,860,780
31 March 2020	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	62,689,951	62,689,951
30 September 2019	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	56,413,469	56,413,469



Notes to the financial statements

4. Income tax

No income tax expense has been included in the interim financial statements due to the Company having surplus unrecognised tax losses. The estimated gross amount of tax losses not recognised at 30 September 2020 is \$10,696,908 (31 March 2020: \$5,068,839, 30 September 2019: \$4,902,815). The increase in unrecognised tax losses during the period relate to the Company's share of tax losses from the PIP Fund for the prior year.

5. Issued capital

Each \$1.00 share originally comprised one ordinary voting share with a nil issue price, and 100 non-voting redeemable preference shares in NZSIF at \$0.01 each (a stapled security). The total \$1.00 per share is now called. With the capital returns to date NZSIF shares now comprise 96 non-voting redeemable preference shares and 1 ordinary share.

6. Receivables and prepayments

	Unaudited Sep 2020	Audited Mar 2020	Unaudited Sep 2019
Receivables	-	-	-
Prepayments	13,224	28,071	12,838
	<u>13,224</u>	<u>28,071</u>	<u>12,838</u>

7. Cash and cash equivalents

	Note	Unaudited Sep 2020	Audited Mar 2020	Unaudited Sep 2019
Call deposits:				
ANZ Bank New Zealand Limited		-	-	-
ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited	10	1,401	137,282	440,902
Westpac New Zealand Limited (Overdraft)		(61,087)	65	1
Cash and cash equivalents in the statement of cash flows		<u>(59,686)</u>	<u>137,347</u>	<u>440,903</u>

Call deposits are held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited (see Note 10), and also directly with ANZ Bank New Zealand Limited and Westpac New Zealand Limited. The average interest rate on call deposits was 0.54% (March 2020: 1.80%, September 2019: 1.97%).

The Company has a \$500,000 overdraft facility with Westpac New Zealand Limited. The interest rate payable on any drawn balance is 6.75% at 30 September 2020. The account was overdrawn by \$61,087 as at 30 September 2020. The average interest rate on the bank overdraft was 5.54%.



Notes to the financial statements

8. Reconciliation of profit/(loss) after taxation to the net cash flow from operating activities

	Unaudited Sep 2019	Audited Mar 2019	Unaudited Sep 2018
Profit/(loss) for the period	3,999,238	9,364,015	2,596,603
Depreciation	16	64	32
Movement in fair value of PIP Fund Investment	(4,170,829)	(5,892,767)	383,715
	<u>(171,575)</u>	<u>3,471,312</u>	<u>2,980,350</u>
Movement in Working Capital			
Change in receivables and prepayments	14,847	(28,071)	(12,838)
Change in income tax receivable/payable	(34)	27,876	26,877
Change in trade and other payables	(40,271)	16,875	(22,841)
Net cash flow from/(to) operating activities	<u>(197,033)</u>	<u>3,487,992</u>	<u>2,971,548</u>

9. Commitments

As at 30 September 2020, the Company has further commitments of \$144,856 to the PIP Fund. The PIP Fund has advised they will not be called.

10. Related parties

Identity of related parties

The Company has a related party relationship with Craigs Investment Partners Limited, which owns 100% of NZSIF Management Limited, the Manager of NZSIF.

The following director of the Company was also a director of Craigs Investment Partners Limited until 8 May 2020:

- Michael John Caird

The following director of the Company is also an employee of Craigs Investment Partners Limited:

- David Ross McCallum



Notes to the financial statements

10. Related parties (continued)

Transactions with related parties

During the period, the Company entered into the following transactions with related parties:

- Management fees paid to NZSIF Management Limited totalled \$90,259 (31 March 2020: \$164,205; 30 September 2019: \$82,102).
- Craigs Investment Partners Limited paid certain expenses on behalf of the Company.
- An on-call bank account is held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, which is a 100% subsidiary of Craigs Investment Partners Limited. At 30 September 2020 the balance held was \$1,401 (31 March 2020: \$137,282, 30 September 2019: \$440,902) (see Note 7). For deposits placed via CIP Cash Management Nominees Limited, the Company receives interest rates higher than it would otherwise obtain by going direct to banks. CIP Cash Management Nominees Limited receives a commission of up to 30 basis points on such deposits.

Transactions with key management personnel

	Unaudited 6 months Sep 2020	Audited 12 months Mar 2020	Unaudited 6 months Sep 2019
Directors' fees (total remuneration)	38,000	76,000	38,000

The balance of directors' fees owing to key management personnel at 30 September 2020 was \$19,000 (31 March 2020: \$19,000, 30 September 2019: \$19,000).

Directors' interests

The following directors or their associated entities held shares in the Company at 30 September 2020:

- Kimmitt Rowland Ellis 150,000 shares
- Ian Alexander Nicholson Fraser 100,000 shares
- David Ross McCallum 35,000 shares
- Michael John Caird 100,000 shares

11. Subsequent events

Covid-19

The company has monitored the evolution of the COVID-19 situation via interaction with the management of the PIP partnership and do not believe that there have been any significant developments that would result in a material change to the reported value nor the potential cashflows expected from the investment. Refer to Note 3 for discussion of impact on investment valuations.

The sales process that the PIP Fund was undertaking formally ceased without an outcome. This was caused by COVID-19 related delays and the withdrawal of the University of Wollongong accommodation units from the sales process.

On 3 November 2020 the company entered into an agreement with Public Infrastructure Partners SE Limited Partnership and committed to a follow-on investment of \$7,500,000 funded via a Westpac loan facility of \$7,500,000 entered into on 2 November 2020. The follow-on investment comprises the expansion of NZ Schools 1 and 2, which includes Hobsonville Point Primary School, Wakatipu High School and Rolleston College.



Independent Review Report

To the Shareholders of New Zealand Social Infrastructure Fund Limited
Report on the interim financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements on pages 10 to 18 do not:

- i. Present fairly in all material respects the Company's financial position as at 30 September 2020 and its financial performance and cash flows for the 6 month period ended on that date; and
- ii. Comply with NZ IAS 34 Interim Financial

Reporting. We have completed a review of the accompanying interim financial statements which comprise:

- The statement of financial position as at 30 September 2020;
- The statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



Basis for conclusion

A review of interim financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of New Zealand Social Infrastructure Fund Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Company.



Use of this Independent Review Report

This report is made solely to the Shareholders as a body. Our review work has been undertaken so that we might state to the Shareholders those matters we are required to state to them in the Independent Review Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Shareholders as a body for our review work, this report, or any of the opinions we have formed.



Responsibilities of the Directors for the interim financial statements

The Directors, on behalf of the Company, are responsible for:

- The preparation and fair presentation of the interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting;
- Implementing necessary internal control to enable the preparation of interim financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



Auditor's Responsibilities for the review of the interim financial statements

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these interim financial statements.

This description forms part of our Independent Review Report.

Tauranga

24 November 2020



Directory

BOARD OF DIRECTORS OF NZSIF

Kimmitt Rowland Ellis (Chair)
Ian Alexander Nicholson Fraser
Michael John Caird*
David Ross McCallum*

* Both Mike Caird and David McCallum are shareholders in CIP (via CIP Holdings Ltd). CIP wholly owns the manager of the New Zealand Social Infrastructure Fund Ltd, NZSIF Management Ltd.

The Board can be contacted at NZSIF's registered office address set out below.

OFFICES OF NZSIF

New Zealand Social Infrastructure Fund Limited

Craigs Investment Partners House
158 Cameron Road
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Website: www.nzsif.co.nz

AUDITORS

KPMG

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Phone: (07) 578 5179

INVESTMENT MANAGER

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PO Box 1395
Wellington 6140

ADMINISTRATION MANAGER

NZSIF Management Limited

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Phone: (07) 927 7927
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SHARE REGISTRAR

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