

A photograph of a modern building at dusk. The building features a facade of vertical wooden slats, many of which are illuminated from within, creating a warm glow. A tall black lamppost stands in the foreground on the left. The sky is a clear, deep blue.

Public Infrastructure Partners LP:

Manager's Report to NZ SIF – August 2021



PRIVATE AND CONFIDENTIAL

Fund Activities Year End 31 March 2021

- Fund is fully invested and the assets are in the lower risk operational phase
- Follow-On Investments were executed in 2021 but are now being progressed using PIP Fund SE
- Refinancing work executed in 2021 (*NZ Schools 1 PPP (post Covid precautionary), NZ Schools 2 PPP*)
- Early termination of the University Of Wollongong
- Total distributions (cash) paid to investors NZ\$64.6 million
 - Follow on investments of NZ\$4.2 million
 - Distributions have resumed following PIP SE funding of School expansions
- Minor portfolio revaluation loss of (2.5)% (excluding UoW)
- Sales process cancelled after 12 months work

Asset assessment – Covid traffic light status

All PIP Fund Assets are paid for “availability” and are robust investments in the face of Covid 19 related incidents

Asset	Status	Commentary
Auckland Prison PPP	●	Risk is well contained. Revenue streams unconnected with usage and force majeure protections applicable. An essential service that must continue through lockdown. Facilities Manager is well prepared for this eventuality.
Bendigo Accommodation	●	Financial impact is limited to tenant, not SPV.
MCC and MCEC	●	Risk is well contained. Revenue streams unconnected with usage and force majeure protections applicable.
Schools 1 PPP	●	Risk is well contained. Revenue streams unconnected with usage and force majeure protections applicable.
Schools 2 PPP	●	Risk is well contained. Revenue streams unconnected with usage and force majeure protections applicable.
UoW	●	Project exit achieved



Auckland Prison PPP Project

Non-Custodial

Asset Overview

- DBFM of maximum security prison in Auckland
 - 260 new prison beds + 240 existing beds
- Financial Close: September 2015
- Operational Commencement: February 2016
- Full Service Commencement: June 2018

Governance and Service delivery

- Good engagement at site level with all parties regularly attending scheduled meetings, including quarterly PGG meetings.
- Project Agreement obligations continue to be met.
- The Department has confirmed the AM/FM services provided by the PPP is strongest across the NZ estate.
- Placement of Material Damage Insurance has shifted to the Department.

Mediation Resolution with Corrections

- The Department and NSP have resolved all the issues raised in the 2020 Mediation.

Projects & Expansion

- The number of Department initiated Change Notices has decreased with most associated construction works having been successfully delivered.
- The Manager has supported the Department with preliminary design for an increase in security and services expansion for the Management Unit.

Minimal impact from Covid-19

- Covid-19 has had a minimal impact on Auckland Prison, as an essential service. Vaccinations have been offered to AM/FM staff & Prison Officers.

Refurbishment of existing prison

- Refurbishment completed late 2020.
- Design for fire system upgrade is progressing.



Melbourne Convention & Exhibition Centre

Australia's largest convention and exhibition venue

Asset Overview

- Melbourne Convention and Exhibition Centre
 - 5,000 seat hall, meeting and banquet rooms and 30,000m² exhibition facility.
 - Operational Commencement: January 2009
 - Financial Close (PIP Fund investment): November 2010

Performance has been excellent

- Nil abatements incurred in 2020 and the first seven months of 2021.
- Well run operation, over 70% of all operating months to date have been free of any Quality Failure points.
- Total deductions of <\$130k incurred since operational commencement 12 years ago, all of which have been passed down to FM provider.

Covid-19 impact

- Venue was closed to the public during the long and recurring lock-downs in 2020 and 2021
- No impact from shut-down on availability-based payment stream

Personal injury claims settled, low impact

- Personal injury claims raised in respect of incidents in 2013 and 2014 were settled in early 2021. Project Co's payment in relation to both claims was \$10k (equal to the maximum insurance deductible of \$5k per claim).

ESG initiatives

- In Q2 2021, management unveiled a new, 5-year sustainability strategy targeting net zero emissions by 2030, elimination of single-use plastics, diversion of 90% waste from landfills by 2025, and to be completely powered by renewable electricity by 2028.



MCEC Expansion

Second part of the project development

Asset Overview

- Expansion Exhibition area for MCEC
 - 7,500m² of additional flexible exhibition space and 1,500m² of additional multi-purpose space
- Financial Close: May 2016
- Service Commencement: July 2018

Performance has been excellent

- Very well-run expansion project, with no Quality Failure points and nil deductions since service commencement 3 years ago.

Covid-19 impact

- Venue was closed to the public during the long and recurring lock-downs in 2020 and 2021
- No impact from shut-down on availability-based payment stream

Defects & outstanding items

- Minor outstanding items still exist including rainwater leaks, hub skylight film, bulkhead installation and treatment of acoustic walls - none of which are causing operational issues of significance for either the Operator or the Facilities Manager.
- Management presented an offer to the State on behalf of Project Co and the builder which involved the builder (Probuild) making a settlement payment of approx. \$200k to Project Co who will then undertake to remedy the remaining defects.
- No impact expected on equity as the settlement payment should fully cover any outstanding costs.



Bendigo Health Village

Key worker accommodation

Asset Overview

- Key worker accommodation in Bendigo, Victoria
- 120 new build units, 30 year “triple net” lease
- Financial Close: April 2013
- Operational Commencement: March 2014

Performing in line with expectations

- Payment continue and relationships with BHCG remain positive.
- Asset remains a solid performer.

Covid-19 measures in place

- Pre-emptive Covid-19 measures remain in place to protect tenants, staff and maintain services should infection occur within the Bendigo Health Care community.

Façade Review

- Review of facade (following notification of leak) has commenced.
 - Preliminary investigations indicate the issue has been caused by differential settlement, with those buildings sitting on the podium being affected.
 - Further investigations required into the subfloor have been organised and will take place when lockdown restrictions end.
 - Review of legal / commercial avenues also under investigation to understand options, including calling on the warranty (held against construction contractor).
-



New Zealand Schools 1 PPP

Hobsonville Primary School expansion

Asset Overview

- Primary school (690 student capacity) and secondary school (1,500 student capacity) based in Hobsonville, Auckland
- Financial Close: April 2012
- Operational Commencement: Term 1 2013
- Full Service Commencement: Term 1 2014

Continues to perform well

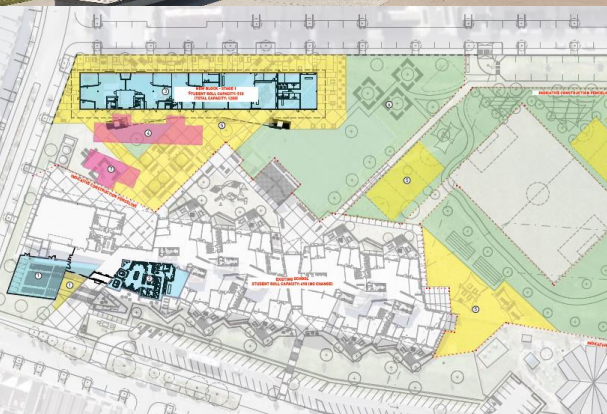
- Service requirements and reporting obligations continue to be met with minimal performance failures.

Covid-19 Event

- Stakeholder communication is strong with no impact on the facilities.
- Any additional works (e.g. cleaning to meet Ministry of Health guidelines) are being funded by the Ministry.

Change Notices

- Equity funded change notices continue to be utilised for the early design phases of the Hobsonville Point Primary expansion project.
-



New Zealand Schools 1 PPP

School expansion update

Hobsonville Point Primary School

- Ministry of Education has reassessed their growth predictions for the Hobsonville Point area.
 - Anticipated roll growth as at mid 2020 showed a predicted total school roll of 960 students.
 - Revised predictions now show an expansion to 1,200 students will be required.
- Revised Masterplan design currently underway (by the Ministry), Concept and Preliminary Design (by LIP) to commence Q3 2021.
- Masterplan estimate for the enlarged 1,200 student expansion: \$32m
- Given the restart in design, D&C contractor procurement is now scheduled to commence mid 2022.



New Zealand Schools 2 PPP

Second schools PPP project in NZ

Asset Overview

- Four schools located in Auckland, Christchurch (x2) and Queenstown.
- Financial Close: 30th April 2015
- Full Service Commencement: Term 1 2018

Operations

- Service requirements and reporting obligations continue to be met with minimal performance failures.

Covid-19 Event

- Stakeholder communication was strong with no impact on the facilities during higher alert levels.
- Any additional works (e.g. cleaning to meet Ministry of Health guidelines) are being funded by the Ministry.

Construction Contractor Liquidation

- Bond funds, \$8m continues to be held by the SPV to cover all subcontractor's obligations.
- Administering the closeout of defects is ongoing and no new construction defects have been identified.

Change Notices

- Equity funded change notices continue to be utilised for the early design phases of the Rolleston College expansion project.
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Wakatipu High School and Rolleston College



- Expansion of existing facility well underway. Progress despite Covid-19 related procurement delays has been good, with all work areas currently ahead of programme.
- Relationships remain strong
- Construction Completion: Progressive from Q1 2022 – Q1 2023

- Expansion of the existing facility from 1,100 to 1,800 students
- Current construction cost estimate of ~\$50m
- Preliminary design has been completed and D&C Sub-contractor procurement underway.
- The Ministry has issued a notice to provide up to a further twelve modular classrooms on site (six already in place)



UoW Student Accommodation

Purpose built student accommodation

Asset Overview

- Purpose built student accommodation in Wollongong, New South Wales
 - 1,063 new beds + 1,631 existing beds
- Financial Close: December 2014
- Operational Commencement: January 2015
- Full Service Commencement: Semester 1 2018
- Termination: 18 January 2021

Termination process complete

- On notice of voluntary termination, the Manager acted to preserve value by appointing advisers, Acton Advisory and Minter Ellison, and leading the preparation of independent expert submissions to assess equity value.
- The Managers efforts were successful: the assessed market value of equity of A\$150 million compared to a range of between A\$57 million (UoW) to A\$198 million (LLP)
- The University chose not to dispute the assessed value and the termination value was predominantly paid out during the March 2021 quarter. Subcontractor break costs and interest payable on the Termination Payment were agreed and paid in the June 2021 quarter.

Next steps

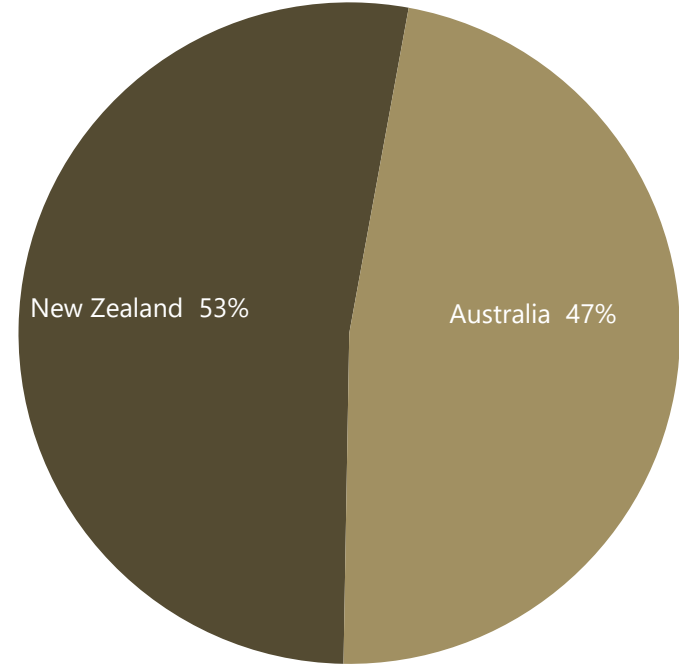
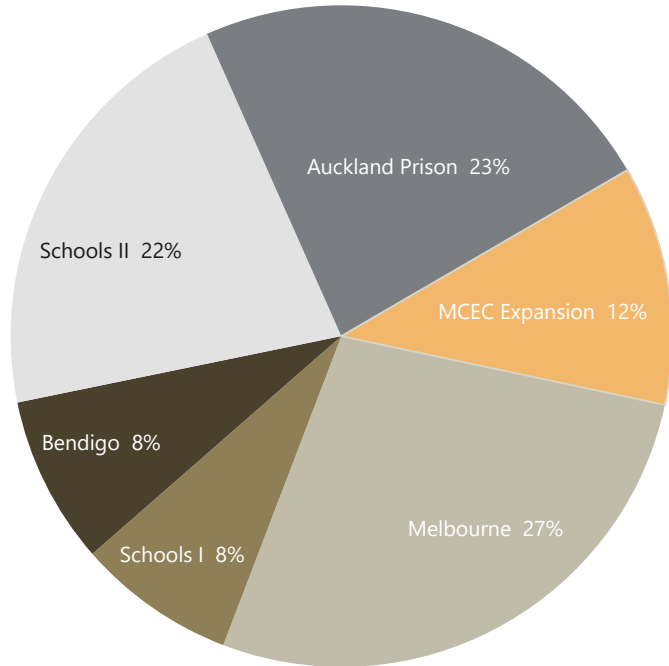
- Both ProjectCo and FinanceCo have been placed into the hands of the liquidators and will be formally wound down over the next 6-12 months.

Final achieved returns

- Final pre-FX return of 22.0% pa exceeded return approved by Investment Committee in 2014 (12.7% pa).
- Final Multiple of Capital Employed was 2.5x.

Investment Concentration

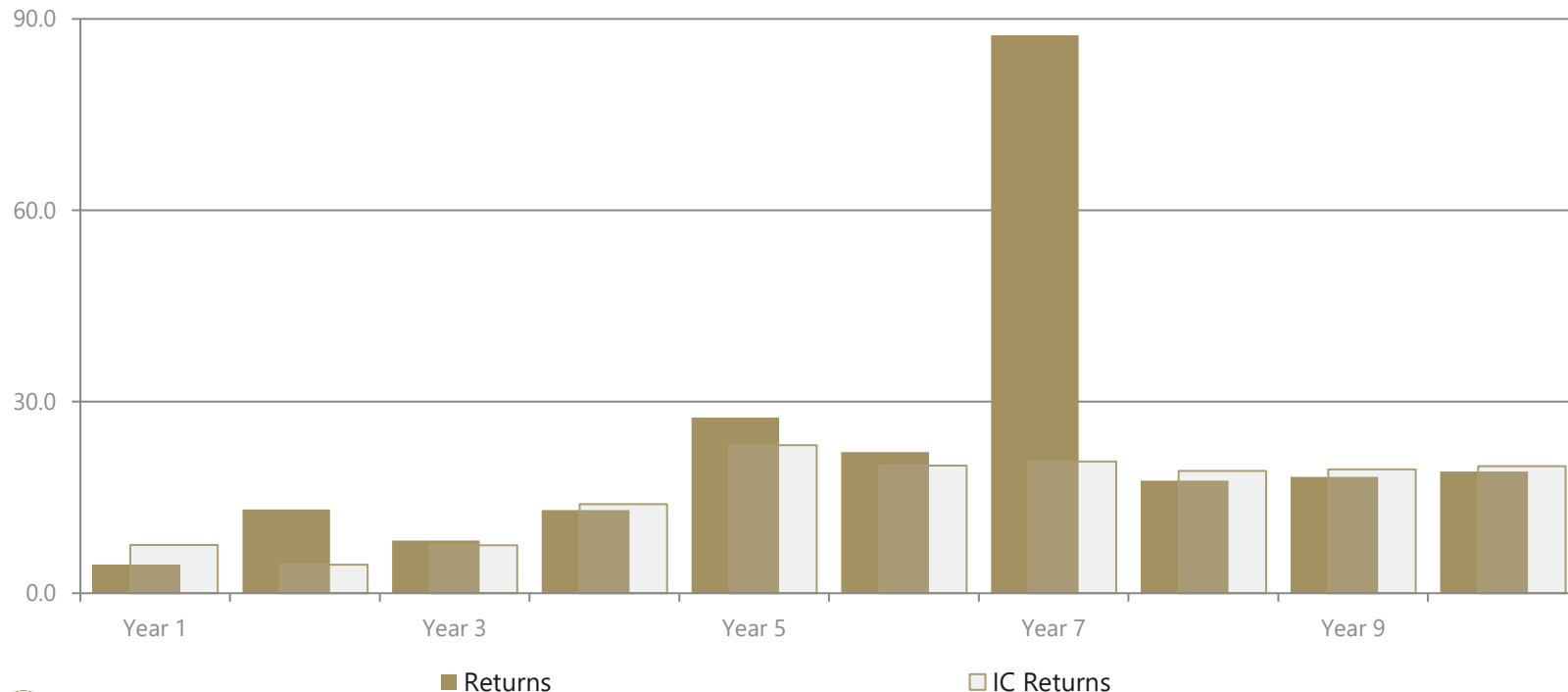
By capital invested



Investment Returns Are On Track

Portfolio Company distributions delivering above investment case

Actual / Forecast Distributions compared to Investment Case



Managing Refinancing Risks

Largest risk to equity investors

Update

- Schools 1 refinanced post-Covid lockdown to avoid potential credit squeeze
- Refinancing completed for Schools II in conjunction with the Financial Close for the Wakatipu High School Expansion

Executed Refinancing

Project	Refinance Date	Debt (\$)	Base Case Margin	Refinanced Margin
Schools I	26 June 2020	\$60m	1.70%	1.40%
Schools II	3 March 2021	\$205m	1.60%	1.40%

Future Refinancing

Project	Refinance Date	Debt (\$)	Base Case Margin	Current Margin
Schools I	26 June 2022	\$60m	1.70%	1.40%
Auckland Prison	26 Aug 2022	\$251m	1.60%	1.50%

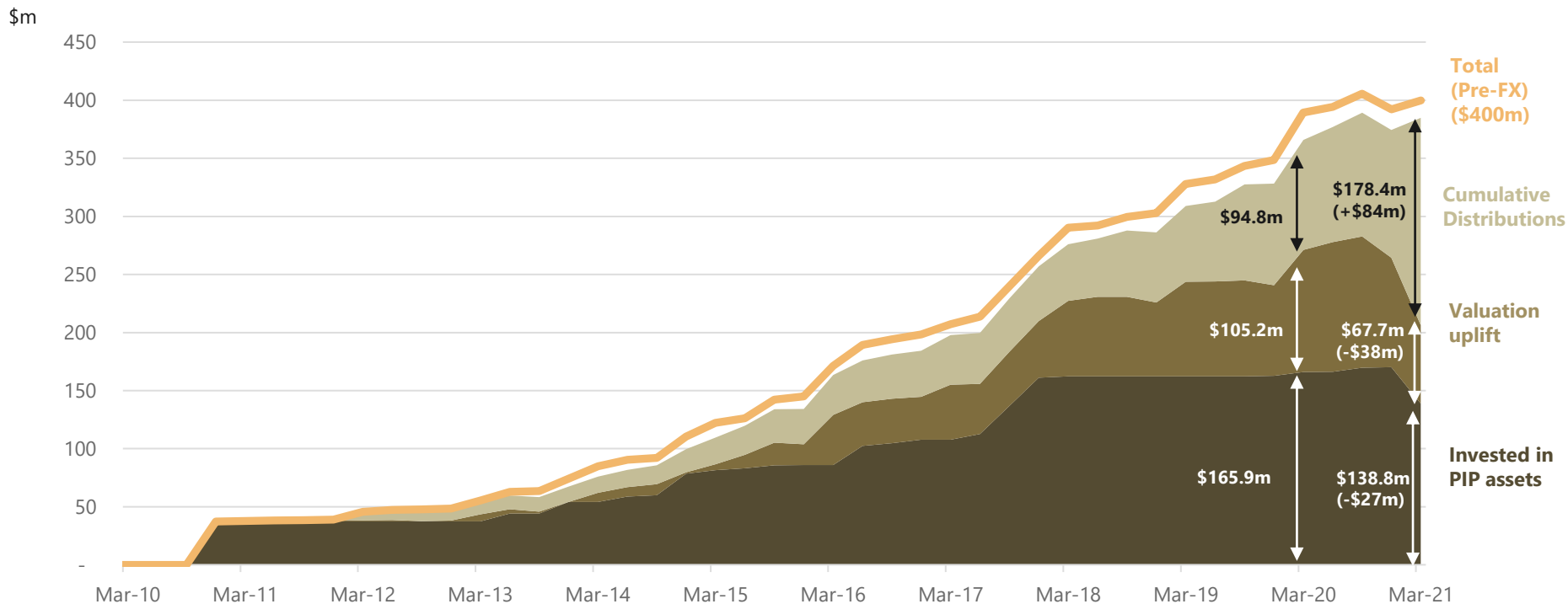
Under investigation

The Manager is exploring alternative refinancing options including Private Placements, Debt Capital Markets solutions and, specifically, USPPs.

The objective is to increase financing tenors to reduce future re-financing risk to the extent current loan margins can be matched

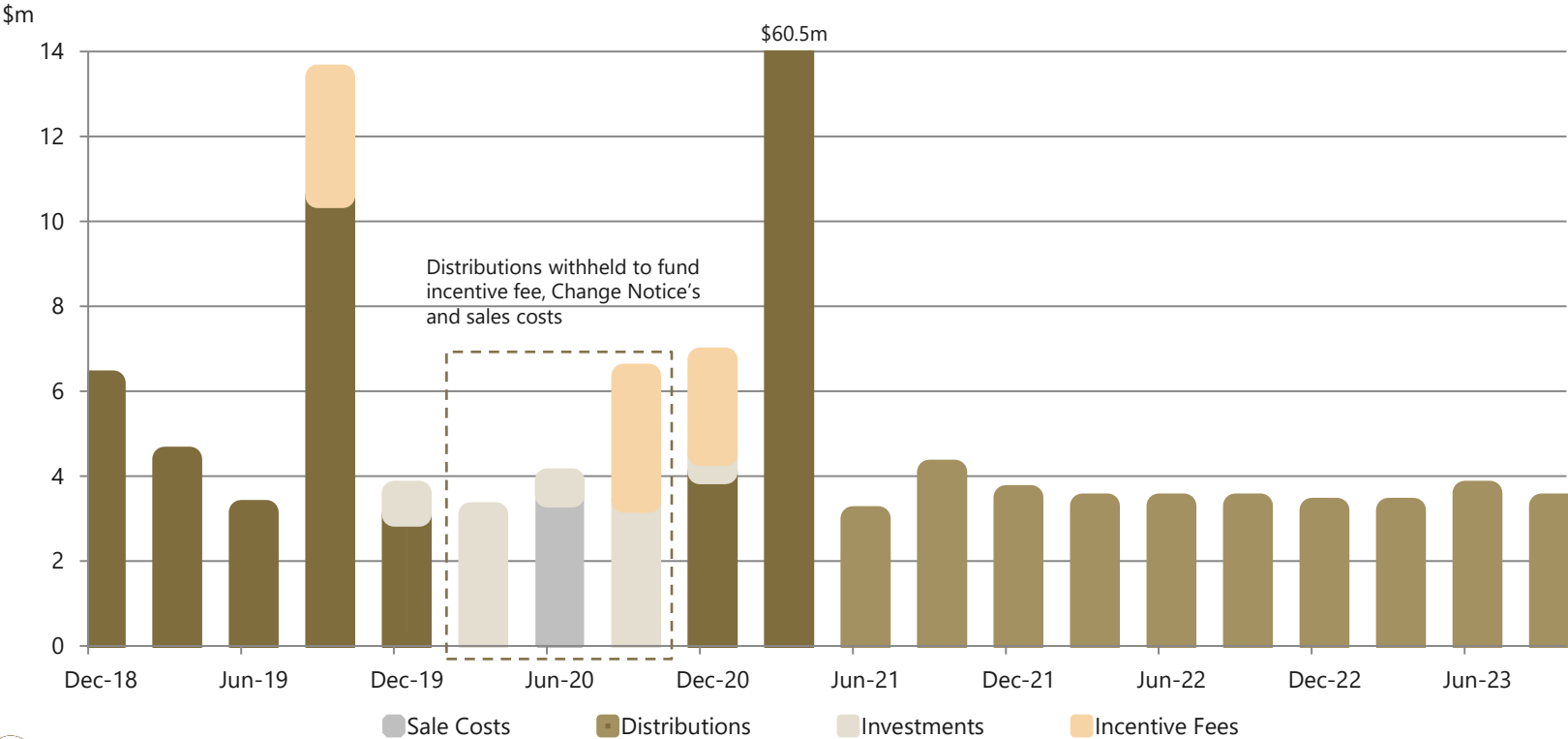
Asset Performance (Before FX, Fees & Tax)

UoW termination has not altered the direction of total return



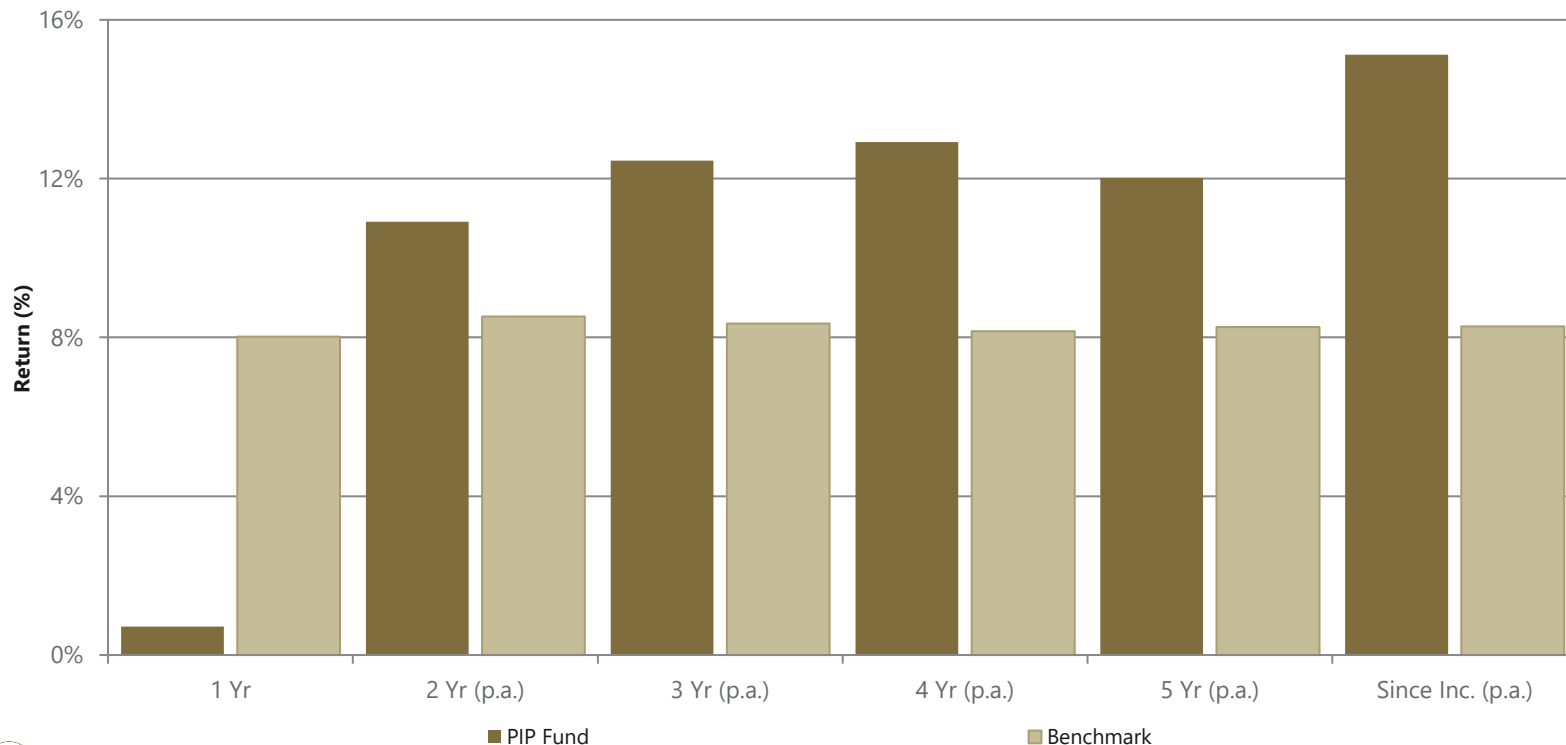
Forecast Distributions to LPs

Regular distribution payments have resumed



Portfolio Returns to 31 March 2021

Fund return over last year impacted by UoW voluntary termination but on-track



Conclusion

Fund prospects good

- 2020 / 21 was a busy year
 - Managing the impact of Covid to ongoing service delivery
 - Covid led to large projected underwrite payments at UoW, ultimately leading to voluntary termination
 - UoW exited at ~10% discount to valuation despite unfavourable exit mechanics
 - UoW termination led to material reduction in portfolio pricing from PIP's preferred bidder
 - Despite negotiations to improve pricing, decision made to halt to sales process
 - Financial close achieved on Wakatipu school expansion and other expansions in progress
- Value enhancement/protection activity continues
 - Managing ongoing operational risks – refinancing risks, operating cost management
- PIP Fund prospects continue to look good
 - Investments performing at or above expectations
 - Return expectations from current assets remain attractive
 - Value maximising opportunities continue to be pursued

Questions?

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