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Quayside Holdings Limited

Potential POT sell-down – summary of full report

4 December 2023

Global Alliance Partner of Rothschild & Co

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Executive summary

BOPRC is seeking advice to inform it to make a decision whether to undertake public consultation in regard to a potential sell-down of its stake in POT

Introduction / background

- As 100% owner of Quayside Holdings Ltd (QHL), Bay of Plenty Regional Council (BOPRC) currently owns 54.1% of Port of Tauranga (POT) which is valued at c.$2.0b and represents c.80% of QHL's portfolio
- QHL has engaged Cameron Partners as its independent advisor to prepare an analysis based on QHL's forecast model and assumptions of six selected POT stake sell-down scenarios:
  - Status quo / no sell-down (we also include analysis of a POT downside scenario to highlight POT concentration risk)
  - Sell-down to 50.1%, 40%, 25.1%, 10.1% and 2.5% of POT
- This presentation is a summary of Cameron Partners' full 'Potential POT sell-down report' dated 4 December 2023 and is set out as follows:

Executive summary (***p3 – 4)***

1. QHL should reduce its stake in POT (diversification considerations; POT specific risks; opportunity costs) (***p5 – 7)***
2. What is the optimal amount to sell-down to (sell-down scenarios' outputs; pricing / liquidity; control; community acceptability / consultation)? (***p8 – 13)***
3. What are key sale considerations and sell-down options (potential sell-down approaches and considerations and AIAL insights)? (***p14)***
4. How will any sell-down proceeds be used and protected (current protections; reinvestment of POT proceeds)? (***p15)***

1 QHL should reduce its stake in POT

- The purpose of QHL should be clarified to determine if it is a holding company for BOPRC's POT stake or it is an inter-generational endowment fund for the long-term benefit of BOP residents
- If it is the latter, there is no commercial rationale for QHL's current POT portfolio concentration (some may have a view that there is a political rationale that has yet to be tested with the community):
  - QHL's investment portfolio is significantly out-of-line with industry practice and at odds with its own internal views (based on its governance documents and SIPO)
  - Greater diversity is essential to maximise expected risk adjusted returns and avoid the significant specific risk associated with POT (and any single asset exposure)
  - There is a significant opportunity cost from holding a significant POT stake in terms of expected risk adjusted returns / long-term portfolio value and providing the flexibility for QHL to actively manage the portfolio
- QHL's POT stake is the single biggest determinant of QHL returns, value and risk given the exceptionally high proportion it represents of QHL's total portfolio (c.80%)
- Public ownership is not required to ensure the strategic benefits POT provides to the BOPRC community

Executive summary (cont.)

QHL's current POT portfolio concentration is imprudent and inconsistent with managing an inter-generational fund and there is a very strong case for BOPRC to support QHL to sell-down a significant portion of its POT stake

2 **Only a significant sell-down can help QHL to achieve good portfolio management and a control transaction is optimal**

- Good portfolio management and industry practice indicates that QHL should sell the significant majority of its POT stake
- In this regard, a sell-down of 50%+ (a "control" transaction) is preferable from a financial perspective:
  - Removes QHL ownership / control of POT although there is no compelling case for ownership / control (demonstrated by QHL not utilising its control rights at any point during its ownership of POT)
  - Is optimal for QHL portfolio expected risk adjusted returns and risk management and will enable QHL to align with industry practice
  - May enable QHL to realise a control premium which could be very significant (the average control premium in all NZ takeovers between 2002 – 2022 is 32%, which would imply a ~$600m premium on sell-down and c.$1.4b in additional expected returns through to 2036)
- A sell-down to 25.1% may be more palatable from a political perspective:
  - Significantly rebalances QHL's portfolio (albeit it still remains very concentrated and sub-optimal)
  - Would enable QHL to have the largest single shareholding in POT demonstrating BOPRC's ongoing confidence in the port company and the region
  - Provides control rights including an ability to oppose major transactions and high likelihood of obtaining a board seat(s) – if desired
  - BUT IMPORTANTLY would still be significantly out-of-line with industry practice and removes QHL's ability to obtain a control premium

3 **A sell-down process is manageable with low risks**

- The optimal sell-down process will depend on multiple factors including the size of the stake and pricing / execution certainty desired by BOPRC
- A strong precedent is set by Auckland Council's recent sell-down of a 7% stake in AIAL where it engaged an independent advisor to oversee a partially underwritten market sell-down via two block trades to institutional investors

4 **Sell-down proceeds will be reinvested and protected within QHL**

- QHL's governance arrangements and investment mandate are well-established, and we understand any POT proceeds will ultimately be re-invested in-line with QHL's SIPO
- If desirable it is possible to bolster "protection" of QHL funds (and POT proceeds) and a strong precedent is provided by New Plymouth District Council's (NPDC) organisational structure and legislative protections for its Perpetual Investment Fund (PIF)

1. QHL should reduce its stake in POT

QHL's current POT portfolio concentration is imprudent and inconsistent with managing an inter-generational fund for the benefit of the BOPRC ratepayers. Greater diversity is essential and can only be achieved practically through selling POT shares

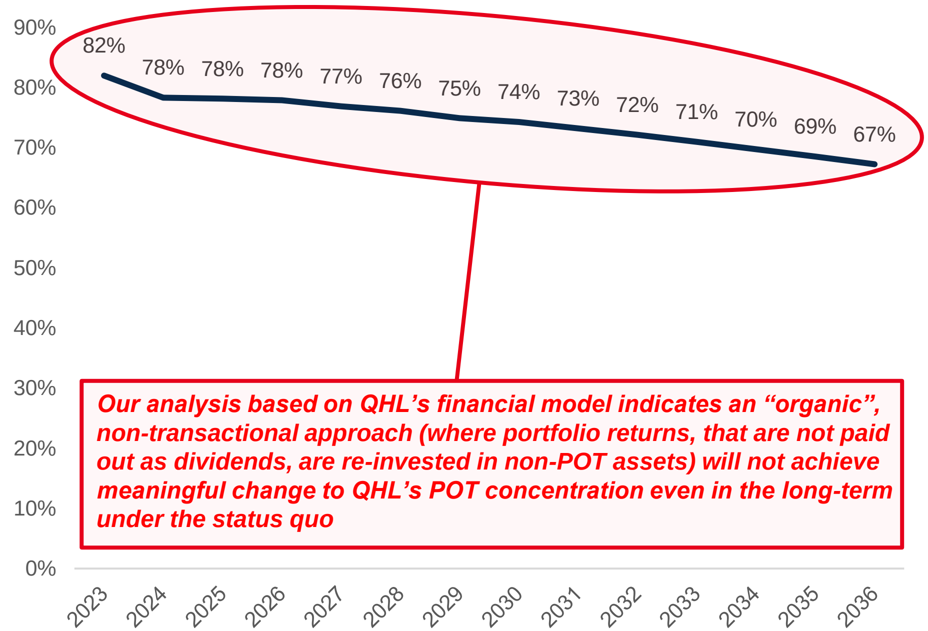
Key drivers for reducing QHL's POT stake

- The purpose of QHL should be clarified to determine if it is a holding company for BOPRC's POT stake or it is a vehicle for managing an inter-generational endowment fund for the long-term benefit of BOP residents
- If it is the latter - QHL's current POT portfolio concentration is imprudent and inconsistent with managing an inter-generational fund for the benefit of the BOP residents
- The key drivers for QHL reducing its POT stake are:
  - **Diversification** – ie to optimise QHL portfolio expected risk adjusted returns by reducing QHL's exposure to **POT's specific risks**
  - **Opportunity cost** – ie flexibility for QHL to adjust its return profile (ie risk, total returns and mix of cash returns (eg dividends) vs capital appreciation), flexibility is restricted at present given the dominance of POT in QHL's portfolio

Diversification - summary

- QHL's current investment portfolio is at odds with its own internal views:
  - SIPO states *"Our investment strategy is to focus on diversification to maximise the risk-weighted return of the portfolio"*
  - SOI states *"Through its ownership stake in the Port of Tauranga, Quayside has considerable geographic and concentration risk"*
  - Quayside Strategy is to *"Maximise the Net Present Value of our future dividend. Procure and grow a diversified portfolio of assets"*
- QHL's POT stake is currently the single biggest determinant of QHL returns, value and risk given the exceptionally high proportion it represents of QHL's total portfolio
- A truly diversified portfolio closely approximates the systematic risk of the overall market, and the unsystematic / specific risk of each security has been diversified out of the portfolio – POT currently represents c.80% of QHL's portfolio but only ~2.5% of the NZX market capitalisation
- In principle, by substituting POT shares with other appropriately priced assets (ideally a diversified portfolio) QHL should expect to achieve an increase in returns and alternative dividend / growth outcomes while maintaining an equivalent or lower risk profile (given the benefits of diversification and avoidance of POT specific risks)

POT shares as % of QHL portfolio value – status quo forecasts



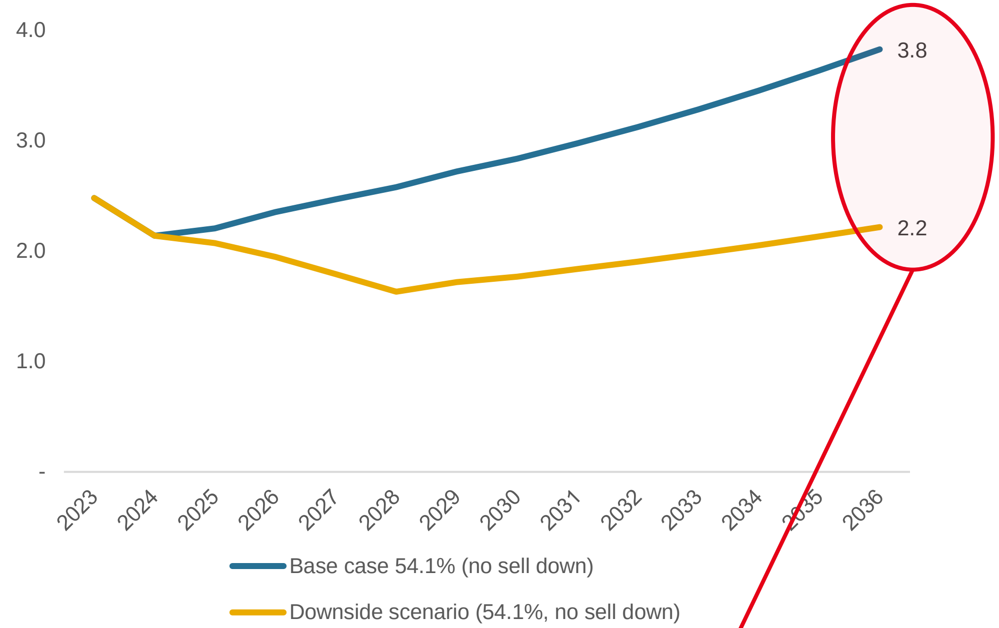
1. QHL should reduce its stake in POT (cont.)

POT single asset exposure is the biggest risk to QHL value. At a portfolio level, the only way for QHL to fundamentally address POT risks is through reducing its exposure to POT

Diversification - POT specific risks

- As with all assets POT is exposed to specific risks – eg:
  - Financial underperformance – for example caused by external factors such as competition (eg a resurgent Ports of Auckland (POA)), economic downturn, and / or internal factors such as strategic / operational mis-steps (eg in regard to automation)
  - Reduced growth – for example caused by consenting constraints
  - Market “re-rating” (to some extent a re-rating has already occurred, noting that POT is currently trading on a forward EBITDA multiple of 19.6x vs a peak of 30-33x sustained between mid-2020 and early 2021)
  - Natural events – for example caused by extreme weather (eg cyclone Gabrielle); seismic activity and climate change
- While the probability of most of these risks occurring is low – the value consequences are potentially very high
- POT has some geographic diversification with operations in other New Zealand regions, including Northland, Auckland, Hamilton, Christchurch and Timaru together representing c.15%+ of POT earnings, however all of these operations also have exposure to port sector dynamics
- Even temporary reductions in POT dividends (eg during a port expansion) will significantly reduce QHL’s operating cashflows (albeit this can to some extent be managed with appropriate capital structure settings)

Net QHL portfolio value forecasts ($b) – base case and POT downside scenario



A salient example of port specific risk is provided by the experience of POA over the period 2014-2022 during which it unsuccessfully endeavoured to implement an automation project and consistently lost market share to POT

We have developed a potential downside scenario for POT using key metrics from POA over the period (eg earnings, dividends and implied share price) and the negative impact on QHL’s portfolio is significant (lower overall returns and portfolio value)

In this illustrative scenario in 2030, QHL portfolio value is c.$1.1b lower than in the status quo

The only way to fundamentally address this risk is by reducing QHL’s exposure to POT

1. QHL should reduce its stake in POT (cont.)

QHL's extremely high POT concentration means that its risk return profile is essentially POT's risk return profile. Greater diversity is essential to provide portfolio investment flexibility and can only be achieved practically through selling POT shares

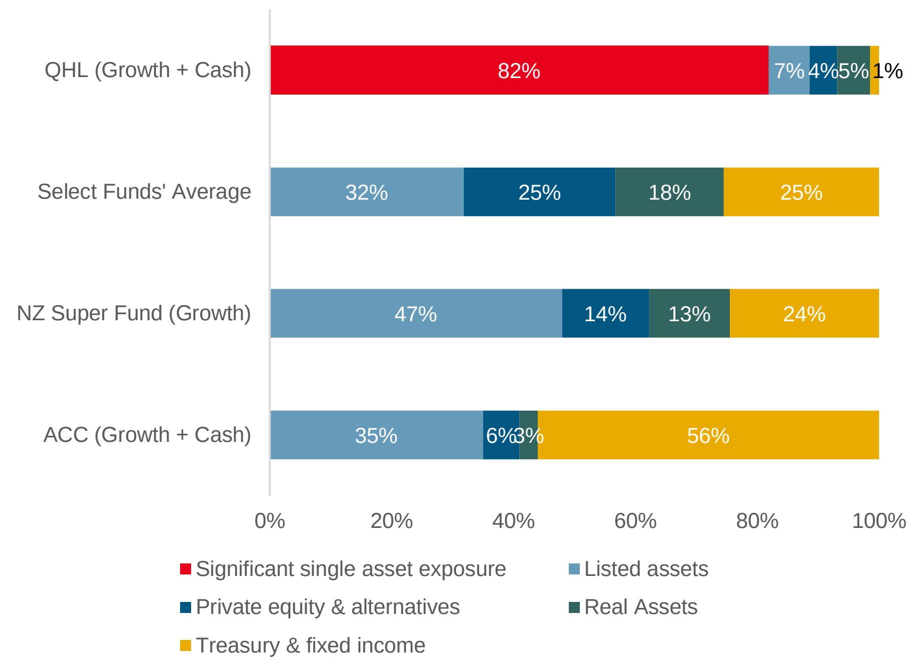
Opportunity cost

- POT is an "infrastructure" investment with corresponding relatively low expected returns and variability while other asset classes can provide higher expected returns in the long-term but typically with increased variability in the short-term – although any specific risks can be diversified away
- The current requirement for QHL to maintain a 54.1% stake in POT (representing c.80% of its total investment portfolio) significantly limits:
  - The ability to structure the portfolio to achieve the cash returns and value creation QHL is targeting
  - Its investment flexibility – active portfolio management should allow the portfolio to be adjusted dynamically to constantly optimise risk / return trade-offs
- If QHL was able to reduce the specific risk of POT through a diversified portfolio:
  - It would be possible for QHL to obtain the same expected return as POT with lower risk or obtain a higher expected return for the same risk
  - It may be possible for QHL to receive the long-term benefits of a higher return portfolio and manage short-term higher variability through an appropriate capital structure and appropriate portfolio mix (debt capacity and readily liquifiable investments) to enable it to consistently meet its dividend policy
- In addition, a potential significant control premium is only accessible to QHL if it chooses to sell a >50% stake in POT

"Fortunately, diversification provides investors with a powerful risk management tool. By combining assets that vary in response to forces that drive markets, investors create more efficient portfolios. At a given risk level, properly diversified portfolios provide higher returns than less diversified portfolios. Conversely, through appropriate diversification, a given level of returns can be achieved at lower risk. Harry Markowitz, known as the father of modern portfolio theory, maintains that portfolio diversification provides investors with a "free lunch", since risk can be reduced without sacrificing expected return"

Yale University Endowment fund

Asset class allocations



A review of notable inter-generational investment funds (eg NZ Super; ACC; Harvard Endowment Fund; Yale Endowment Fund) highlights how significantly QHL's current asset class allocation diverges from industry practice and norms

While there is some variability across funds in their asset allocations (eg exposure to private equity vs fixed income):

- ***This reflects the objectives of the funds (eg growth vs growth + cash)***
- ***None of the intergenerational funds reviewed have any significant single asset exposure***

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2. What is the optimal amount to sell-down to?

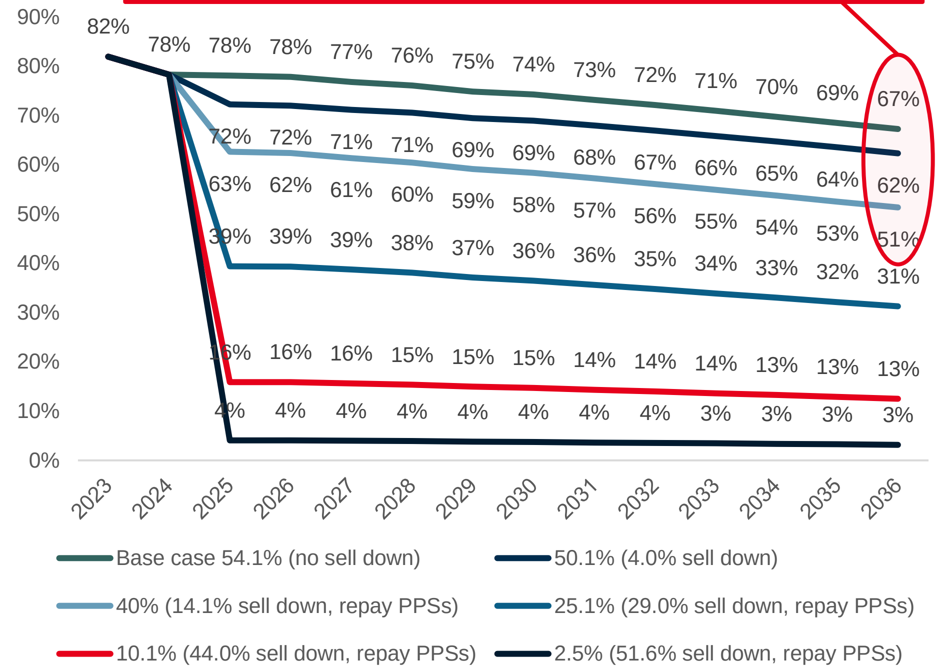
We have been directed to consider six QHL portfolio scenarios – status quo, sell-down to 50.1%, 40%, 25.1%, 10.1% and 2.5% (plus a status quo downside scenario) to compare the impact on portfolio concentration, value, dividends and total returns

Scenario analysis – approach and key assumptions

- The six scenarios modelled include:
  - Status quo / no sell-down
  - Sell-down to 50.1% of POT
  - Sell-down to 40.0% of POT and repay PPSs
  - Sell-down to 25.1% of POT and repay PPSs
  - Sell-down to 10.1% of POT and repay PPSs
  - Sell-down to 2.5% of POT and repay PPSs
- For modelling purposes, sell-downs of POT are assumed to occur in September 2024 at a 2.0% discount to estimated market pricing except in the case of a control transaction in which case a 32% premium is assumed (based on the average premium in all NZ takeovers between 2002 – 2022)
- For all sell-down scenarios, sell-down proceeds (other than proceeds not required to repay the PPSs) are initially invested 80% in listed bonds and 20% in international listed equites, and re-invested into SIPO categories (as required to approximate the SIPO target allocations) linearly over the next 3 years
- QHL's $200m of Perpetual Preference Shares (PPSs) are assumed to be repaid in the sell-down to 40.0%, 25.1%, 10.1% and 2.5% scenarios. We note that:
  - This results in these scenarios having a more conservative balance sheet going forward and means these scenarios are not directly comparable with scenarios where the PPSs are not repaid
  - QHL appears to have sufficient leverage capacity under all scenarios to replace the PPSs with LGFA debt, which would further accelerate diversification and increase expected portfolio returns
- Dividends are calculated and distributed in line with QHL's dividend policy (adjusted for QHL's planned change to derive dividends from net assets instead of gross assets)

Forecast QHL POT concentration - POT shares as % of QHL portfolio value

Under the base case, 50.1% and 40.0% scenarios, POT is still expected to remain c.50% or more of QHL's portfolio value by 2036

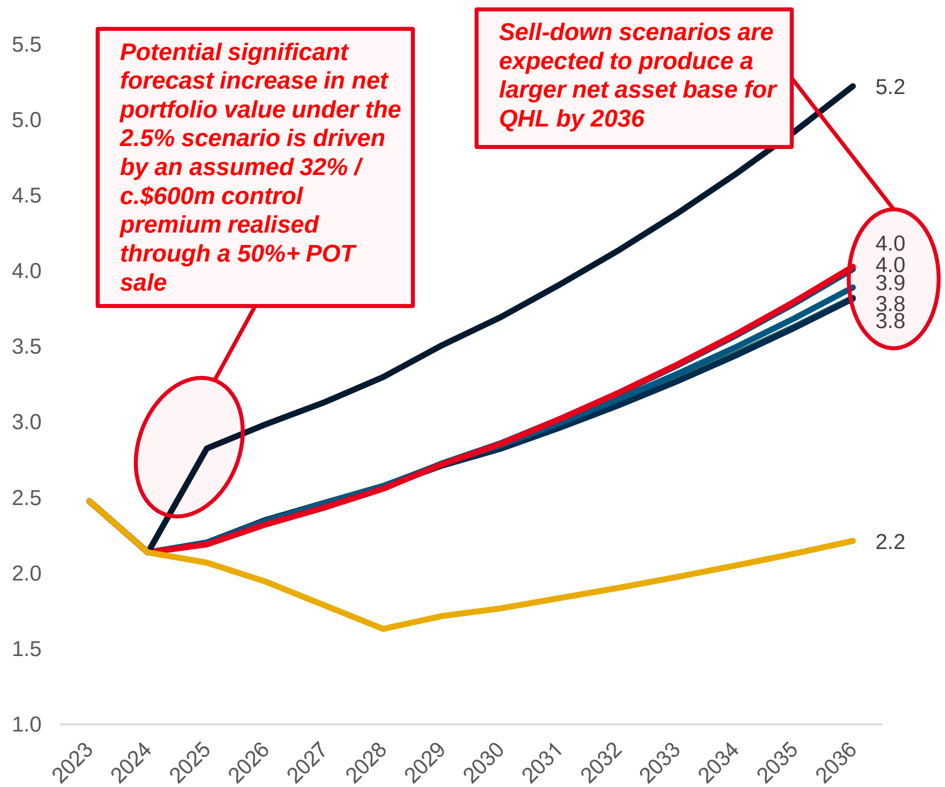


Cameron Partners' scenario analysis was based on assumptions provided by QHL (eg expected rates of return for POT and other QHL asset classes). Cameron Partners has not verified these assumptions and notes that the forecast expected returns presented may differ materially from QHL's actual returns

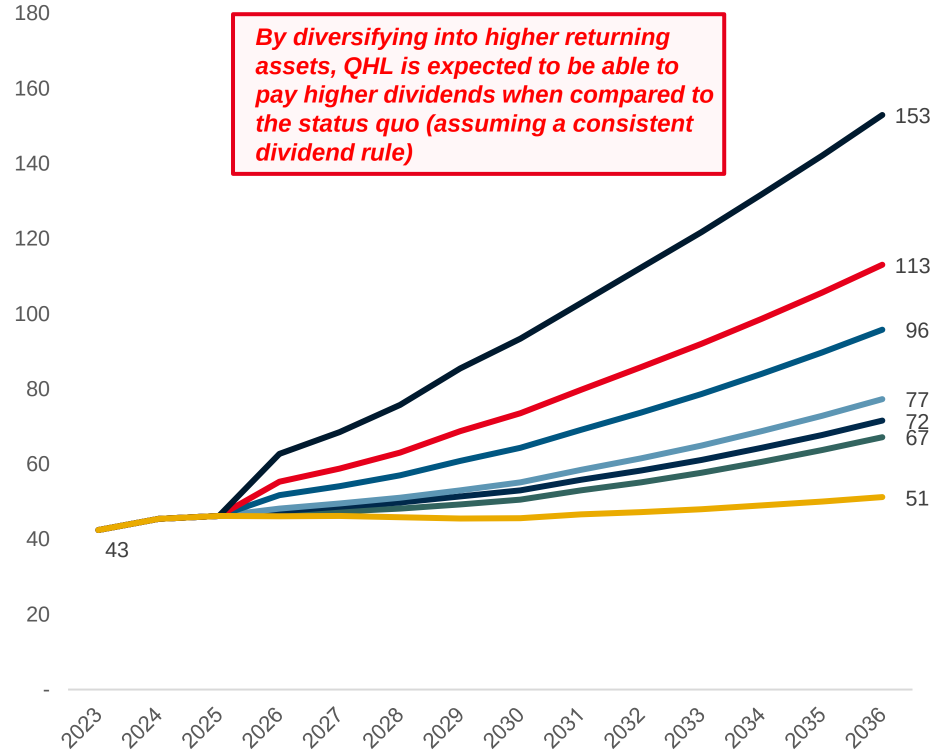
2. What is the optimal amount to sell-down to? (cont.)

We have been directed to consider six QHL portfolio scenarios – status quo, sell-down to 50.1%, 40%, 25.1%, 10.1% and 2.5% (plus a status quo downside scenario) to compare the impact on portfolio concentration, value, dividends and total returns

Forecast net portfolio value ($b)



Forecast dividends to BOPRC ($m)



Base case 54.1% (no sell down) | 50.1% (4.0% sell down) | 40% (14.1% sell down, repay PPSs) | 25.1% (29.0% sell down, repay PPSs) | 10.1% (44.0% sell down, repay PPSs) | 2.5% (51.6% sell down, repay PPSs) | Downside scenario (54.1%, no sell down)

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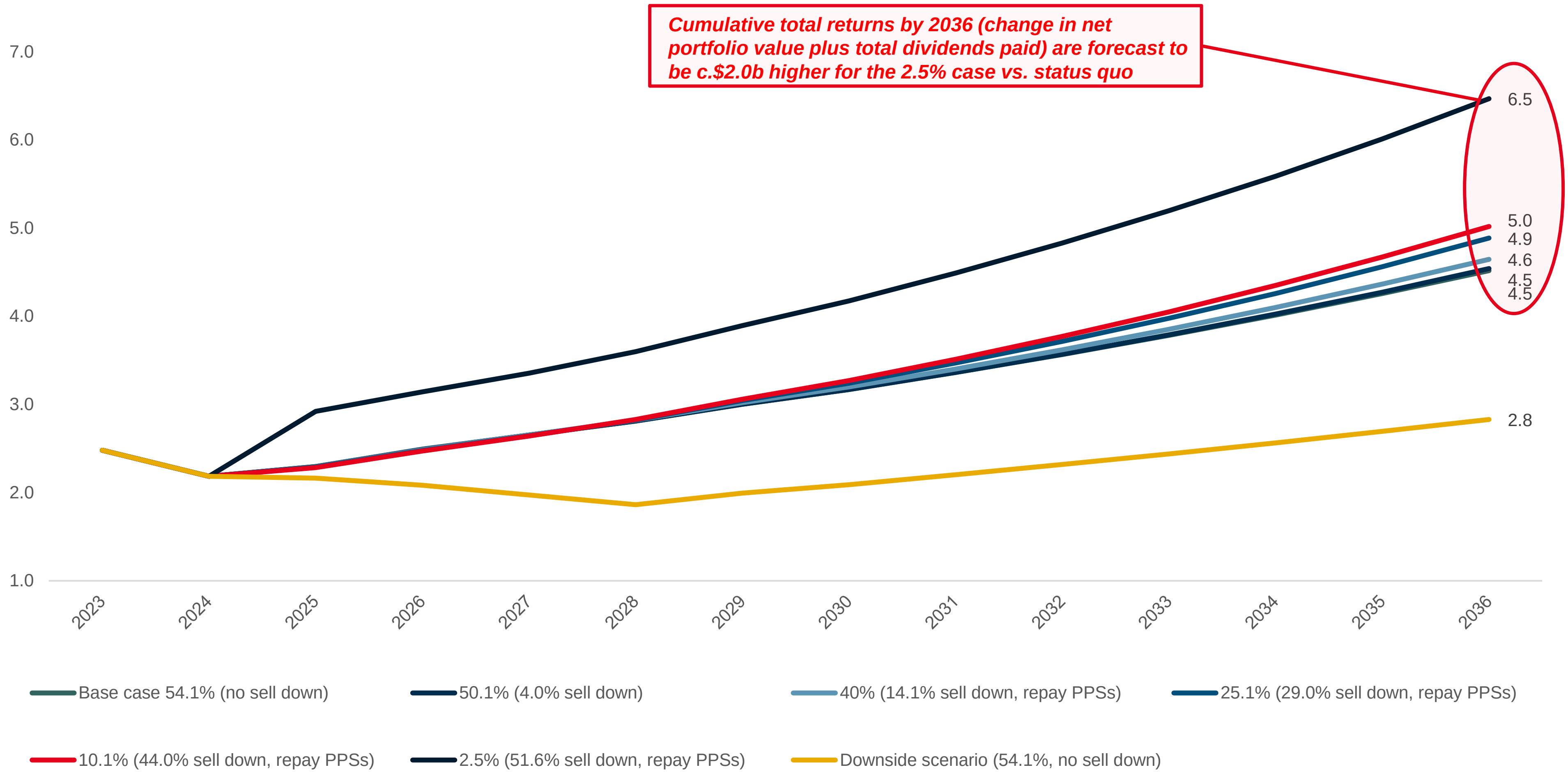
2. What is the optimal amount to sell-down to? (cont.)

We have been directed to consider six QHL portfolio scenarios – status quo, sell-down to 50.1%, 40%, 25.1%, 10.1% and 2.5% (plus a status quo downside scenario) to compare the impact on portfolio concentration, value, dividends and total returns

Forecast total returns ($b)



2. What is the optimal amount to sell-down to? (cont.)

Good portfolio management practice holds that QHL should sell the significant majority of its POT stake. While POT is critical BOP and national infrastructure there is no “strategic rationale” for BOPRC ownership

- POT is strategic infrastructure for the BOP region and the country and QHL’s SOI states *"the Port of Tauranga (POTL or the Port) is a strategic asset for the region and as such is currently required to maintain a majority shareholding“*. However, BOPRC has not explicitly identified its strategic objectives for, and the strategic outcomes that it seeks from its POT investment

- Based on potential ownership imperatives, we do not believe that BOPRC ownership or control of POT is required

Potential ownership Imperatives	Considerations
Well-beings	POT’s contribution to delivery of BOPRC’s four well-beings is independent of ownership and there appears to be no conflict between the value-maximising activity of POT and achievement of well-beings: • Social – significant POT direct and adjacent employment, strong ESG credentials • Economic – WBOP economic growth significantly above national average (contributed to via port activity) • Environmental – POT focus areas: biodiversity, biosecurity, air / water quality, climate change • Cultural – POT partnerships with iwi and community organisations
Strategic infrastructure	• POT provides key infrastructure for the region and it is critical this is maintained and optimised and the commercial incentives inherent in private ownership will align with these outcomes (reinforced by the fact that BOPRC / QHL do not seek to control or influence the POT business plan)
New Zealand ownership	• Protection is provided at a national level through the Overseas Investment Office
Externalities	• It is important that in the conduct of its business POT does not negatively impact the lives of residents and other businesses and BOPRC provides protection against this through its regulatory roles in terms of land use planning, licensing and consenting

- In addition to delivering the four well-beings, section 14 of the Local Government Act (amongst other things) requires Councils to: *“…ensure prudent stewardship and the efficient and effective use of their resources, in the interests of the district or region the Council represents”*

- In regard to BOPRC’s commercial investments, prudent stewardship implies a cautious approach to managing QHL’s risk / return profile and exercising care in providing for the future – essentially having in place robust structures and policies to ensure investment outcomes are optimised and risk is prudently managed

- From a good portfolio management practice / investment perspective it is difficult to justify any material concentration in POT (or any individual asset). However, given the historical legacy and regional significance of POT and BOPRC’s purpose in regard to the Bay of Plenty region there may be other factors that councillors wish to consider – eg sell-down price achieved, ongoing POT liquidity, control and community acceptability

2. What is the optimal amount to sell-down to? (cont.)

Portfolio management theory holds that QHL should sell the significant majority of its POT stake. Additional considerations for Council include per share sale price, POT liquidity, control and ultimately community acceptability

Per share value and POT liquidity considerations further support a significant sell-down in POT shares

Per share sale price

- A larger stake may achieve a higher price per share than a smaller stake (assuming demand from cornerstone shareholders and the sell-down process is optimised)
- 50%+ is the critical sell-down threshold - majority stakes often sell for a significant 'control premium' above listed market valuations (the historic average control premium for majority stakes in NZ is ~32%). Applying this average premium to QHL's 54.1% stake in POT would imply QHL may be foregoing a c.$600m+ control premium by not selling a 50%+ stake at one time
- Various other factors may also impact the actual realisable price per share of any POT shares QHL chooses to sell, including the effectiveness of the sale process, sell-down approach / certainty required (eg direct sale, on market underwritten vs not underwritten) and impact / mitigation of any share price overhang or potential negative market signalling

Liquidity considerations

- With over 50% owned by QHL, POT's free float (shares not tightly held and freely traded on the NZX) is currently low relative to comparably sized NZX listed companies
- This is contributing to POT's low trading volumes (liquidity) relative to many other NZX50 companies
- A material increase in POT's free float following a QHL sell-down would be expected to increase liquidity and therefore attract a wider set of sophisticated investors which may support a more efficient share price and access to capital for POT

Control and community acceptability are additional considerations for council

Control

- At 50+% QHL's majority shareholding provides significant legal control of POT via its ability to effectively control the board (albeit the interests of other shareholders must be considered). Notwithstanding, we note that in practice:
  - QHL has never sought specific strategic outcomes from POT
  - QHL does not exercise any active control other than through the direct appointment of two directors (and ratification of the other directors)
  - Public control of POT is not required for the region to obtain the benefits that POT brings
- Above 25+% QHL would:
  - Retain a blocking stake so that no control transaction could occur without QHL approval (any other shareholder will be restricted to a maximum 19.9% under the Takeovers Code without making a takeover offer and QHL will be able to decide whether or not to accept such an offer)
  - Retain "negative control" as it would be able to stop major transactions (ie those relating to >50% of POT's assets and / or liabilities) which require a special resolution requiring a 75% vote from shareholders to be approved
  - Likely to have at least one board seat
  - Have the largest single shareholding (next highest current shareholder is ACC with c.1.9%)

Community acceptability

- Given the historical legacy and regional significance of POT and BOPRC's purpose in regard to the BOP region there may be significant community opposition to a significant sell-down of POT

Based on portfolio management theory and practice it is difficult to justify any material concentration in POT (or any individual asset), especially given QHL can only access a potential control premium once via a sell-down of over 50%

To the extent there is any significant community opposition to a control transaction councillor judgement will be required regarding the various trade-offs in terms of control, risks and return and value at stake

2. What is the optimal amount to sell-down to? (cont.)

On balance a control transaction is considered the optimal option. However, selling-down to 25.1% is still expected to provide material commercial advantages vs status quo and allows QHL / BOPRC to retain negative control of POT

A control transaction (eg sell-down to 2.5%) is expected to be optimal for QHL portfolio returns, risk and value. A control premium (which could be material) can only be realised once on sale of 50%+
However, if QHL / BOPRC places significant weight on retaining negative control of POT, this can be achieved by selling-down to 25.1%, which is expected to significantly improve portfolio returns and risk relative to status quo (albeit still sub-optimal) and allow QHL to retain the largest (and blocking) POT stake and control of major transaction decisions

Scenario assessment summary:

QHL stake sell-down	Maximise portfolio diversification	Maximise QHL's total value benefit	Maximise dividends to BOPRC	QHL's control of POT	Impact on POT's and BOPRC regional well-beings	Benefits to POT free float, liquidity and share price	Overall assessment / recommendation
Status quo (no sell-down)	✘ No change	✘ No change	✘ No change	✓✓	~ No change	✘ No change	Least preferred
Sell 4% (retain 50.1%)	~ Immaterial change	~ Immaterial change	~ Immaterial change	✓✓	~ No change	~ Immaterial change	Not preferred
Sell 14.1% (retain 40%)	✓ Small change	✓	✓	✓ Strong negative control	~ No change	✓	Not preferred
Sell 29% (retain 25.1%)	✓✓ Material change	✓✓	✓✓	✓ Strong negative control	~ No change	✓	Preferred
Sell 44% (retain 10.1%)	✓✓+ Material change	✓✓	✓✓	~ Blocking stake	~ No change	✓✓	Not preferred
Sell 51.6% (retain 2.5%)	✓✓✓ Optimal	✓✓✓#	✓✓✓	✘ No control	~ No change	✓✓✓* Max benefit	Most preferred

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#Average control premium for NZ Takeovers from 2001-2022 is ~32% (equates to ~$600 million on QHL's POT stake)
**Assuming market sell-down, alternatively a control transaction may lead to status quo or de-listing*

3. What are key sale considerations and sell-down options?

There are various sell-down options possible. The appropriate option (or combination of options) depends on multiple factors including the size of the stake and pricing / execution certainty desired by QHL

ADTV highlights POT's low liquidity. All sell-down scenarios represent significant multiples of ADTV

		1 Dribble out (market sell-down)	2 Block trade (market sell-down)	3 Fully marketed offer (market sell-down)	4 Sale to strategic / financial investor(s)
Description		***Broker appointed to sell shares into the market in small daily amounts over an extended period until desired stake is sold***	***"Block(s)" of shares sold to institutional investors / retail brokers on a negotiated basis; generally executed over ~12 hours outside trading hours (or "wall crossing" over longer period)***	***Documented transaction marketed by brokers and POT management over a period of weeks to a wide range of investors (institutional, retail, strategic) against a live trading market in POT shares***	***Direct sale of a stake to strategic / financial investor(s) through a formal sale process***
Option	**Multiple of ADTV[1]**	**Comparison of sell-down processes**			
Sell 4% (retain 50.1%)	187	✓ Likely downward pressure on share price given low POT liquidity	✓ Most likely given stake size. Capable of being executed rapidly	× Stake size too small	× Stake size too small
Sell 29% (retain 25.1%)	1,353	× Stake size too large	✓ Single block trade may be difficult to execute for a stake of this size but could be used in conjunction with a bookbuild or fully marketed offer / sale to a strategic / financial investor	✓ A fully marketed offering may be a more attractive approach from a pricing perspective if a market sell-down is pursued without a direct sale to a cornerstone investor	✓ Interest likely to be strong for a stake of this size (but max 19.9% for single investor under Takeovers Code) Requires extensive marketing process (and POT involvement)
Sell 51.6% (retain 2.5%)	2,407	× Stake size too large	✓ Single block trade may be difficult to execute for a stake of this size but could be used in conjunction with a bookbuild or fully marketed offer / sale to a strategic / financial investor	✓ 2PO (secondary public offering) appropriate with significant POT involvement creating strong interest, scope for preferential pool for BOPRC residents and potential control transaction	✓ 2PO (secondary public offering) appropriate with significant POT involvement creating strong interest, scope for preferential pool for BOPRC residents and potential control transaction

Note: *Sale of a larger stake (eg 29%+) is most likely to attract strong financial / strategic interest and a favourable valuation outcome (esp. 50%+) but may need to be coupled with an on-market sell-down approach (block trade or fully marketed offer)*

- There are a range of considerations for BOPRC in the event it undertakes a POT sell down including: **Public consultation** (which will alert the market to a potential sale resulting in a potential share price overhang (ie a short-term negative impact on share price that can occur when a large shareholder is expected to sell a minority shareholding)); **Probity** (and therefore the need for independent, unconflicted advice (to ensure pricing, fees and brokerage are optimised)); and **BOPRC objectives** (regarding timing and pricing certainty and for example, the need for an underwrite)
- Auckland Council recently went through a process to sell 7% of its 18% shareholding in AIAL realising over $800 million and providing a strong precedent for any sell down by QHL. Auckland Council appointed an independent advisor to advise it in regard to any sale and the sell down process was executed on 1 September 2023 at an average price of $8.11. This price represented a: 3.8% premium to the previous day closing price; 2.1% discount to the volume-weighted average price between the decision to sell and the sale occurring; and 5.5% discount to the price prior to Auckland Council's decision to sell (8 June) (noting that the NZX fell ~2.0% over the same time period)

Note: 1) Average daily traded value (defined as the average daily volume of shares traded over the last 12 months)

4. How will the sell down proceeds be used and protected within QHL?

QHL's governance arrangements and investment mandate is well-established, and we understand any POT proceeds will ultimately be invested in-line with QHL's SIPO

Current protections

- POT is a strategic asset under the Port Companies Act and BOPRC is required to undertake public consultation before it can sell any shares in POT. This provides inherent protections in regard to the POT investment:
  - There is currently no discretion regarding what the POT funds are invested in (they are by definition invested in POT)
  - The POT stake is protected from a "raid" to meet the short-term objectives of BOPRC and current generations vs future generations (at least without going through the consultation process)

Reinvestment of POT proceeds

- The primary intention of any POT sell down is to achieve a more appropriate portfolio of investments with significantly less concentration risk and superior risk and expected return characteristics
- QHL's mandate dictates that POT sale proceeds (following repayment of the PPSs if relevant) will be re-invested in-line with its board approved SIPO. However, the proposed deployment period of 3 years would allow QHL to review its SIPO settings (portfolio allocation, risk vs reward, cash vs growth)
- To enable an orderly and optimal deployment of any POT sale proceeds (certain asset classes are opportunity related and cannot be immediately invested in) a three-year transition period is anticipated involving investment in a relatively low risk combination of fixed income securities (80%) and equities (20%)

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