BAY OF PLENTY
REGIONAL COUNCIL
TOI MOANA

Divestment Case: Port of Tauranga

8 December 2023

Contents

BAY OF PLENTY REGIONAL COUNCIL TOI MOANA

01 Executive summary

Executive Summary

Background

Bay of Plenty Regional Council (BOPRC), through its subsidiary Quayside Holdings Limited (QHL), currently holds a 54.1% shareholding in the Port of Tauranga (POT). POT is an important strategic asset for the Bay of Plenty - it provides employment and economic activity in this growing region.

QHL / Cameron Partners presented their analysis on five divestment options at a Council Workshop on the 25 October. Advice provided from QHL and Cameron Partners at the Council Workshop was that a sell down of the POT shares would strengthen QHL's ability to grow a responsible and diversified fund that generates long-term returns for the region.

Following the presentation, Councillors provided some initial feedback on the importance of the strategic drivers (i.e. understanding the strategic value of the POT shareholding to Councillors). Based on the feedback from Councillors, two divestment options were shortlisted for further consideration through the Divestment Case (and compared to the status quo).

The purpose of this Divestment Case is to enable Councillors to:

- better understand the potential implications of the POT divestment options considered by QHL;
- confirm whether there is value in considering a divestment;
- understand any potential areas for further work.

The Divestment Case is relatively high level and relies on the information and assumptions from the QHL Model (reflects the target returns for each asset class in QHL's Statement of Investment Policy and Objectives and current QHL forecasts). Cameron Partners has progressed its work since the presentation of their full report to Council and shared the Model, which may now differ to the figures presented in the Divestment Case. Sensitivity analysis with different asset class allocations and return assumptions should be undertaken before Councillors confirm the sell-down through the adoption of the LTP in June 2024.

Why consider divestment?

POT has generated significant wealth for the Bay of Plenty region. The growth has enabled QHL to grow its non-port asset portfolio, which has meant QHL's remit has changed from an entity charged with stewardship of the port shareholding, to an entity with the remit to "grow a responsible and diversified fund that generates long term returns to support the growth and prosperity of the region".

BOPRC is facing headwinds in terms of a growing infrastructure and service need, increased climate risk, increasing costs (interest rate and inflation) and is facing an operating budget deficit over the LTP. Earlier this year BOPRC was placed on 'negative outlook' by S&P due to its operating deficits and high debt burden. These challenges support the need to consider the Council's shareholding in POT to ensure that:

- the real asset value per capita of QHL's assets is protected;
- Council has access to a reliable and growing dividend stream over time; and
- BOPRC remains resilient to financial shocks, climate change, and unforeseen events (liquidity, resilience, leverage).

QHL's POT shareholding currently comprises ~80% of its portfolio. This level of concentration on one asset presents risks, which could be better managed through having a more diversified portfolio. The high concentration and classification of the POT shares as a 'strategic asset' means that the portfolio is highly illiquid preventing QHL from accessing capital returns.

POT has generated strong risk-adjusted returns over the past two decades, however, QHL has the opportunity to invest in higher risk / return assets that may increase overall return.

Executive Summary

Key findings

Strategic considerations

Council values the outcomes that POT creates for the region. Council has strategic imperatives to ensure that POT continues to operate for the benefit of the region (managed in an effective and commercial manner, fit for purpose and meets customer needs), does not create externalities (i.e. negative environmental, social or economic impacts) and that opportunities for local ownership remain.

A majority ownership of POT is unlikely to be required to deliver the strategic imperatives as these could be achieved through the market, contractually, and through regulation.

Under all scenarios (except for the 2.5% sell down scenario analysed as one of the five divestment options considered by QHL / Cameron Partners, which is outside of the scope of this report), QHL would be the largest shareholder and retain strong negative control:

- The status quo is the only option that provides BOPRC with a controlling stake in POT (>50% shareholding, company strategy, director appointments, ordinary resolutions etc). While not currently used (POT is operationally independent), this would be lost with any divestment to below 50.1%.
- Both the 40.0% and 25.1% sell-down options would likely mean that BOPRC would retain a blocking stake (special resolution and takeover) and have significant influence on Board appointments.

Financial considerations

QHL's portfolio is significantly more concentrated than other endowment funds globally. Financial modelling indicates that even if QHL continued reinvesting its net operating cashflows (after the Council and PPS distributions) the POT shares would still comprise two-thirds of its investment portfolio in FY36. Accordingly, a partial divestment of the POT shares to accelerate the rebalancing of its portfolio is, realistically, the only way to materially reduce concentration risk through diversification.

The QHL Model indicates that under both the status quo and sell down scenarios, QHL's portfolio would still be expected to grow faster than inflation and population growth in the region, assuming proceeds are reinvested by QHL. Of the scenarios modelled, the 25.1% sell-down scenario provides the greatest amount of financial benefit for the scenarios included in the Divestment Case:

- Asset values grow in real terms with total net assets reaching $4.3bn ($450m more than under the status quo) by FY36.
- Dividends to BOPRC would reach $103m by FY36 being $36m higher than under the status quo.
  - Note that this is largely due to *dividend policy* rather than *higher cash generation* from reinvesting sale proceeds - Net Operating Cash Flow is only on average ~$6m p.a. higher than the status quo.
- This level of FY36 dividends translates into an average real subsidy of ~$491 per rating unit (i.e. assuming it is evenly spread), which is a ~50% increase on the current subsidy.

Under the 25.1% sell down scenario, the POT shareholding reduces to 29% of QHL's total portfolio by FY36.

However, the financial performance under the scenarios is a direct result of the portfolio allocations between the different asset classes and associated estimated returns. For example, under the 25.1% sell down scenario, reinvesting under the current SIPO settings means that by FY36, managed private equity comprises $1.3bn of investment that generate over half of QHL's cash inflows QHL. The nature of this asset class means cash inflows are often 'lumpy', which may adversely impact the dividend certainty that BOPRC needs. A review of the SIPO is required to ensure the portfolio allocations are appropriate for a rebalanced QHL portfolio.

Similarly, the analysis assumes that there are no changes to the current QHL Dividend Policy, which was designed for a port-heavy investment portfolio, including a significant liquidity discount to the POT shareholding. As with the SIPO, a review of the Dividend Policy would be required if BOPRC proceeds with a sell down to ensure portfolio allocations remain appropriate.

All of the financial analysis in this report assumes that divestment proceeds are reinvested in QHL (after PPS repayment). However, Councillors have expressed an interest in the creation of a 'new' regional benefit fund, and have discussed other potential uses for some of the proceeds (including specific infrastructure projects, etc.). Any sale proceeds used for these purposes would materially change the financial impacts assumed in the Divestment Case.

Executive Summary

Overall considerations

Councillors should balance the financial and strategic considerations that together drive regional benefit. A table summarising the options against a range of financial and strategic attributes is provided below.

Scenario	Strategic			Financial					
	Ownership and control of POT	POT achieve strategic outcomes	Retains flexibility	Diversifies financial exposure	Cash return to QHL	Dividend to BOPRC	Grows real asset base	Liquidity	Debt (PPS) repayment
Status quo	✔✔✔ (Controlling stake)	Yes	✖	✖	✔	✔	✔	✖	**No**
Sell down to 40.0%	✔✔ (Negative control)	Yes	✔	✔✔	✔✔	✔✔	✔✔	✔✔	Yes
Sell down to 25.1%	✔✔ (Negative control)	Yes	✔✔✔	✔✔✔	✔✔	✔✔✔	✔✔✔	✔✔	Yes

Further work required

Over the coming months BOPRC will continue its due diligence on a potential POT divestment and reinvestment opportunities. In particular, this work will consider options for use of proceeds (initially following divestment and over the longer term), testing and sensitising model assumptions and scenarios (incl. volatility of returns), tax and accounting considerations and working with QHL to review the SIPO and Dividend Policy that may be appropriate in a less port-heavy portfolio. This work will help confirm the extent of divestment (if any) and the intended use of proceeds.

02

Introduction

Introduction

Considering a potential divestment

BOPRC through its subsidiary QHL, currently holds a 54.1% shareholding in POT. The shareholding is a Strategic Asset for BOPRC under the Local Government Act (LGA), and is listed in Schedule 1 of Council's Significance and Engagement Policy, which sets out public consultation requirements for transfer of ownership or control of the asset.

QHL has recommended a partial divestment of the POT shareholding to diversify its investment portfolio, invest in higher risk / return asset classes, and provide QHL with greater liquidity and flexibility. Key elements of the recommendation are:

- the sale of Port shares will strengthen Quayside's ability 'to grow a responsible and diversified fund that generates long-term returns' and thereby increase intergenerational wealth for the region'
- 25.1% or 2.5% is the optimal sell down amount, balancing the financial benefit of selling a 'controlling interest' against the non-financial benefits of retaining strong negative control
- a sell down process would be low risk, and proceeds should be reinvested with QHL; and

The Divestment Case assesses these factors as well as the broader implications on the Council. It focuses on the 25.1%, 40% and status quo options, following initial feedback from Councillors received at the 25 October Council Workshop.

Divestment Case

The Divestment Case has been prepared in response to a request from Councillors to assess the merits of a partial divestment of POT and inform the decision on what should be included in the Draft LTP.

Given the timeframes for releasing the Draft 2024-34 LTP for consultation, the analysis in the Divestment Case is high level in nature and based on a range of assumptions that will require further validation and diligence.

The Divestment Case provides:

- a summary of the case for change;
- a framework for considering each of the partial divestment options;
- an evaluation of the options against this framework to determine an 'emerging preferred option'; and
- an overview of the detailed work required to validate further decision making.

Council decision-making

The key decisions for Council to make over the next six to twelve months are summarised below.

December 2023
Draft LTP

Key Council decision:
- Decision to sell down to a minimum level, subject to public engagement and further due diligence?

June 2024
LTP adoption

Key Council decision:
- Decision to sell down to a minimum level (via adoption of the LTP?

The Divestment Case focuses on answering the decision required now.

July 24 onwards
Implementation

Key Council decision:
- How the sale proceeds will be applied

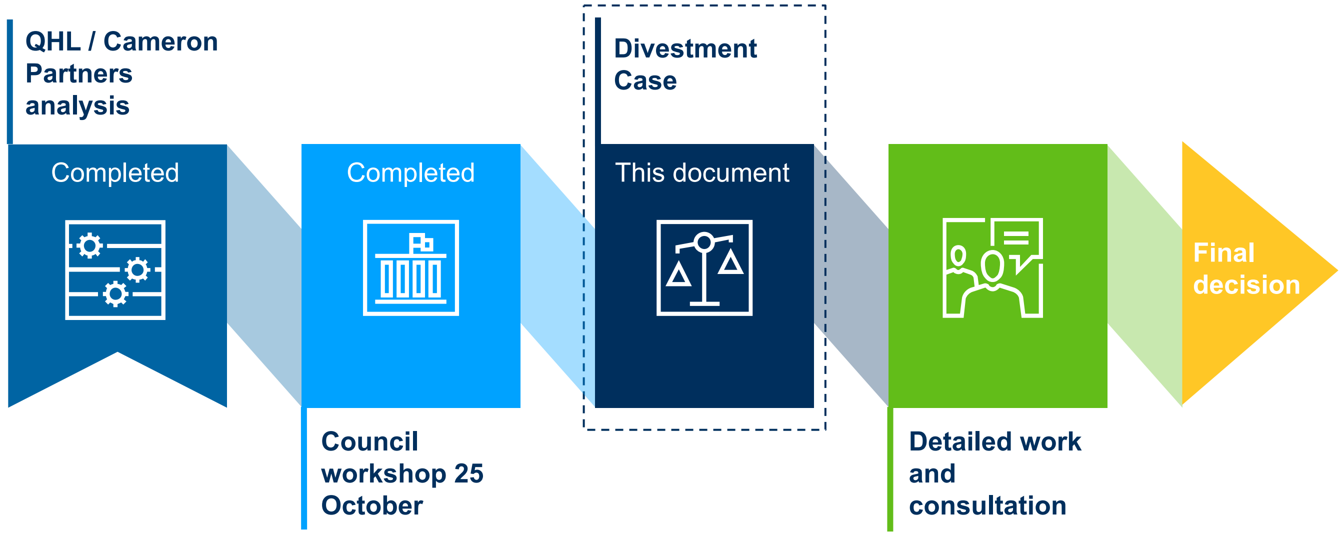
Key QHL decision:
- Timing of the sell-down to reflect market conditions

03

Approach

Our approach

The Divestment Case is a key step in identifying a preferred divestment option and approach to public consultation. The overall approach for Council to reach a final decision is summarised below.



Three options were shortlisted based upon the QHL / Cameron Partners analysis

QHL / Cameron Partners presented their analysis on five divestment options at a Council Workshop on the 25 October. Advice provided from QHL and Cameron Partners at the Council Workshop was that a sell down to 25.1% would strengthen QHL's ability to grow a responsible and diversified fund that gerentes long-term returns for the region. QHL subsequently advised a sell-down to 2.5% is their preferred option to maximise the value from the sale, whilst acknowledging there are wider considerations and trade-offs to balance that may be achieved under a 25.1% sell down.

Following the presentation, Councillors provided some initial feedback on the importance of the strategic drivers (i.e. understanding the strategic value of the POT shareholding to Councillors).

What we heard from Councillors

- Concern about the level of concentration risk in the current QHL portfolio.
- Desire to reinvest proceeds in other assets that will generate returns for current and future generations.
- Interest in a proportion of proceeds to be reinvested in a regional benefit 'fund' - rather than all reinvested in SIPO. Further work is required to determine what this is.
- Need to fully understand the business case and approach before committing to any divestment.

Based on the feedback from Councillors, two divestment options were shortlisted for further consideration through the Divestment Case (and compared to the status quo).

Status quo / no sell down	Sell down to 50.1%	Sell down to 40.0%	Sell down to 25.1%	Sell down to 10.1%	Sell down to 2.5%

Assessing the options through the Divestment Case

Confirm the 'Case for Change' (Section 4)
Assess the rationale for a potential divestment, including identifying key attributes / drivers.

Determine the emerging preferred option (Section 5)
Assess the divestment options against key attributes / strategic drivers.

Identifying strategic drivers / key attributes

A set of strategic drivers / key attributes were developed to establish a consistent framework to assess the divestment options against the status quo, which reflects the Council's statutory obligations, Community Outcomes, and Council's Financial Framework.

Statutory requirements (LGA)*

Council

- Purpose is to promote the social, economic, environmental and cultural **well-being of communities** in the **present and in the future** (s3).
- Shareholder **monitoring and evaluation** responsibilities in relation to QHL's contribution and achievement of objectives and outcomes (s65).

QHL

- Principal objective is to **achieve the outcomes of its shareholder** as specified in the SoI/SoE (s59).

s101

Council must manage revenues, expenses, assets, liabilities, investments, and general financial dealings **prudently and in a manner that promotes the current and future interests of the community**.

In relation to each activity Council funds, must consider:

- **Community outcomes** the activity primarily contributes to
- **Distribution of benefits** between the community as a whole, any identifiable part of the community and individuals
- The **period in or over which** benefits are expected to occur
- The extent to which the actions or inactions of particular individuals or a group contribute to the need to undertake the activity
- The costs and benefits, including consequences for transparency and accountability, of funding the Activity distinctly from other Activities
- The **overall impact of any allocation of liability for revenue needs** in the community

Community outcomes

- **A healthy environment**
- **Future ready communities**
- **Connected communities**
- **Sustainable development**
- **The pursuit of excellence**

Financial framework

Guiding financial framework principles:

- Investment income used to keep rates affordable.
- Prudent management of the balance sheet for the long term.
- Efficient use of financing levers.
- Financial resilience and self-insurance.
- Intergenerational equity.
- Transparency and long term oversight.

Technical considerations

- Portfolio / geographic concentration and diversification.
- Liquidity (QHL, Council).
- QHL return and portfolio growth.
- Ownership / control imperative (i.e. majority control, block, etc.).
- Pricing and base value.
- Transaction costs.

Strategic drivers / key attributes

Form the framework to evaluate shortlisted divestment options and identify an emerging preferred option.

**While not a legislative requirement, the Office of the Auditor General's principles for spending public money wisely (which are accountability, openness, value for money, lawfulness, fairness and integrity) have also been considered.*

Strategic drivers and key attributes

The following **strategic drivers** / **key attributes** were developed to qualitatively assess and compare each of the shortlisted divestment options (see Section 5). A distinction has been drawn between the financial and non-financial (strategic).

Critically, the purposes of the strategic drivers / key attributes is to compare the different options and identify key trade-offs. Accordingly, some attributes are simply factual, rather than evaluative (i.e. Council ownership of POT is lower under a sell down scenario, which is not in of itself positive / negative).

The first area noted below has not been evaluated as part of the Divestment Case considerations as it is more focused around implementation and next steps. Statutory requirements will need to be considered in determining a consultation approach.

	Strategic drivers and key attributes	Explanation
Strategic considerations	**Statutory requirements and implementation**	Baseline expectation that the Council will act consistently with all legislative requirements, including acting in a prudent and transparent measure (*not evaluated in Divestment Case*).
	Ownership and control of POT	Ability for Council to exert control / influence over POT through its ownership (via QHL), including negative / blocking control.
	POT to achieve strategic outcomes for the region	Extent to which strategic outcomes can be delivered through POT, such as growth and employment.
	Flexibility	Level of flexibility that the Council / QHL has to manage its investment portfolio to adapt to changing community needs, including changing dividend requirements.
Financial considerations	**Diversification**	Exposure to the performance of a particular asset or risk, measured through assessing the POT shareholding as a portion of QHL's total asset base.
	Cash return / yield of QHL's portfolio	Quantum of cash generated by QHL's portfolio that is available to fund the dividend to Council or reinvest.
	Capital growth and real value of Council / QHL's asset base	Growth in QHL's total asset base, noting the baseline expectation is that QHL the real asset base per capita is maintained.
	Dividend returned to Council	Annual dividend paid by QHL to Council, noting the current analysis assumes no change to the QHL Dividend Policy, which may significantly impact the dividend.
	Liquidity	Liquidity of QHL's portfolio to fund the annual dividend to Council and respond to unexpected financial challenges.
	Tax consequences	Impact of the options on the Council Group's tax position. (*Not evaluated in Divestment Case*)

04

The case for change

There is a strong case for considering a partial divestment of Council’s POT shares

BOPRC’s ownership in POT has been a solid investment for BOPRC over the past 30 years. QHL’s scale and remit has evolved significantly since its establishment; and the Council is facing short and long-term financial pressures. The time is now right to review the Council’s ownership or POT.

To remain fit-for-purpose, QHL requires an investment portfolio that:

- is **resilient** to financial shocks, climate change, and unforeseen events;
- **grows the real asset base** per capita for the benefit of the region;
- generates a **reliable dividend** to Council that increases in-line with population growth and inflation.

The case for a partial divestment of Council’s POT shares is underpinned by the following considerations:

Majority ownership of POT is not required to deliver on strategic outcomes

Council values the outcomes POT provides to the community. However, these outcomes can be achieved through the market, contractually and through regulation, rather than requiring BOPRC to maintain its majority ownership.

Portfolio diversification would reduce exposure to port-specific risks

QHL’s portfolio is heavily concentrated on POT, which means that BOPRC is highly exposed to port-specific risks, its financial performance and any unforeseen risks. QHL’s asset portfolio is less diversified than global investment and endowment funds.

Other asset classes could provide higher returns

POT has performed very strongly over the past 20 years; however, there are other asset classes available that may provide a higher risk / return (e.g. managed private equity, venture capital, etc.). Noting that these asset classes are, typically, accompanied by additional risk and volatility.

QHL’s dividend to BOPRC is constrained by portfolio liquidity and reliance on POT

Reinvesting sale proceeds into non-port assets would increase the liquidity of QHL’s portfolio. Alongside the reliance on POT’s dividend, and PPS obligations, this currently constrains the dividend (from QHL) to Council.

The time is right to review the status quo

QHL's role and investments have evolved over time

QHL was established over 30 years ago to hold the POT shares on behalf of BOPRC. POT performance and investment decisions have led to significant growth in QHL's portfolio (total asset values of $2.8 billion at June 2023), which has enabled QHL to grow its non-port asset portfolio. However, requiring QHL to maintain a majority shareholding in POT is constraining it from achieving the purpose outlined in its 2024 Statement of Intent, which is "**to grow a responsible and diversified fund that generates long term returns to support the growth and prosperity of the Bay of Plenty.**"

1989
Under the Local Government Recognition Act, the BOPRC received a 76.92% ownership of the POT

1991
QHL was established and purchased the 76.92% shareholding in the POT for $53.48m

1992
POT was listed on the New Zealand stock exchange and brought QHL's proportion of shares down from 76% to 55%

1999
QHL receives an unimputed special dividend from the POT of $8.4m and chooses to invest in other listed stocks

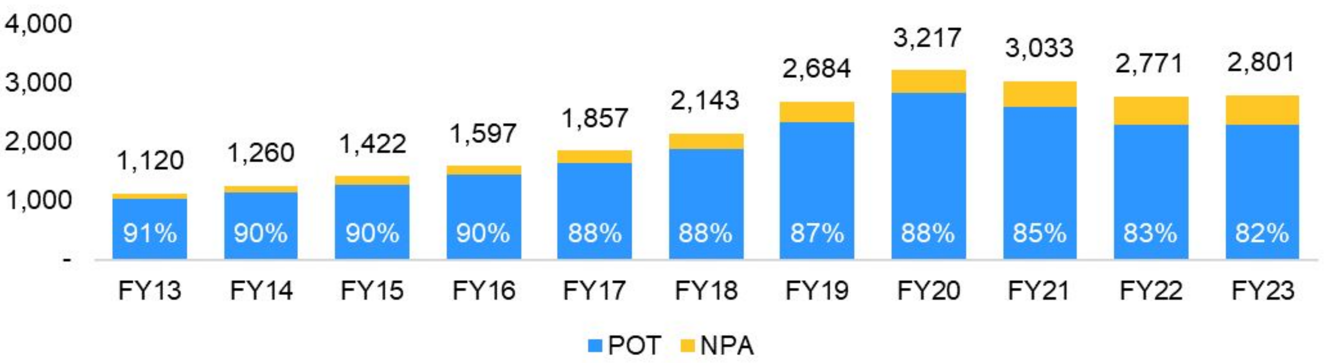
2000
QHL appointed KBWere as investment advisor while also receiving a second special dividend

2003
QHL established Quayside Properties Ltd to enable the diversification into other Bay of Plenty enterprises

2008
QHL received $200m for the sale of perpetual preference shares (PPS) to the public and was held by BOPRC for infrastructure projects in the Regional Infrastructure Fund

2014
Quayside Investment Trust, a wholly owned Private Investment Equity (PIE) Trust was established to further expand on QHL's investment opportunities

QHL's portfolio mix over time ($m)



NPA source: provided by BoPRC

BOPRC is facing short and long term challenges and requires growing total returns and a reliable dividend stream

A number of headwinds are emerging for the Council, both in the short-term and long-term.

- Council has identified an operating funding gap in the first three years of the 2024-2034 LTP. Increasing the dividend requirement for QHL could be part of the solution to close this gap.
- Earlier this year S&P placed BOPRC's (along with a many other councils across New Zealand) credit rating on negative outlook because of operating deficits and high debt burden (PPS and LGFA debt). A negative outlook is the identification of a worsening financial position and a 'warning' to address the underlying causes or risk a credit rating downgrade.
- The region has experienced strong population growth over the past decade, which is placing significant pressure on the ageing infrastructure network. Current forecasts (12.5% cumulative population growth forecast between 2023-2038 per StatsNZ), indicate that these pressures are expected to continue over the next 10-20 years.
- Social deprivation (i.e. access to education, employment and housing) remains high for many of the Eastern communities, with some of the highest deprivation rates in the country.

A partial divestment of POT may enable BOPRC to address some of these headwinds through:

- generating a higher annual dividend through accessing capital returns;
- releasing capital that could be reinvested in delivering regional benefit (i.e. investing in infrastructure or establishment of a new 'regional benefit fund'; and
- improving resilience to port-specific and/or climate risks.

Majority ownership not required for POT to deliver strategic outcomes for the region (1 of 3)

Council needs to consider **both financial and strategic considerations** when considering whether to partially divest its POT shareholding.

The following analysis considers whether there is a strategic imperative to maintain a majority shareholding in POT, or whether the decision is purely a commercial / financial decision.

POT is a key piece of strategic infrastructure for the BOP region, and Aotearoa

The benefit the port brings to the region and New Zealand is undeniable and includes the areas below.

Employment
The POT has significant direct and adjacent employment opportunities for the region.

Commercial
The POT brings significant economic growth to the region

Partnership
The POT facilitates partnerships with local iwi and community groups

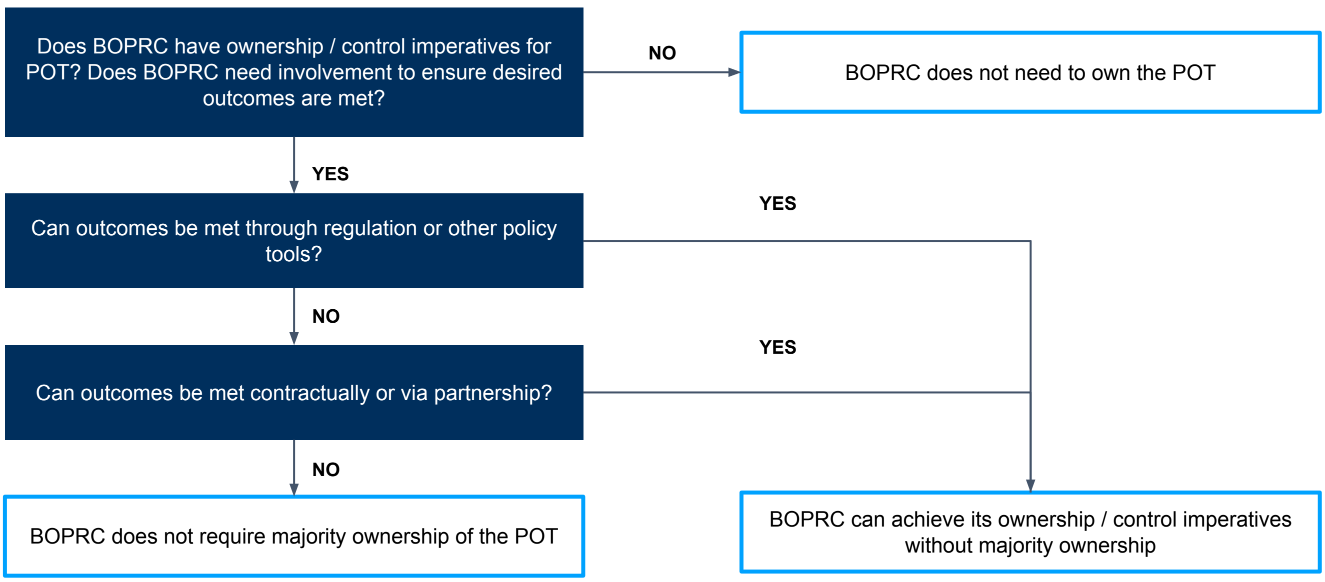
Environment
POT's environmental policy incorporates issues such as biosecurity, noise, air quality, stormwater management, spill etc.

The Council's strategic imperatives for owning POT is to ensure that it continues to **operate for the benefit of the region** (i.e. managed in an effective and commercial manner, fit for purpose, and generates growth and employment for the region), **does not create externalities** (i.e. negative environmental, social or economic impacts), **remains available for local ownership**, and **iwi partnerships**.

A framework can be used to help understand whether majority ownership is required to achieve these strategic imperatives

The framework outlined below has been used to assess the strategic imperatives for maintaining POT ownership; and whether BOPRC requires majority ownership to achieve the strategic imperatives. An assessment against the framework is provided on the following page.

Strategic assessment framework



Majority ownership not required for POT to deliver strategic outcomes for the region (2 of 3)

Does BOPRC have ownership / control imperatives for POT? Does QHL need involvement to ensure desired outcomes are met?

Four strategic imperatives for ownership of POT have been identified, which are summarised in the table below.

Strategic imperative for ownership

Strategic imperative	Comment
Operates for the benefit of the region Council values having this asset in the region for the employment and economic benefits it provides. It values the professional, independent management and governance of the asset and that it is developed and maintained to be fit-for-purpose and to meet customer needs.	BOPRC currently allows POT to perform as an independent commercial company and hasn't historically controlled the development of POT's strategic plan through ownership. An alternative (private) owner would likely seek to optimise commercial returns, which is consistent with the employment, economic and customer experience benefits Council is seeking. Further, BOPRC could protect itself against takeovers from parties that may act inconsistently with this imperative through strong negative control (i.e. 25.1% ownership, or more). Conclusion: **Majority ownership is unlikely to be required to ensure POT continues to operate for the benefit of the region.**
Externalities It is important that POT is run and operated in a way that does not negatively impact the environment or communities living nearby.	Sustainability is at the core of POT's vision and strategic plan, which has been driven by the business itself, rather than being shareholder / Council-led. Conclusion: **Unlikely to require majority ownership to protect against externalities.**
Remains available for local ownership The Council may find it important that ownership remains local where possible.	Maintaining strong negative control (i.e. 25.1% ownership, or more) would provide BOPRC with the opportunity to block large takeovers that limited local ownership. Conclusion: **Strong negative control likely to be sufficient to ensure ownership opportunities are available for the local community.**
Iwi partnerships POT's activities and the way it is conducted is important to tangata whenua and can impact Council's relationship with iwi partners. Further work will be undertaken to confirm whether there are any implications of the POT sale on the Council's relationship with and obligations to iwi, including any regulatory impacts.	

Overall Conclusion: Majority ownership is unlikely to be required for the Council to achieve its strategic imperatives for POT.

Majority ownership not required for POT to deliver strategic outcomes for the region (3 of 3)

Limb 1 of the framework concluded that there wasn't a strategic imperative for retaining majority ownership in POT, however, for completeness Limbs 2 and 3 have also been assessed.

Assessing Limbs 2 and 3

Strategic imperative	Limb 2 - Can outcomes be met through regulation or other policy tools?	Limb 3 - Can outcomes be met contractually or via partnership?
Operates for the benefit of the region	The Council promotes economic development through Bay of Connections Governance Group, which provides leadership and facilities economic development across the region. This includes through partnerships with SmartGrowth and TOI EDA, which can advocate on behalf of the BOPRC and the region.	Unlikely to be any contractual / partnership mechanisms to manage risk.
Externalities	There are already strong protections available through the Council's regulatory function, specifically around land use, licensing, and consenting. Other environmental protections through Crown-managed legislation.	Opportunity to incorporate conditions of consent (and other similar) to contractualise commitments to mitigating externalities, noting this is essentially an extension of BOPRC's regulatory function.
Remains available for local ownership	Protection from international investment is currently provided via the Overseas Investment Office oversight (subject to government policy settings). Local investors can continue to hold their existing shares.	Unlikely to be any contractual / partnership mechanisms to manage risk.
Iwi partnerships	Refer previous page. Further work to be undertaken to confirm implications of a sell down on Council's relationship with and obligation to iwi.	
Conclusion:	**Strong regulatory and other policy protections in place, which mean that majority ownership is not required to achieve BOPRC's strategic imperatives.**	**Unlikely to be additional contractual / partnership protections available to BOPRC to drive the strategic imperatives.**

The strong regulatory and policy protections available (Limb 2) to BOPRC are considered to be sufficient to enable it to deliver its strategic imperatives for POT, alongside maintaining strong negative control.

Portfolio diversification would reduce exposure to port-specific risks

The POT shareholding is currently the primary driver of returns for QHL

QHL's portfolio is concentrated in its port-shareholding, meaning that its ability to grow the real asset base and pay a dividend to Council are heavily reliant on POT's performance. Accordingly, QHL (and BOPRC) are exposed to port-specific risks, including:

Financial underperformance

- Increased competition from other ports
- Economic downturn
- Strategic missteps
- Temporary reduction in dividends resulting in reduced operating cash flows for QHL.

Reduced growth in port

- E.g. consenting constraints, supply chain issues.

Market re-rating

- Poor market ratings can adversely affect a company's ease of accessing financing.

Climate risk

- Risk of major natural events such as Cyclone Gabrielle caused by climate change.

While some of these risks may be unlikely to eventuate, the potential consequences of one transpiring could be material, particularly given the Council's current reliance on the QHL dividend (comprised approximately a quarter of the Council's FY23 operating revenues). A comparison of QHL's current concentration relative to a select group of investment funds and other local government peers is provided on the following page.

QHL could manage this exposure through reinvesting sale proceeds into a range of different asset classes either directly or via QHL. The latter is consistent with QHL's stated investment strategy:

> *"our investment strategy is to focus on diversification to maximise the risk-weighted return of the portfolio"*.

To ensure an appropriately diversified investment portfolio, a detailed review of the current SIPO is recommended if a partial divestment is undertaken to ensure it remains fit-for-purpose. This would include considering the appropriate mix between capital growth and cash yielding assets; and higher risk / return and more stable assets.

Further, BOPRC may wish to consider QHL's strategic purpose and the balance between generating growth for future generations and providing for the current generation.

Diversification could move QHL towards global endowment funds

QHL's asset portfolio is more concentrated than global investment and endowment funds

Cameron Partners identified comparative endowment and investment funds to measure QHL's current level of portfolio concentration.

QHL's portfolio is significantly more concentrated than the comparator funds, which all hold a greater proportion of equities, private equity, and alternatives; and aren't exposed to any single asset / investment.

However, it is worth noting that long-term capital growth (i.e. rather than generating a regular dividend) is the primary focus of some of these funds. For example, NZ Super Fund is currently in a growth phase and is not expected to pay out superannuation costs until 2034. Further, the operational requirements (skillset and cost base) to manage these types of funds can differ.

A partial sell-down would bring BOPRC more in-line with these investment funds, noting that even at 25.1%, BOPRC would still be materially more concentrated (and in one single asset as opposed to an asset class).

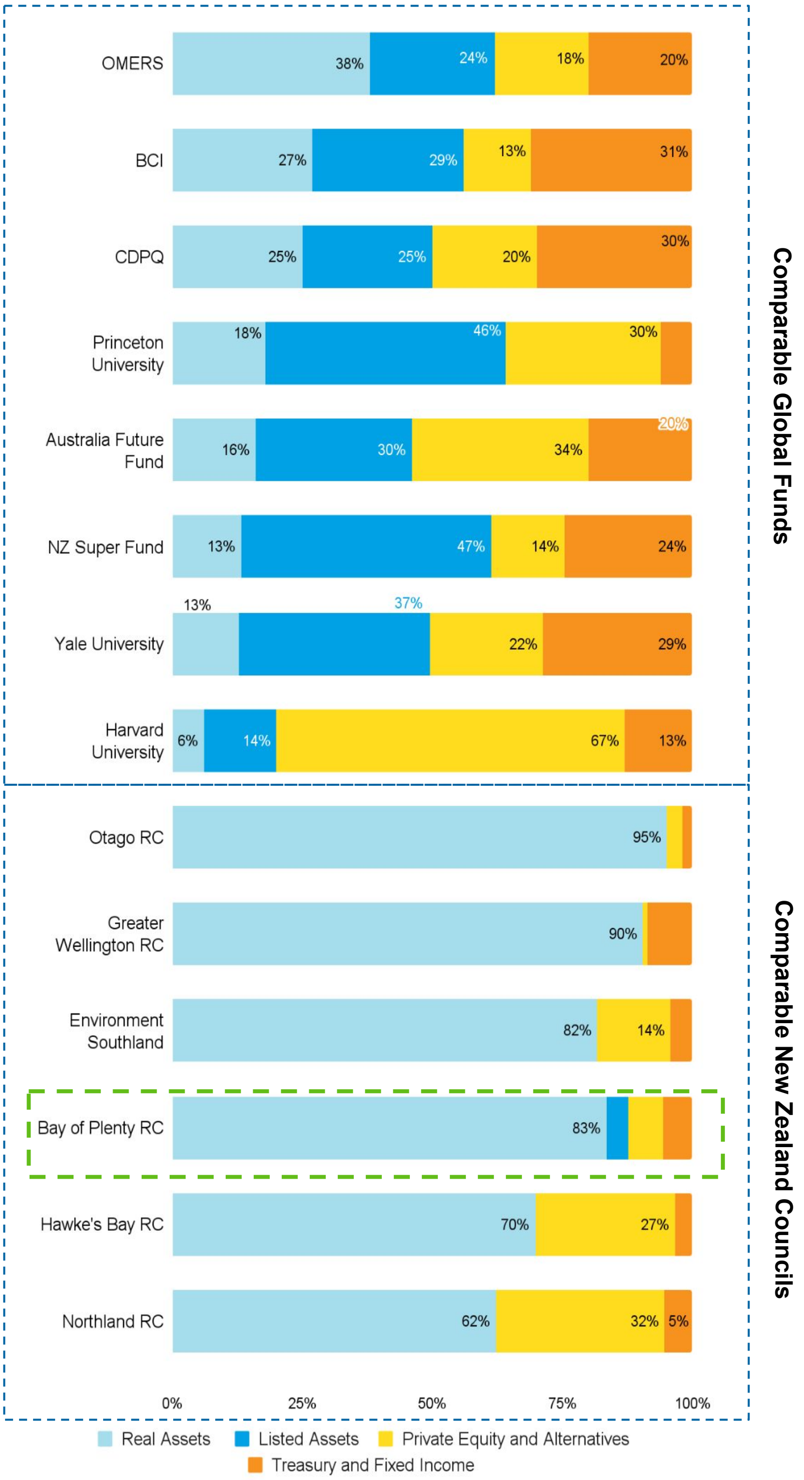
Other New Zealand regional councils have similar levels of concentration to BOPRC

BOPRC's concentration to real assets, in particular, a specific asset, is similar to most other regional councils across New Zealand.

Most of New Zealand's regional councils still own a significant shareholding in their regional port, which comprises the majority of their balance sheets. This results in a very high concentration to real assets across the country.

BOPRC's reliance on port dividends is higher than many of its regional council peers, and as such is more exposed to the performance of a single asset. Further, QHL's portfolio is also significantly larger than peers, which provides more scope for diversification. Accordingly, a lower concentration may be appropriate.

Asset allocation (% of total)



Endowment funds source: Cameron Partners report
Council source: Individual council Annual reports

Strong historical POT performance, but total returns have eased

After decades of POT outperformance, total returns have eased

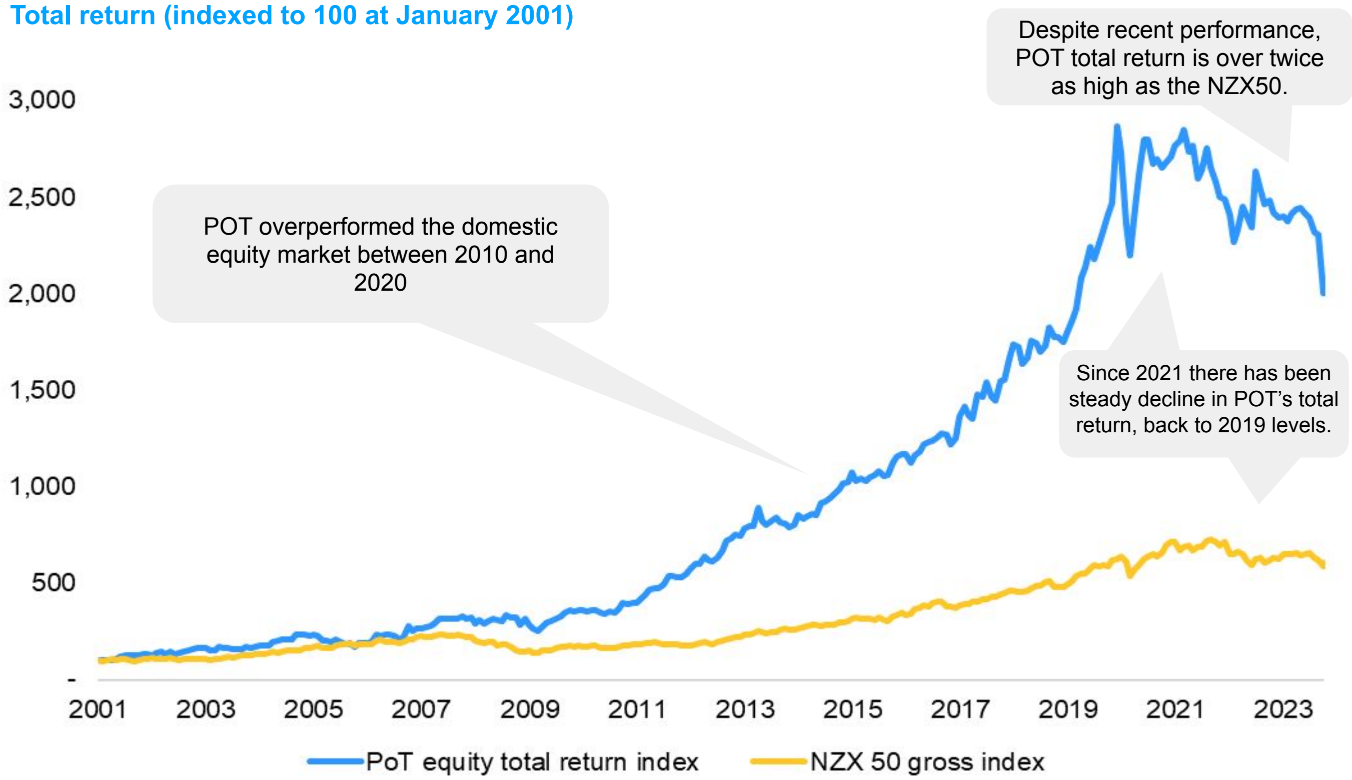
Over the past 20 years, POT has generated very strong financial returns, with the POT share price growing by 350% (9.6% annualised) and strong dividend generation (QHL has received $765m of dividends over this at an average dividend yield of 3.05%. The POT returns have exceed QHL's target returns for the port and most of other the asset classes in SIPO (the target returns are the basis of the financial modelling).

Total return from POT is significantly higher than the NZX50 and many other equities, even when considering the past four years of slower growth. The recent financial performance has been driven by the high inflation environment and rising interest rates, which have reduced asset values; and more recently, offered investors other higher-yielding investment options (e.g. bonds and fixed income).

Recent commentary from brokers is generally 'neutral', balancing falling cargo volumes against growing log export growth and the potential terminal expansion. Further, given the recent fall in the share price, POT's Price to Earnings Ratio has fallen, resulting in a growing dividend yield. Accordingly, there is not a strong basis to conclude that there is likely to be further deterioration in POT's share price and dividend potential.

A partial divestment would provide BOPRC with an opportunity to crystallise some of the historical capital growth and reinvest the proceeds into high growth asset classes such as private equity, which may provide a higher total return. However, high growth assets are, typically, more volatile and carry additional risk, which BOPRC would need to consider (i.e. POT's Sharpe Ratio* over the past two decades implies that its risk adjusted return has outperformed nearly all asset classes over that period).

Total return (indexed to 100 at January 2001)



Source: Bloomberg

Note: Total return indices assumes dividends are reinvested so is used to illustrate total relative performance rather than the direct returns to QHL and BOPRC given dividends are spent.

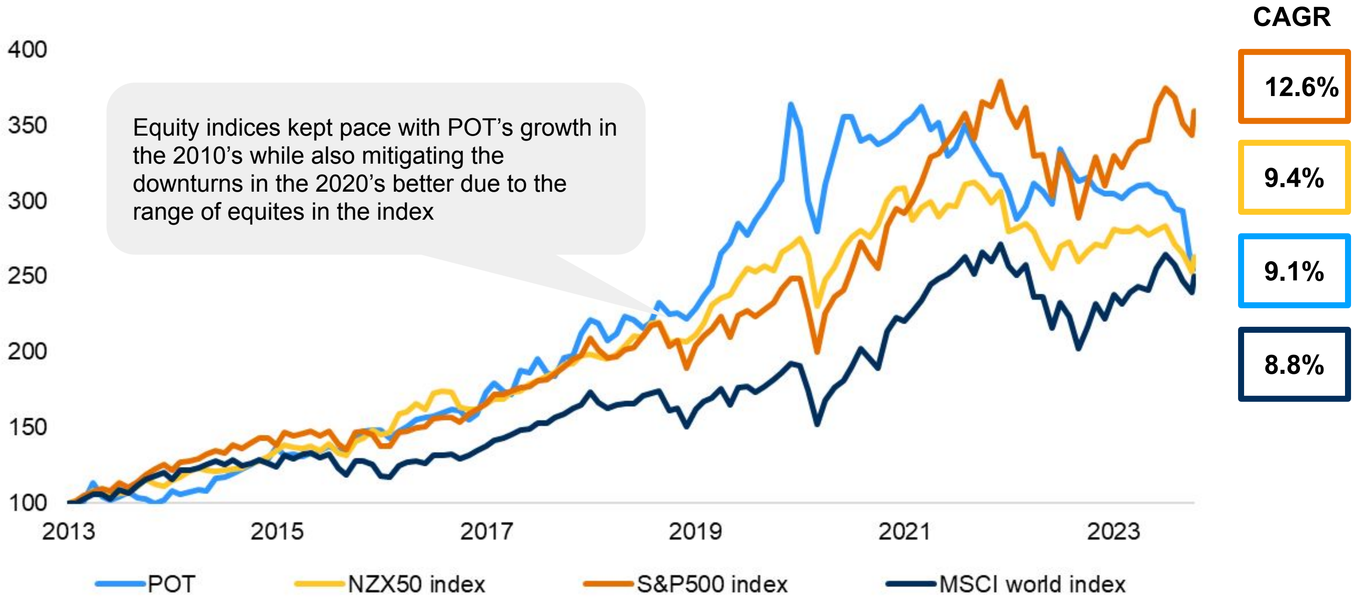
**The Sharpe Ratio is a measure of the historical returns or an asset against a risk-free asset, after adjusting for the volatility of its returns.*

Other asset classes could generate higher total returns

The NZX 50 and S&P500 equity indices have delivered a higher total return than POT over the past 10 years, noting that the S&P500 has been on a historically strong growth phase since Covid-19, which is a key driver of its outperformance.

QHL's SIPO also assumes that higher total investment returns are also possible through managed private equity (15.8%), venture capital (18.7%), and real estate (10.8%).

Total return past 10 years (indexed to 100 at January 2013, local currency terms)

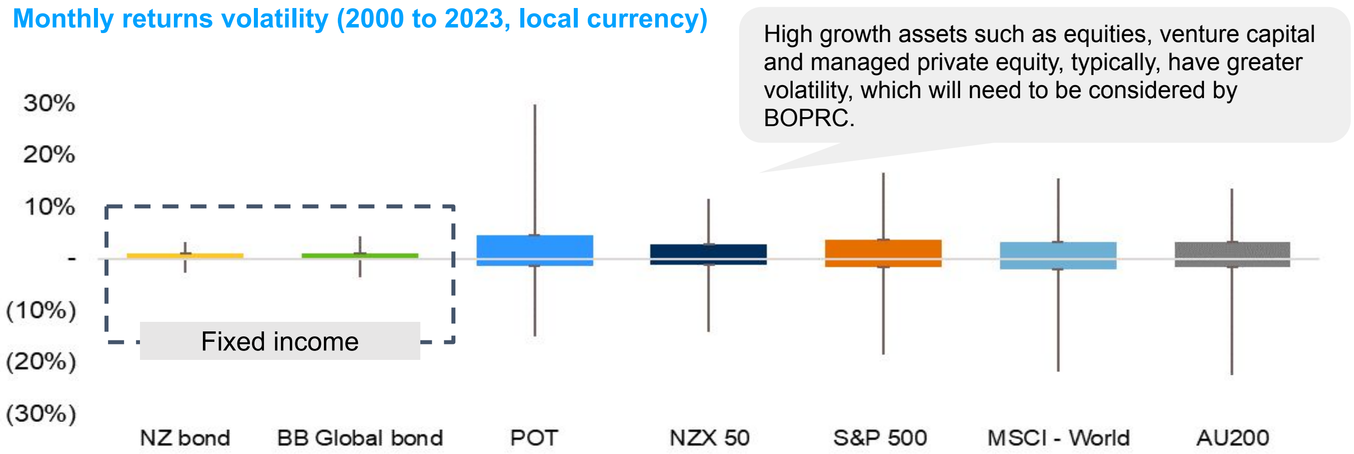


Source: Bloomberg

However, higher total returns often carry additional risk and volatility

While certain asset classes have generated a higher total return, this has often come with a higher level of risk and volatility, which can be observed in the monthly asset class return volatility chart below. There is insufficient publicly available data for managed private equity; however, the asset class, typically, has volatile and lumpy cash flows (i.e. private equity returns generally occur when the fund divests its ownership of an asset, rather than through the receipt of dividends). These investments are also generally illiquid (i.e. required to retain investment through to the conclusion of the private equity fund).

Monthly returns volatility (2000 to 2023, local currency)



Source: Bloomberg

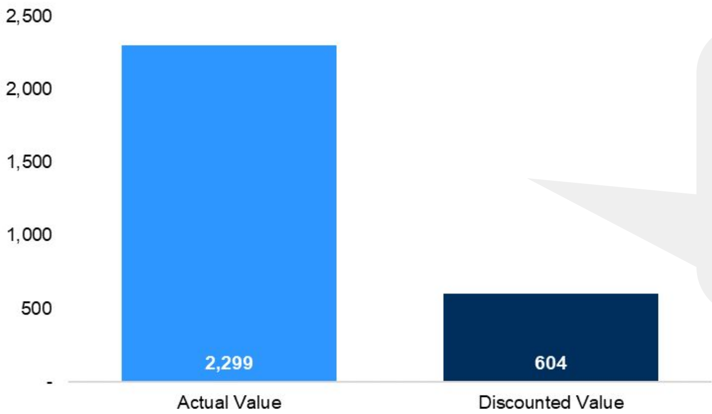
QHL's dividend to BOPRC is constrained by the liquidity of its investment portfolio

The value of QHL's port shareholding is significantly discounted for the purposes of calculating the dividend to Council to reflect QHL's inability to access its capital returns

QHL's dividend to Council is based on a formulaic distribution rule since QHL adopted its Dividend Policy in 2022. Under the policy, 20% of the dividend is based upon QHL's Adjusted Net Asset Value, which is largely driven by the value ascribed to the POT shareholding. Further, the remaining 80% of the dividend is based upon the previous dividends, which will increase to reflect the change to QHL's Adjusted Net Asset Value over time.

Critically, the value of the POT shareholding is significantly discounted under the definition of Adjusted Net Asset Value, with the POT shareholding discounted by ~75% to reflect the fact that QHL has to maintain a majority shareholding in POT (i.e. can only access the dividend return).

Value of POT shareholding under the QHL Dividend Policy ($m, FY23)



The discount to the POT shareholding value is based upon the ratio of the 10-year dividend return for the NZX50 and the 10-year total return.

This measure is designed to reflect the lack of liquidity associated with the POT shareholding, where QHL can only access the dividend return (i.e. not the capital growth) due to the requirement to maintain a majority shareholding)

Irrespective of the financial performance of QHL's investment portfolio, the dividend to Council would increase following a divestment, given no other asset classes are subject to the 'liquidity discount' (assuming no change to the current Dividend Policy). This impact is apparent from the scenarios modelled, where a significantly higher dividend is paid to Council paid under the 25.1% selldown scenario (relative to the status quo), despite cash generation being very similar between the two scenarios (refer page 31).

A change to the Dividend Policy (i.e. to reduce the liquidity discount) would lead to a higher dividend payment to the Council. However, this change may require QHL to divest some of its non-port assets to fund the dividend, given it cannot access the POT capital growth (or asset base), given virtually all of the dividend QHL currently receives from POT is applied to fund the dividend to Council and PPS shareholders (refer following page).

Reinvesting sale proceeds from a partial divestment would enable QHL to diversify away from the POT shareholding into other asset classes, which would provide greater flexibility to manage its liquidity and cash flows, including realising a portion of any capital growth.

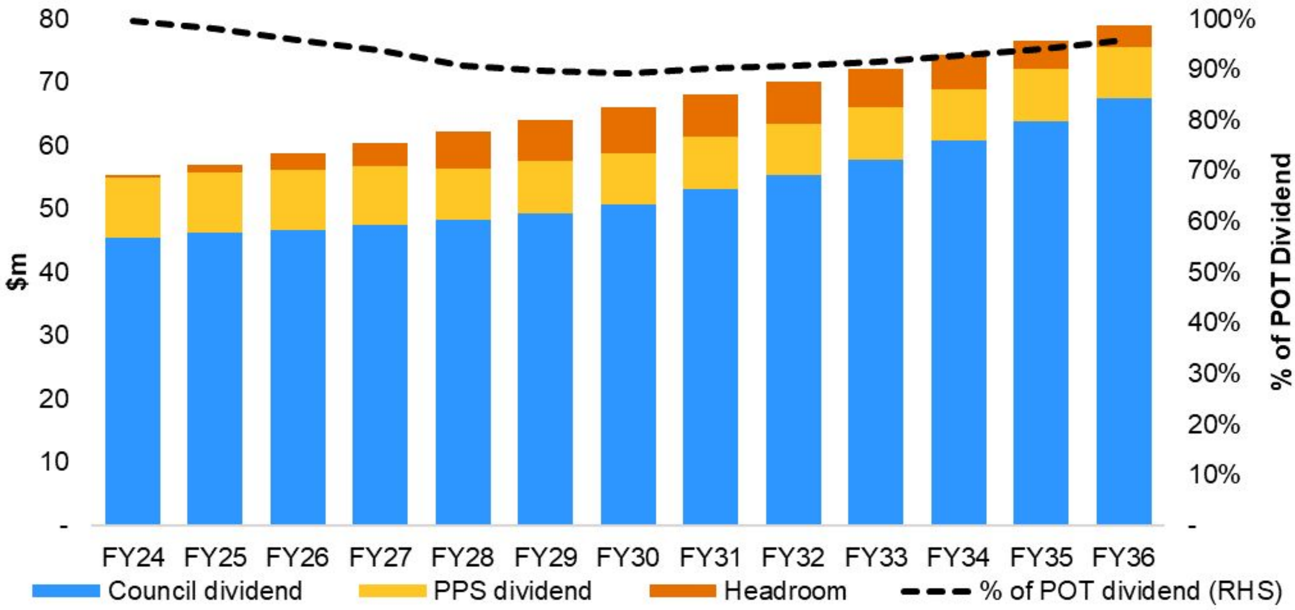
POT's dividend to QHL is fully utilised by BOPRC and PPS distributions

Currently, QHL's capacity to fund distributions to BOPRC and the PPS shareholders and reinvest in growing the asset base is largely limited to dividends received from POT, with the returns from the non-port assets assumed to be reinvested in growing the non-port asset base.

Under the current settings, 90-100% of the POT dividend is paid out, which means there is limited capacity to:

- increase dividends to BOPRC (without using non-port asset dividends or realising capital growth); or
- grow QHL's non-port assets through reinvestment of POT dividends.

POT dividend as a percentage of QHL's BOPRC and PPS distributions



**The PPS interest rate is determined by the 3 year swap rate plus 190 bps margin (currently 6.6% but has a tax shield). LGFA 3 year debt cost is BKBM plus 56bps (6.02%)*

Source: Financial Model, LGFA

Reducing QHL's reliance on the POT dividend increases QHL's capacity to fund a higher dividend over time, which still occurs under the Status Quo. This is shown by the increasing headroom on the figure above, which aligns to growth in the non-port assets (and resulting cash inflows) that occurs over time. This could be accelerated through a partial divestment.

PPS is now a relatively expensive source of financing - repayment would save $9m p.a. in interest costs (net of tax imputation credits)

Another factor that is limiting QHL's capacity to fund a higher distribution to Council is the costs associated with the PPS. These have grown significantly following the recent tri-annual base rate reset. The Financial Model assumes that the PPS after tax benefits are now greater than POT generates in returns (6.6% PPS cost vs 3% dividend + 3% capital growth).

Repaying the PPS (which is required if QHL reduces its POT shareholding below 50.1%), is expected to deliver a material interest cost saving to QHL. Based on the Financial Model assumptions, an additional ~$9 m p.a. of free cash flow is generated (post the adjustment for the PPS tax imputation credits), which is equivalent to 17% and 10% of POT's forecast dividend to QHL in FY24 and FY36, respectively.

05

Scenarios and evaluation

Two sell down scenarios tested against the status quo

The analysis in this section focuses on comparing two shortlisted sell down scenarios against the status quo. The table below summarises the assumptions that differ between the different options.

Scenario	POT Shares sold (%)	Gross sale proceeds ($m)*	Repay PPS (Yes / No)
Status quo (baseline)	-	-	No
Sell down to 40.0%	14.1%	$555.3m	Yes
Sell down to 25.1%	29.0%	$1,139.9m	Yes

**Gross sale proceeds are shown before the application of the $200m used to replay the PPS.*

Most of the key assumptions are consistent between each of the scenarios, which are summarised in the table below.

Key assumptions
Share price as at 3 November 2023: $5.15
Sell down is assumed to occur in September 2024
Sale proceeds based on a 2% discount to estimated market pricing
Proceeds applied to repay $200m PPS (except under the baseline scenario)
Balance of proceeds reinvested over three years by QHL based on the SIPO allocation and current committed pipeline for Private Equity
Proceeds initially invested in fixed income (80%) and international equities (20%) during three year transition
Yield and capital gain assumptions are based on QHL SIPO target returns (refer appendix), except for the current and pipeline of managed private equity, Rangiuru Business Park and other existing real assets, which have been provided by QHL.
QHL dividends to Council based on the current QHL Dividend Policy.

The 25.1% sell down option performs best against the strategic drivers

Based on a qualitative analysis of the status quo and shortlisted divestment options, the option to sell down to 25.1% is the emerging preferred option.

	Strategic drivers	Status quo	Sell down to 40.0%	Sell down to 25.1%
Strategic considerations	**Statutory requirements and implementation**	Not evaluated in the Divestment Case on the assumption that there were no legislative issues that would prevent a divestment.		
Strategic considerations	**Ownership and control of POT**	✔✔✔ Controlling stake	✔✔ Strong negative control	✔✔ Strong negative control
Strategic considerations	**POT to achieve strategic outcomes for the region**	✔✔✔ As noted on pages 17-19, BOPRC does not require a majority shareholding for its strategic imperative for POT	✔✔✔	✔✔✔
Strategic considerations	**Flexibility**	✘ Requirement to maintain 50.1% shareholding significantly constrains QHL's flexibility	✔ Access to $355m of proceeds to invest without POT constraints in regional benefit	✔✔✔ Access to $940m of proceeds to invest without POT constraints or invest in regional benefit
Financial considerations	**Diversification**	✘ POT comprises ~67% of QHL's total assets by 2036	✔ POT comprises ~50% of QHL's total assets by 2036	✔✔ POT comprises ~30% of QHL's total assets by 2036
Financial considerations	**Cash return / yield of QHL's portfolio**	✔ Average NOCF^ of ~$85m p.a.	✔✔ Average NOCF^ of $90m p.a.	✔✔ Average NOCF^ of $91m p.a.
Financial considerations	**Dividend returned to Council***	✔ Average dividend of ~$54m p.a. FY36 dividend of $67m	✔✔ Average dividend of ~$61m p.a. FY36 dividend of $81m	✔✔✔ Average dividend of ~$72m p.a. FY36 dividend of $103m
Financial considerations	**Capital growth and real value of Council / QHL's asset base**	✔ Asset portfolio value grows at ~2% p.a. on a per capita basis after inflation	✔✔ Asset portfolio value grows at ~2.5% p.a. on a per capita basis after inflation	✔✔✔ Asset portfolio value grows at ~3% p.a. on a per capita basis after inflation
Financial considerations	**Liquidity**	✘ High concentration of POT shares that cannot be sold and high committed cash flows	✔✔ Lower POT shareholding increases liquidity, however high allocation to private equity	✔✔ Lower POT shareholding increases liquidity, however high allocation to private equity
Financial considerations	**Tax consequences**	To be confirmed through subsequent review of Group Tax Structure.		

** The QHL dividend under the status quo is likely to be understated, because its falls below the 70% 'collar' from FY30-36; and therefore, Council / QHL can reset the dividend level.*

^ NOCF: Net Operating Cash Flow

A sell down to 25.1% is the emerging preferred option based on the available information

The emerging preferred option, based on the relative performance against the strategic drivers / key attributes, is to sell down the POT ownership to 25.1%.

However, this is based on the information provided by QHL / Cameron Partners, the Financial Model and associated assumptions, and current SIPO / Dividend Policy. Changes to these assumptions are likely to have a material impact on the findings.

BOPRC will complete further due diligence on the implications of a potential POT divestment over the coming months, including considering options for use of proceeds (initially following divestment and over the longer term), testing and sensitising model assumptions and scenarios (incl. volatility of returns), tax and accounting considerations and working with QHL to review the SIPO and Dividend Policy that may be appropriate in a less port-heavy portfolio.

Emerging preferred option - Sell down to 25.1%

Why sell down to 25.1%?

It is the only scenario that allows a **step change in diversification** of QHL's portfolio. POT represents 29% of the total portfolio by FY36, which approaches international endowment fund real asset concentrations.

By reducing QHL's shareholding in POT, QHL can **reduce exposure to port-specific risks**, such as climate risk. Current SIPO shows exposure to volatile PE risks that needs to be considered to balance this.

Generates the **highest total return** of all of the scenarios, noting that this is a direct result of the underlying return assumptions, which have not been verified / reviewed.

Delivers the **largest dividend to BOPRC**. Estimated to generate an additional $35m of dividends by FY36 compared to the status quo. Notably, the strong dividend growth is a result of the current Dividend Policy (liquidity discount for POT shareholding), rather than cash generation from the assets to QHL (which doesn't vary much between the scenarios).

50% increase in ratepayer subsidy by FY36, which generates the greatest financial value for ratepayers. No real growth in subsidy is achieved under the status quo.

Highest real asset growth per capita, which maximises the asset base for future generations.

QHL would **retain strong negative control over outcomes**. Shareholding of between 20-50% may result in a board seat, strong influence and control, and block takeovers and special resolutions.

Provides QHL with the the **greatest flexibility** to manage its portfolio and provides some **much needed liquidity**. These factors mean QHL can re-allocate its capital strategically, thereby capitalising on emerging opportunities and remaining dynamic.

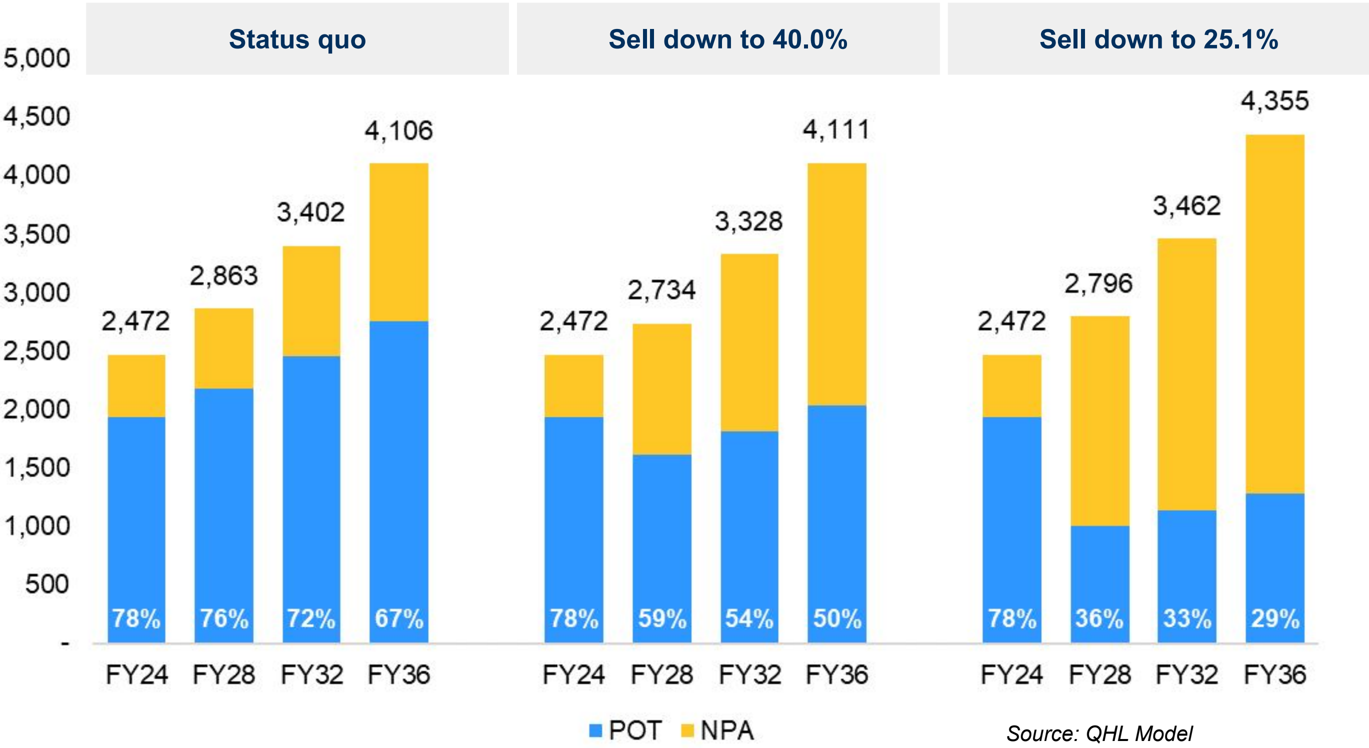
However, accessing higher total returns through reinvesting sale proceeds in high growth asset classes may **increase the volatility of QHL's returns and involve assuming additional risk**.

Concentration in real assets is more akin to international endowment funds post a sell down to 25.1%

Under the status quo, POT continues to represent a material proportion of QHL's asset portfolio towards the lower end of the comparable council ranges.

A sell down to 25.1% results in 'real asset' (i.e. POT) concentration more aligned* to international endowment funds (29% vs 67% under the status quo by FY36). It also provides the opportunity for QHL to diversify its portfolio with a wider range of non-port assets.

Diversification and Non-Port Asset growth of gross portfolio



Source: QHL Model

Key considerations

- Under the 25.1% and 40% sell down scenarios, the total gross asset values are initially lower than the status quo, because of the $200m repayment of the PPS and 2% transaction cost ***(note: that the asset values on a 'net' basis are higher under the 25.1% and 40% scenarios than the status quo)***.
- The level of concentration risk falls over the 12-year modelling period under all scenarios, including the status quo, as a result of continued reinvestment in non-port assets. However, this is accelerated under the two sell down scenarios, as a result of the higher capital growth observed in the non-port assets (relative to the growth in POT).
- POT's concentration of 29% in the 25.1% scenario is more aligned towards the average of ~20% for international global investment and endowment funds outlined on page 20.
- Under the 40% scenario, POT continues to make up a material proportion of the portfolio (~50% by FY36).

Further work: The reinvestment paths differ under each scenario which impacts the returns generated given the different weightings. If a divestment of POT shares occurs, the SIPO should be reviewed. This could alter the mix of investments and the total returns generated from the portfolio. A different picture may also emerge if Councillors decided to reinvest only a portion of the sale proceeds in QHL.

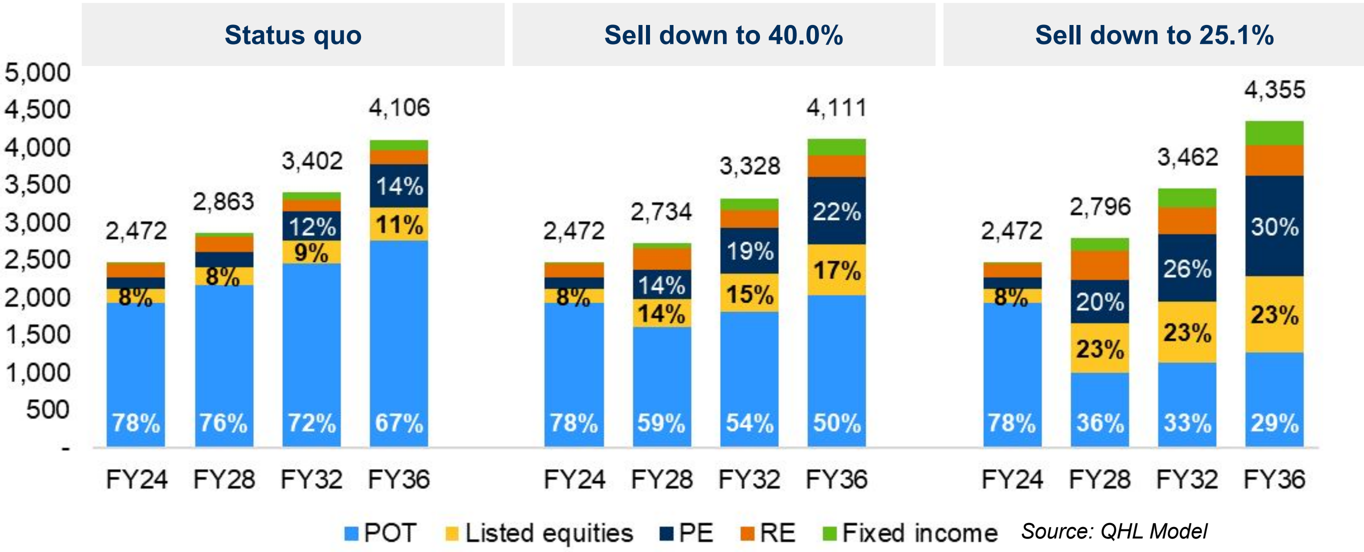
**Noting that for QHL this is one real asset. Other funds typically invest in a range of real assets.*

Growing exposure to private equity, especially under the sell down scenarios

The current SIPO assumptions drive growth in Private Equity

The SIPO has been designed based on the current QHL portfolio (i.e. high POT shareholding), and therefore, has a very high focus on high growth assets, such as private equity (PE) for non-port asset investment. This leads to a very large private equity allocation over time, particularly under the sell down scenario, given the Financial Model assumes proceeds are reinvested in accordance with the SIPO.

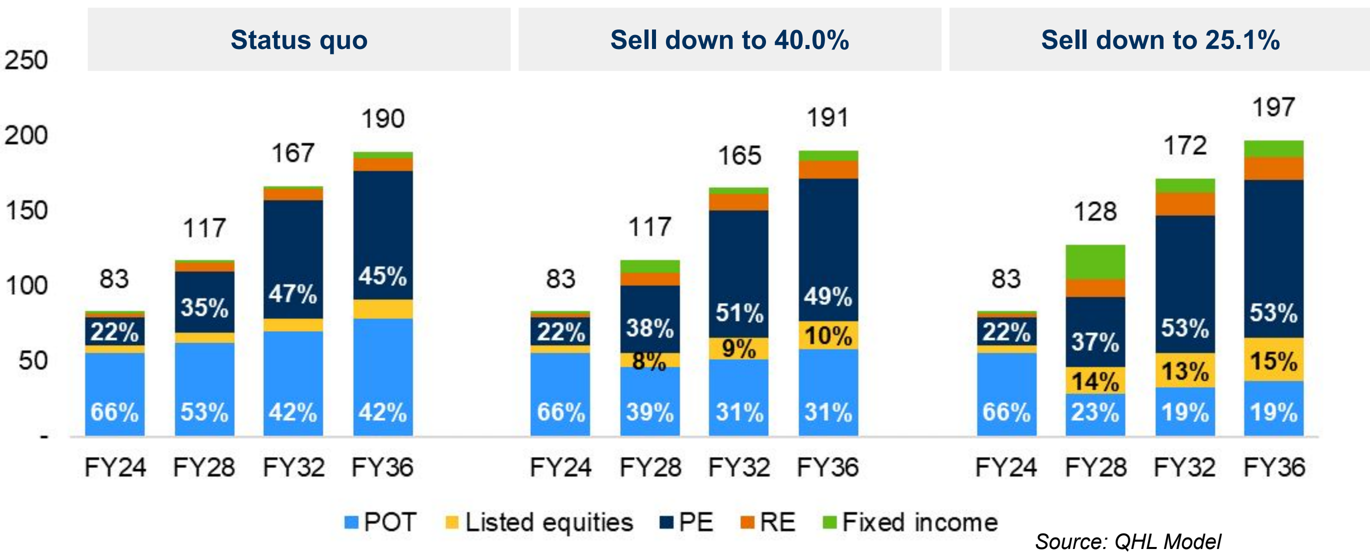
QHL portfolio by asset class $m



Source: QHL Model

- QHL's modelled investment in growth assets, particularly PE, means that by FY36 the total asset value of QHL's PE holdings is $1.3bn (30% of total portfolio) under the 25.1% sell-down scenario.
- The assumed high dividend yield for PE (especially the committed PE) is a major contributor of QHL's cash inflow under all scenarios. However, the 30% portfolio allocation to PE under the 25.1% sell down scenario means that annual cash inflows from PE comprises over half of QHL's total cash inflows from FY31.
- There is some risk associated with having such a high exposure to PE, given the cash flows associated with this asset class are, generally, relatively uncertain and 'lumpy'. Accordingly, QHL may require additional reserves / liquidity to manage the volatility of returns against the requirement for dividend certainty.

QHL dividend by asset class $m



Source: QHL Model

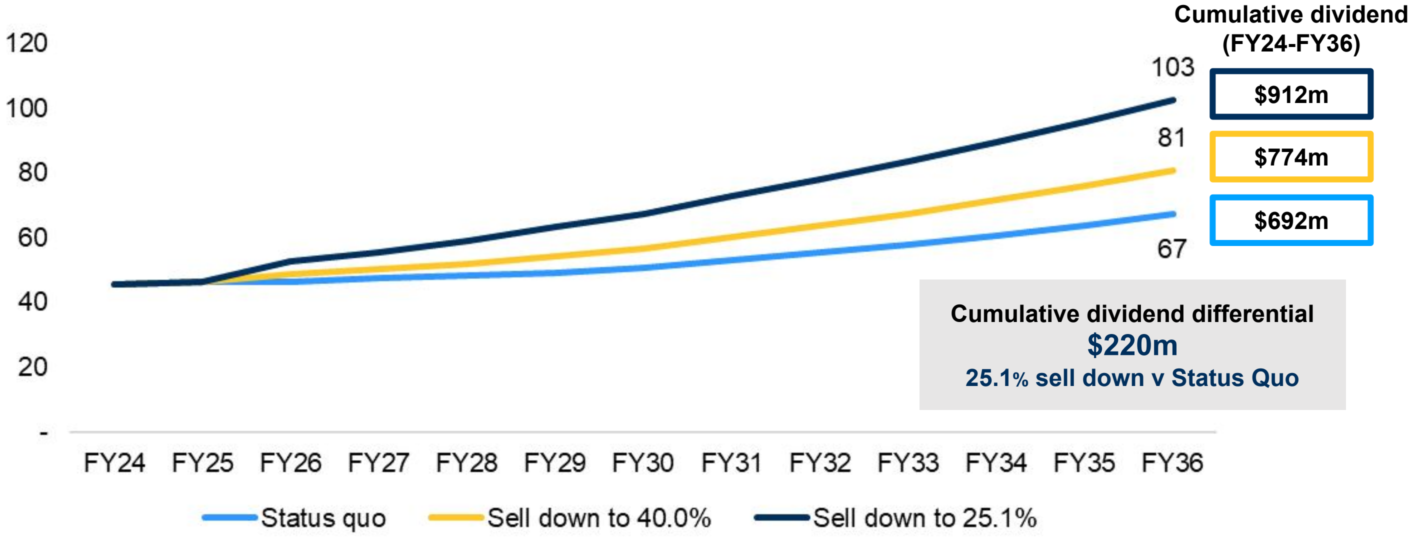
Further work: SIPO to be reconsidered for sell-down scenarios given it has been designed for a 'port-heavy' portfolio.

QHL's dividend to BOPRC is higher under the sell down scenarios due to the dividend policy, rather than higher cash generation

QHL's dividend to BOPRC is higher under the sell down scenarios

- The 25.1% sell down scenario shows FY36 dividends are $36m higher that under the status quo ($220m cumulative over the period).

QHL dividend to BOPRC in $m

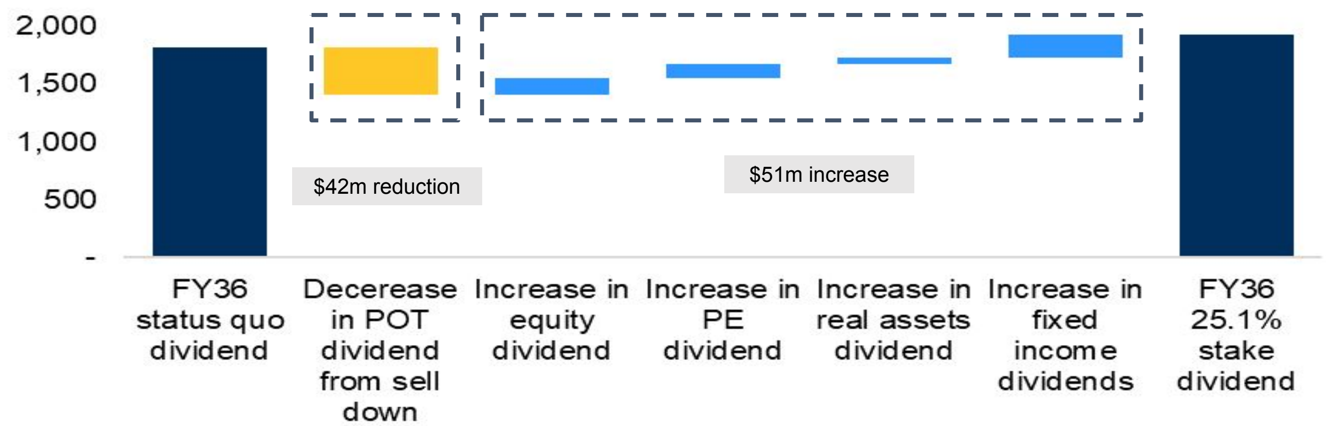


- However, this is a result of the liquidity discount applied to the POT shares when calculating QHL's Adjusted Asset Value[1] and annual dividend to BOPRC, which reflects the inability to access the capital growth from the POT shareholding.
- The figure below illustrates this by showing the relative difference between QHL's cash inflows under the Status Quo and 25.1% sell down scenario, where there is only a $9m difference in FY36 ($104m cumulative).

A detailed review of the Dividend Policy is recommended if a partial divestment occurs.

QHL portfolio generates a similar cash yield under the Status Quo and 25.1% Sell Down scenarios

Cash inflow waterfall between the Status Quo and 25.1% Sell Down scenarios



1 The POT shares are discounted by ~75% when calculating QHL's Adjusted Asset Value to determine the dividend to BOPRC. Under the sell down scenarios, there is a substantial increase in QHL's Adjusted Asset Value immediately following the sale of the POT shares, which is what is driving the higher dividend to Council.

Source: QHL Model

Sell down scenarios result in improved ratepayer subsidies from QHL dividends

Currently, BOPRC uses the dividend from QHL to subsidise ratepayers through reducing the operating funding requirement recovered through general rates.

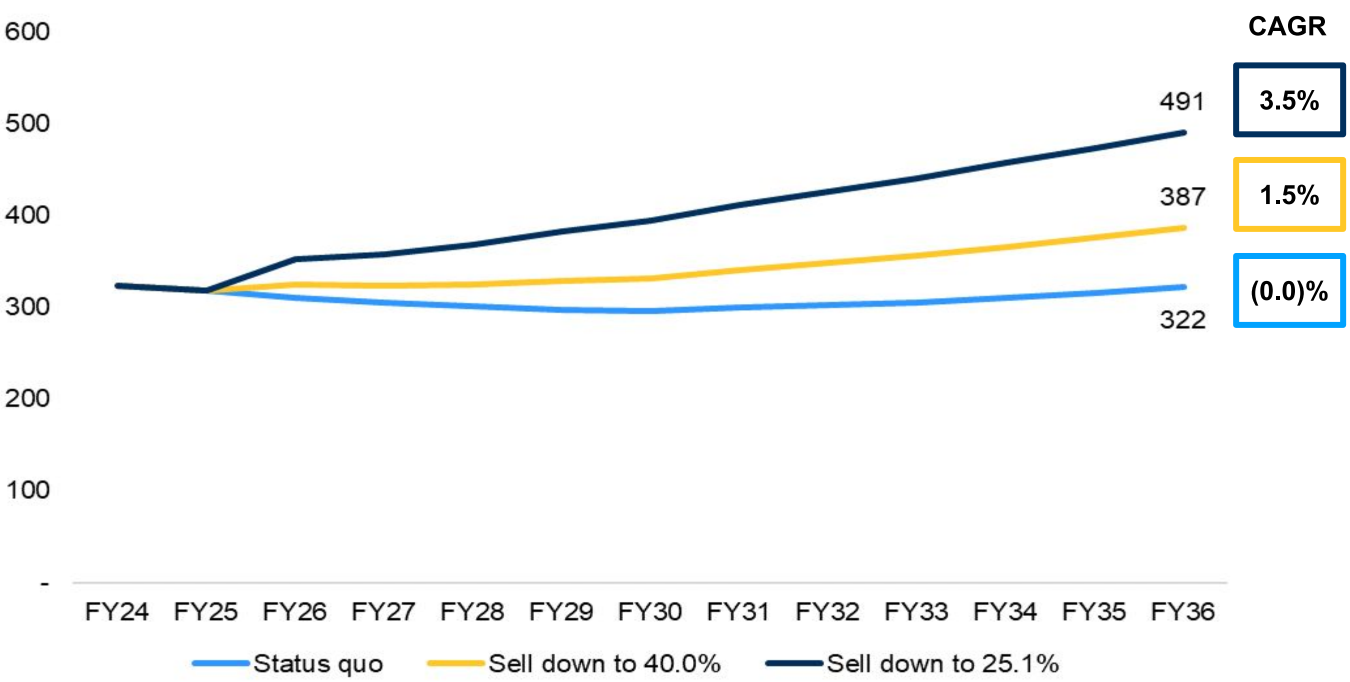
Under the Status Quo scenario, the annual dividend to Council increases each year. However, the increase is marginally below the forecast population growth and inflation, which means that the effective subsidy (in FY23 dollars) to ratepayers reduces slightly through to FY36. Albeit, as previously noted, the dividend paid by QHL to BOPRC under the Status Quo scenario is likely to be understated because the dividend falls below the 70% of the net operating cash flow 'collar', where the dividend level can be reset.

Assuming BOPRC continues to apply the dividend from QHL to subsidising ratepayers, the growth in the real subsidy per rateable unit is:

- 40.0% sell-down scenario results in a 20% or ~$65 increase by FY36 (1.5% p.a. growth)
- 25.1% sell-down scenario results in a 50% or ~$170 increase by FY36 (3.5% p.a.).

This increase is driven by the increased dividends to BOPRC (refer previous page), as noted earlier due to the liquidity discount applied to the POT shareholding and subject to assumptions around dividend policy.

Subsidy per rateable unit (FY23 dollars, real)



Inflation assumption based on CPI estimates from Financial Model.

Source: QHL Model

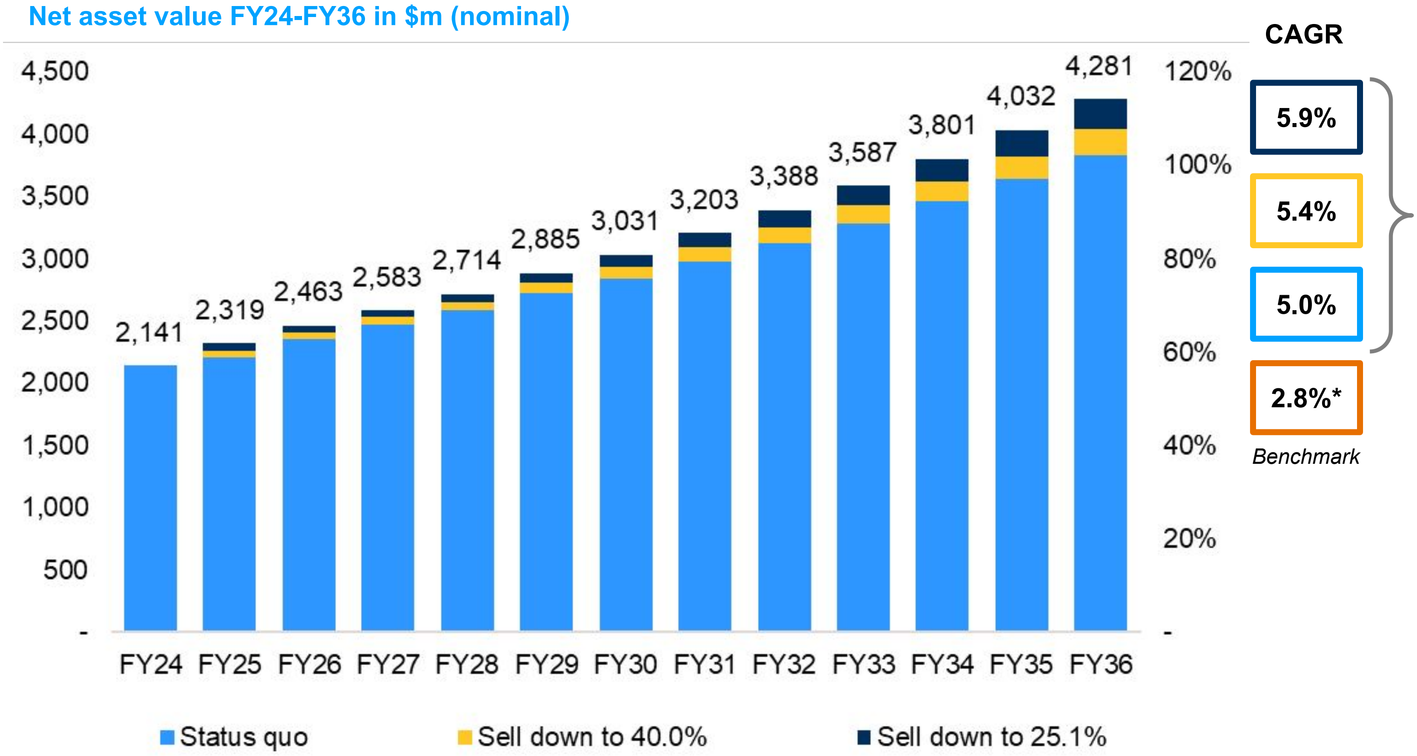
FY24	Status quo - FY36	Sell down to 40% - FY36	Sell down to 25.1% - FY36
$329	$322	$387	$491

Net asset growth occurs under all scenarios

Total net asset value is higher under the sell-down scenarios

- All scenarios show growth above 5% p.a. in net asset values. The 25.1% sell down scenario shows the strongest growth at 5.9% p.a. with the resulting net asset base growing to $4.3bn ($2.1bn or 100% growth). This is driven by investment in assets with higher capital growth rates relative to POT.
- Benchmarking the portfolio growth against population growth (0.8% p.a.) and a long run inflation assumption (2% p.a.) shows all scenarios grow the real portfolio value per capita over time.

Net asset value FY24-FY36 in $m (nominal)



*Population growth (source: StatsNZ) + 2% long run inflation assumption
Graph source: Cameron Partners model

Key considerations

- The status quo shows net asset values increasing by $1.7bn between FY24 and FY36, at growth rate of 5.0% p.a.
- Under the sell-down scenarios, portfolio value growth is greater given increased exposure to assets with higher capital gains. The 25.1% sell down scenario shows a growth rate of 5.9% p.a. with additional net assets of $450m by FY36 (relative to the status quo).
- The portfolios under both sell-down scenarios are less concentrated in POT shares, providing a greater ability to capitalise the growth relative to the status quo.
- The growth in non-port assets is, arguably, more impactful that the growth in port assets, given the additional liquidity associated with the non-port assets, which is more pronounced under the Sell Down scenarios.
- Page 31 highlighted that there is limited additional cash flow into QHL under the different scenarios. The greatest benefit from divestment will come from unlocking higher capital growth, and the capital gains associated with this growth.

Further work: Review the above in light of revised SIPO / asset use / reinvestment assumptions.

BOPRC would retain strong negative control under both Sell Down scenarios

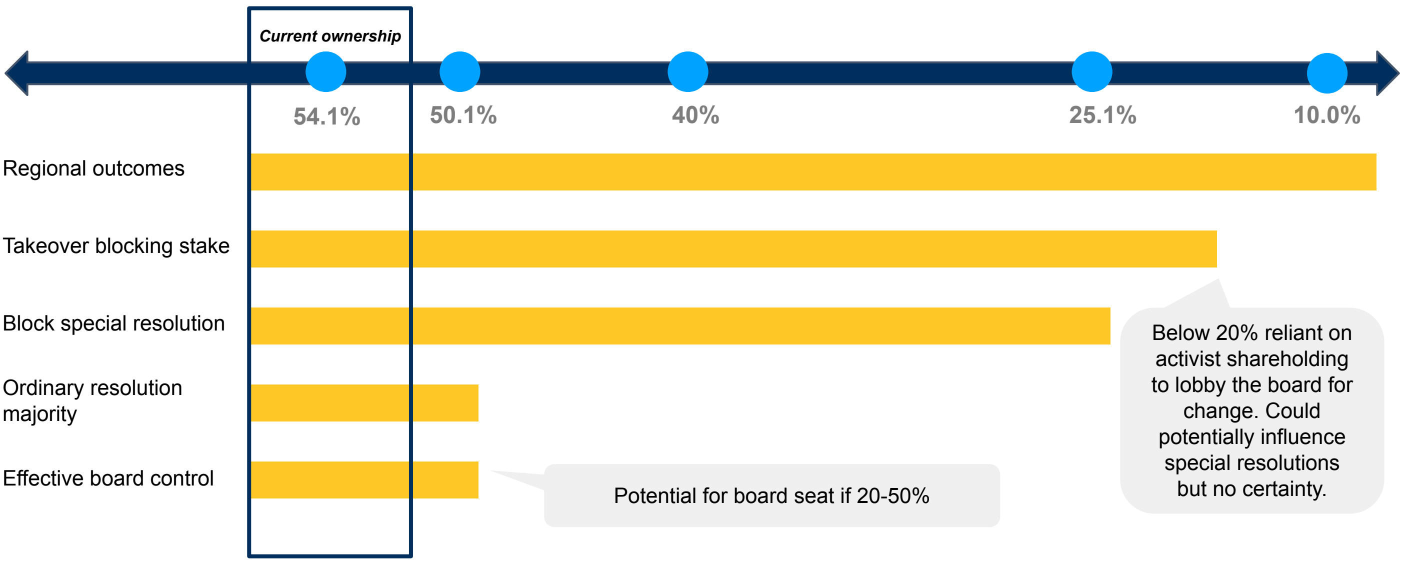
As outlined on pages 17-19, BOPRC is unlikely to require its majority ownership to achieve the strategic imperatives is it looking for from POT. This page explores different ownership amounts and what that means in terms of control and achievement of these outcomes.

What does 54.1% ownership mean?

QHL currently holds 54.1% of shares in POT, this allows for:

- Up to two board positions (on a board of 6 minimum and 9 maximum).
- Ability to appoint directors (ordinary resolution of shareholders). This provides effective board control. Nevertheless, the interests of other shareholders must be considered.
- Can pass any ordinary resolution (e.g. sell non-core assets, capital structure, strategy, CEO appointments).
- While the above provides QHL / BOPRC with control over POT, operational control has not, historically, been exercised by BOPRC or QHL. Instead, decisions have been left to qualified governance and management. The QHL shareholding, in itself, has not influenced the outcomes the port has achieved.

How does control change with differing shareholdings?



- As soon as the shareholding drops below 50% the ‘pure’ control mechanisms disappear. However, as noted above, these have not historically been used to drive operational outcomes.
- Regional outcomes unlikely to be impacted by shareholding. Control / influence in some areas is retained through BOPRC’s regulatory function (i.e. environmental impacts, consenting and land use).
- **Board representation**: Shareholding of between 20-50% may result in a board seat, strong influence and control (especially at the upper end of this) and block a special resolution.
- **Takeover protection**: >50% can block full and partial takeovers. 25-50% can block full takeover (20%) and scheme of arrangement. 10% stake or more can block full takeover.

08
Appendix

Key Model Return Assumptions

SIPO return targets

Asset class	SIPO return assumption *(yield + capital)*	Benchmark index (ETF)	Historical returns last 4y (~2020+)	Historical returns last 10y	Risk of the return
POT	5.7% *(2.7% + 3%)*	N/a	-5.1% *(-7.1% + 2%)*	9.2% *(6.6% + 2.6%)*	
NZ equites	10% *(4% + 6%)*	NZX 50	-1.1% *(-2.7% + 1.6%)*	8.1% *(5.2% + 2.9%)*	Risk of underperformance
Australian equities	7% *(3% + 4%)*	AU 200	4.2% *(0.1% + 4.1%)*	6.2% *(1.4% + 4.8%)*	Risk of underperformance
International equities	7.6% *(1.5% + 6.1%)*	MSCI world	7.8% *(6.4% + 1.4%)*	10.1% *(8.3% + 1.8%)*	Balanced risks
Listed bonds	6.7% *(6.7% + 0%)*	NZ corporate bonds	-0.3% *(-2.1% + 1.8%)*	1.7%* *(-0.6% + 2.3%)*	Balanced risks given current yields
Private debt	5% *(5% + 0%)*	Capital losses for bonds and debt can be mitigated by holding to maturity Potential upside			
Real estate	5.5% *(3.5% + 2%)*	NZ property ETF	-5.4% *(-7.9% + 2.5%)*	3.4%* *(0% + 3.4%)*	Risk of underperformance
Real estate development	15% *(0% + 15%)*	Returns driven by capital gain and long-term investment horizon Potential for high returns but likely illiquid asset with low dividend - balanced risks			
Infrastructure	7% (4% + 3%)	Limited available data - returns driven by capital gain Potential upside			
Natural resources	7% *(5% + 2%)*	Limited available data Balanced risks			
Managed private equity	16.1% *(3.6% + 12.5%)*	Limited available data - returns driven by capital gain Potential for high returns but likely illiquid asset - balanced risks			
Venture capital	18.7% *(0% + 18.7%)*	Returns driven by capital gain and long-term investment horizon Potential for high returns but likely illiquid asset - balanced risks			

QHL return assumptions (current and pipeline, NAV greater than $20m)

Asset class	SIPO return assumption *Yield + capital)*	Model assumptions**	Risk of the return
Private equity (managed)	16.1% *(3.6% + 12.5%)*	15.7% IRR *(13.6% cash yielding)*	High risk from cash yield underperforming due to liquidity
Private equity (direct)	16.1% *(3.6% + 12.5%)*	8.7% IRR	Potential upside
Venture capital	18.7% *(0% + 18.7%)*	7.6% IRR	Potential upside
Real estate	5.5% *(3.5% + 2%)*	2% distribution and 2% asset growth	Balanced risks

SIPO asset category outperforms PoT assumption by more than 2%.

* ETF index does not have the full period of data broken down by dividend and capital gains.
**PE funds are cash yielding using percentage distribution; Total returns generated from IRR

Forecasted portfolio summary

Status quo	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
POT	1,935	1,993	2,053	2,114	2,178	2,243	2,310	2,380	2,451	2,524	2,600	2,678	2,759
Listed equities	187	196	206	219	228	232	262	289	311	334	366	407	445
PE	145	155	172	186	207	233	327	362	393	439	482	525	575
Real estate	190	183	175	191	192	215	135	139	152	167	169	172	179
Alternatives	-	-	-	-	-	-	-	-	-	-	-	-	-
C&CE	15	25	32	43	58	74	79	84	94	98	114	131	149
Gross value	2,472	2,553	2,638	2,754	2,863	2,998	3,114	3,253	3,402	3,561	3,732	3,913	4,106
Debt	(331)	(347)	(283)	(283)	(281)	(274)	(274)	(274)	(274)	(274)	(274)	(274)	(274)
Net value	2,141	2,206	2,355	2,471	2,582	2,724	2,839	2,979	3,128	3,287	3,457	3,639	3,832

40.0%	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
POT	1,935	1,472	1,516	1,562	1,608	1,657	1,706	1,758	1,810	1,865	1,921	1,978	2,038
Listed equities	187	279	290	322	374	384	438	470	506	545	587	632	679
PE	145	155	225	312	391	441	515	569	621	678	742	813	895
Real estate	190	183	220	260	284	308	216	224	234	245	256	268	279
Alternatives	-	-	-	-	-	-	-	-	-	-	-	-	-
C&CE	15	321	243	158	76	92	135	144	157	172	188	205	221
Gross value	2,472	2,410	2,494	2,614	2,734	2,882	3,011	3,164	3,328	3,505	3,693	3,895	4,111
Debt	(331)	(147)	(83)	(83)	(81)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)
Net value	2,141	2,263	2,411	2,531	2,653	2,808	2,937	3,090	3,254	3,431	3,619	3,821	4,037

25.1%	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34	FY35	FY36
POT	1,935	924	951	980	1,009	1,040	1,071	1,103	1,136	1,170	1,205	1,241	1,279
Listed equities	187	407	508	603	653	667	728	763	810	853	905	957	1,014
PE	145	155	193	375	568	641	736	815	897	985	1,086	1,197	1,326
Real estate	190	183	270	328	395	424	339	348	360	370	383	396	410
Alternatives	-	-	-	-	-	-	-	-	-	-	-	-	-
C&CE	15	797	624	381	170	187	231	249	259	283	295	315	326
Gross value	2,472	2,467	2,546	2,666	2,796	2,959	3,105	3,277	3,462	3,661	3,875	4,106	4,355
Debt	(331)	(147)	(83)	(83)	(81)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)
Net value	2,141	2,319	2,463	2,583	2,714	2,885	3,031	3,203	3,388	3,587	3,801	4,032	4,281

Limitations

The Divestment Case has been prepared over a short timeframe. It is relatively high level in nature and based on a range of assumptions that will be validated through further due diligence prior to decision making through the adoption of the LTP in June 2024.

Financial modelling and assumptions: The financial inputs in the Divestment Case have been taken from the financial model developed for QHL by Cameron Partners. Bay of Plenty Regional Council (BOPRC or the Council) has reviewed of the Financial Model, with a focus on aligning key assumptions to those being used for the Draft 2024-34 LTP. Cameron Partners has progressed work since the presentation of their full report to Council (which were preliminary and subject to change) and providing the financial inputs into this report. Accordingly, the figures in this report may not align to those in the latest Cameron Partners report.

We understand that critical assumptions in the Financial Model reflect the current QHL Statement of Investment Policy and Objectives (SIPO), such as the target investment returns, as well as direct inputs provided by QHL and its advisors (e.g. returns for Rangiuru Business Park, committed private equity). These assumptions do not necessarily reflect actual market performance; and no allowance for the volatility of returns has been made.

Dividend Policy: The Financial Model assumes that under all scenarios, the dividend from QHL to Council is calculated in accordance with the current QHL Dividend Policy. However, as discussed later in the Divestment Case, it is recommended that a detailed review of the Dividend Policy is undertaken if the Council decides to sell-down a portion of its POT shares, which could change the financial analysis.

Sensitivity analysis: No sensitivity analysis has been prepared to support the Divestment Case at this stage. We recommend completing this prior to final decision making through adoption of the LTP in June 2024 to ensure that the downside risks are properly understood and mitigated where possible.

Re-investment: For the purposes of this high level Divestment Case, sale proceeds are assumed to be reinvested by QHL in accordance with its SIPO over a three-year transition period, less the $200m required to repay the Perpetual Preference Shares (PPS). During the transition period, proceeds are assumed to be invested in fixed income instruments such as bonds (80%) and international equities (20%). The use of the sale proceeds will be determined through future work, which may include repaying outstanding Council debt, funding regional infrastructure (such as Rangiuru Business Park), or establishing a new regional investment fund, noting that the use of proceeds and reinvestment approach will be a key determinant of forecast financial returns.

Emerging preferred option: The Divestment Case assesses a range of divestment options against the status quo (i.e. no divestment) to determine the scenario included in the consultation material for the Draft 2024-34 LTP. The emerging preferred option is subject to further validation and due diligence. This should include a detailed review of the Group's tax structure, underlying assumptions, sensitivity / scenario analysis focusing on the 'downside' risks, and updates required to key Council and QHL policies (e.g. QHL's SIPO and Dividend Policy).