Christchurch
City Holdings
Limited

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9 February 2024

Release of CCHL Strategic Review materials

CCHL has publicly releasing its response to various Official Information requests received in relation to material generated during the Strategic Review. This material has been published on CCHL's website.

Parts of the Strategic Review information has been withheld under section (2)(h) of the LGOIMA to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities and section (2)(a) of the LGOIMA to protect the privacy of natural persons, including that of deceased natural persons. This is shown as redactions throughout the various documents.

The Strategic Review provided valuable clarity on the role and performance of CCHL and its subsidiary companies, with a strong focus on how CCHL could deliver more value to the ratepayers of Christchurch. This was a comprehensive review, supported by independent external advisors, that provided clarity on the challenge ahead for CCHL, and for Council and Christchurch ratepayers as our shareholders. Importantly, the review confirmed that the case for a change in approach from CCHL was clear, if it was to meet the investment objectives identified by Council in developing their Value Strategy, successfully navigate a more challenging external operating environment and changing societal expectations and provide access to the capital required by CCHL and its subsidiaries.

At a minimum this includes a clear need to lift financial performance across the Group, in both total shareholder returns, and the income provided to CCHL, which supports higher dividends to Council. At a strategic level, CCHL is also not alone in understanding the need for an evolved approach to infrastructure ownership and investment, with a particular focus on building a portfolio of resilient infrastructure assets and services.

The information provided in this release confirms CCHL's recommendation was to adopt an Active Portfolio Manager mandate, a key attribute of which was the flexibility needed to address the complex and multi-dimensional challenges outlined above. This included consideration of avenues that could have attracted external capital and strategic co-investment, for the purpose of enabling investment where required and in a timely manner, including in new asset classes. These were options Council required us to consider in undertaking this review.

In return for flexibility the Strategic Review rightly noted that Council, and ratepayers, should reasonably expect greater certainty of outcome in return. The proposal was to continue growing the city's portfolio of assets, increasing dividends to Council by $450 million over the next decade through the strategic pivot to a distribution rule. This would have allowed Council to focus on the things that matter most to them, with its commercial arm having the capacity to manage all of the volatility attached to investment returns.

On 13 December 2023, Council voted not to consult the public on the recommendation it sought from CCHL following the Strategic Review and instructed it to immediately cease any further work.

Following Council's decision, CCHL is now working closely with subsidiary companies to improve their financial performance and dividend flow to Council. The challenges the Strategic Review identified in meeting our long-term obligations as a responsible owner of these existing assets remain. If we do not have the flexibility to access the capital invested across the portfolio then we must build flexibility through a more active approach to managing our operating businesses.

Through a combination of a stronger focus on core operating performance and tighter capital controls we have projections to generate an additional $220 million in income from the city's assets over the next decade. This will require difficult decisions to be made along the way, but Council and CCHL now have clarity around the nature of those challenges and decisions if we are to lift that financial performance across the Group, secure capital for investment into our companies' growth and begin to pay down high levels of debt.

The cost of CCHL's Strategic Review is currently $1.3 million. This includes the independent review of Orion, CIAL, LPC and Enable, the CCHL Portfolio Review, the options development and evaluation work programme, the detailed financial modelling, and legal advice supporting the development of the preferred option. A provision of $200k has also been made to accommodate costs incurred prior to and as a consequence of Council's decision on 13 December. These costs are in line with the Strategic Review budget approved by the CCHL Board.

CCHL also incurred costs of $187k directly related to supporting Council in the development of its value strategy. This does not include CCHL staff costs.

Christchurch City Council spent a further $562,000 on its own advice and reports.

STRATEGIC REVIEW DOCUMENTATION FOR RELEASE

Document Number	Associated Documents	Redactions
Councillor Workshops		
DOCUMENT 1	Values Strategy Session – 24 March 2023	***(Refer redaction notes 2)***
DOCUMENT 2	Enable Investment Review Workshop – 4 August 2023	***(Refer redaction notes 1 & 2)***
DOCUMENT 3	Orion Investment Review Workshop – 7 August 2023	
DOCUMENT 4	LPC Investment Review Workshop – 11 August 2023	
DOCUMENT 5	CIAL Investment Review Workshop – 15 August 2023	
DOCUMENT 6	Portfolio Options Workshop – 29 August 2023	***(Refer redaction notes 2)***
DOCUMENT 7	Value Strategy Workshop – 5 September 2023	
DOCUMENT 8	Objectives Development Workshop – 12 September 2023	***(Refer redactions notes 2 & 3)***
DOCUMENT 9	Inflation Workshop – 19 September 2023	***(Refer redaction notes 2)***
DOCUMENT 10	CCHL Option Workshop – 24 October 2023	
DOCUMENT 11	Councillor Discussion – 29 November 2023	
DOCUMENT 12	Strategic Review Summary workshop – 12 December 2023	
Presentation to CCHL Board		
DOCUMENT 13	Stakeholder Engagement and Strategic Communications Update and Presentation to CCHL Board – 13 September 2023	***(Refer redaction notes 2)***
Correspondence		
DOCUMENT 14	Letter to Mayor Mauger & Mary Richardson re CCHL Strategic Review recommendation – 4 December 2023	
DOCUMENT 15	Letter from Mayor Mauger to Paul Silk notifying outcome of Council decision – 13 December 2023	

NOTES / ADDITIONAL INFORMATION

Redaction Notes:

1. Release of full subsidiary investment reviews is refused under LGOIMA (2)(h) *to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.*
2. Portions of the Subsidiary Investment Review presentations and other presentations to Council have been redacted under LGOIMA (2)(h) *to enable any local authority holding the information to carry out, without prejudice or disadvantage, commercial activities.*
3. Redactions have also been made under LGOIMA (2)(a) *to protect the privacy of natural persons, including that of deceased natural persons.*

Meeting notes

4. Meeting notes were only taken to inform presentations – the final presentations are included in this pack with redactions provided for in note 2 above.

DOCUMENT 1

Christchurch City Holdings Limited

Strategic Review
Values Strategy Session

24 March 2023

Financial Capital
Governance Capital
Human Capital
Infrastructure Capital
Social Capital
Natural Capital

Strategic Review: What were we asked?

Christchurch City Holdings Limited

Direction to CCHL :

- In response to the Values Strategy, informed by Council's long-term requirements, and
- Working closely with Council

We are to;

- Scope and develop a Detailed Business Case (DBC);
- Which fully considers the costs and benefits of adopting a hybrid approach to managing the portfolio;
- Include a spectrum of options including rebalancing within the portfolio and/or returning capital to Council.

In line with the recommendations of the Northington Report CCHL will;

- Evaluate each asset a spectrum of options
- Identify the optimal investment strategy considering CCC's requirements, co-investment opportunities and the outcome of broad stakeholder consultation

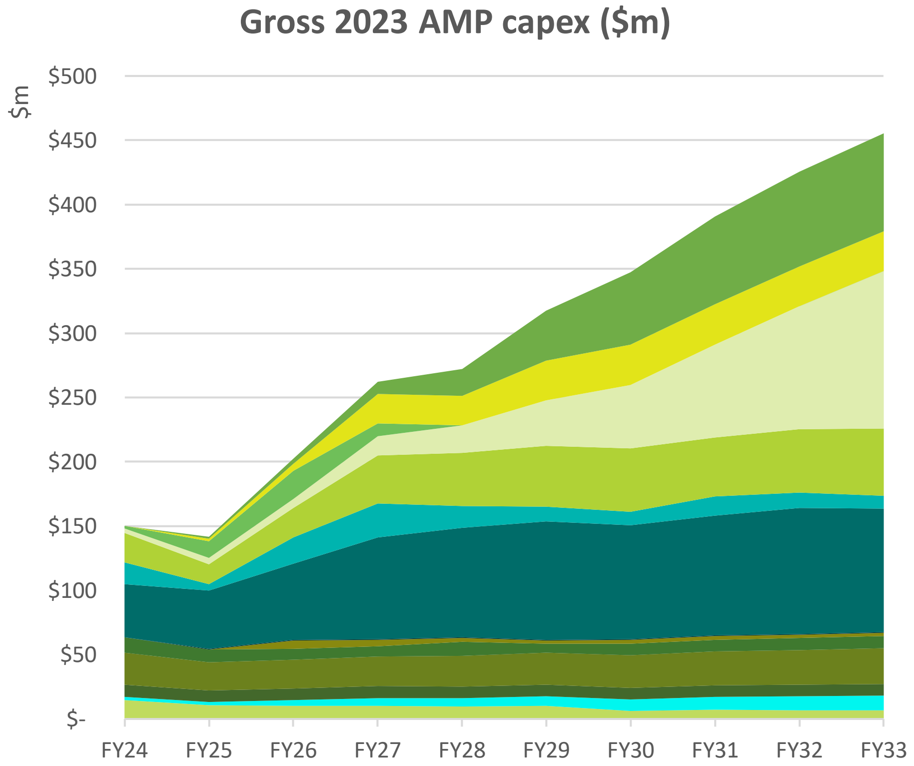
Strategic Review: What are we doing?

Work Programme	When
Getting Started - Principal Business Case Advisor - Investment Advisor(s) – Scoping Studies	Underway
Phase 1: Strategic Context - Mandate – work programme & approvals - Problem Definition and Opportunity Statement - Establish Investment Objectives (Values Strategy) - Strategic Assessment (CCHL ability to respond)	March – May 2023
Phase 1a: Investment Reviews - Establish Data Room –engage subsidiaries - CCHL Portfolio Review – benchmarking and value add options - Entity Reviews – (scoping studies) - Sector Reviews – (scoping studies)	April – June 2023
Phase 2: Options Assessment - Develop and refine Options - Evaluate – Effectiveness (vs Investment Objectives) - Evaluate – Efficiency (cost vs benefit) - Provide Preferred Option(s)	June – July 2023
Phase3: CCHL Business Case - Financial – detailed financial analysis on preferred options - Commercial – are they viable on risk adjusted basis - Management – how do we deliver	July – October 2023
Stakeholders Engagement Plan - Council Management - CCHL Board - Councillors - Key Stakeholders	March 2023 = ongoing
Steering Committee - Agreed Scope - Reporting Requirements - Assurance Mechanism	March 2023 = ongoing

What have we heard – Orion

Christchurch City Holdings Limited

Orion



Orion - 2023 final SOI	31 Mar 24	31 Mar 25	31 Mar 26	31 Mar 27
NPAT	19,080	21,190	30,552	28,492
Dividend to CCHL	22,319	22,319	22,319	22,319
Dividend payout ratio	117%	105%	73%	78%

Orion - 2024 draft SOI	31 Mar 24	31 Mar 25	31 Mar 26	31 Mar 27	31 Mar 28
NPAT	16,245	18,102	23,365	37,555	51,541
Dividend to CCHL	15,177	13,391	13,391	18,748	24,551
Dividend payout ratio	93%	74%	57%	50%	48%

- Our portfolio design provides for a long a duration asset with steady returns = a yield play
- Mega trends are driving a pivot from yield to growth = capital intensive play
- CCHL can support this IF we understand the takeout (regulated returns) and when (10/20/30 year investment horizon)

	Actual FY22	Forecast FY23	Forecast FY24	Forecast FY25	Forecast FY26	Forecast FY27	Forecast FY25	Forecast FY28
Orion - Capex	85	107	164	141	211	279	141	297

What have we heard – Enable

[redacted]

Enable - 2023 final SOI	30 Jun 24	30 Jun 25	30 Jun 26
NPAT	25,982	29,702	31,238
Dividend to CCHL	27,000	35,000	25,000
Dividend payout ratio	104%	118%	80%

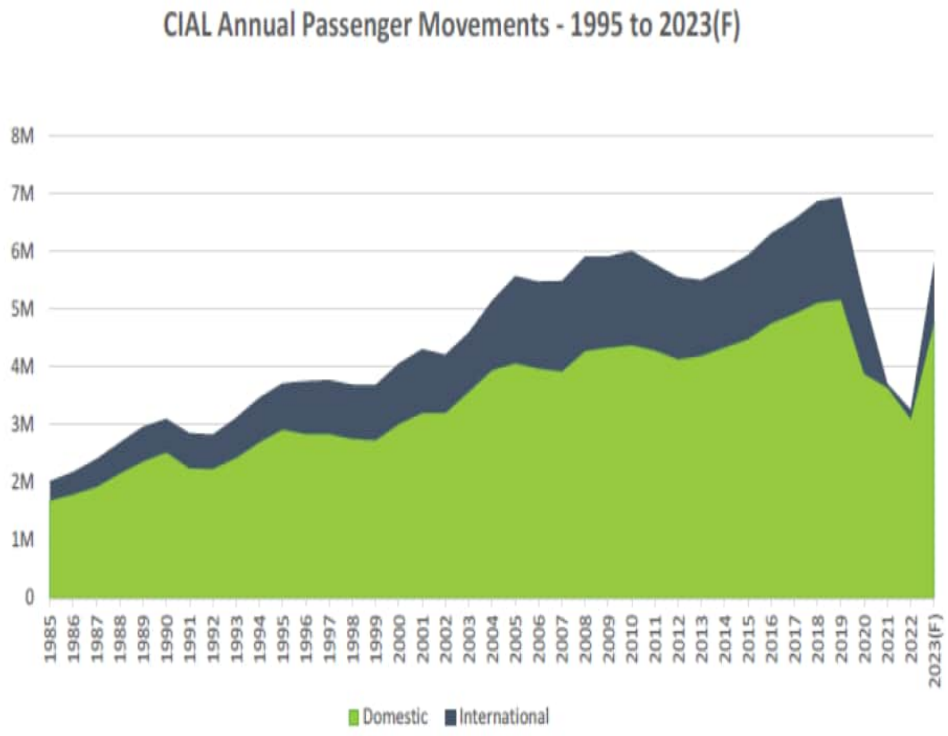
Enable - 2024 draft SOI	30 Jun 24	30 Jun 25	30 Jun 26
NPAT	27,952	29,418	32,347
Dividend to CCHL	20,000	25,000	20,000
Dividend payout ratio	72%	85%	62%

- The network build-out is approaching peak maturity
- Business case assumption of steady state operating profit are being challenged
- Risk of accelerated asset obsolescence is low, but not zero

	Actual FY22	Forecast FY23	Forecast FY24	Forecast FY25	Forecast FY26	Forecast FY27	Forecast FY25	Forecast FY28
Enable - Capex	36	41	37	31	28	23	31	24

What have we heard – CIAL

Christchurch City Holdings Limited



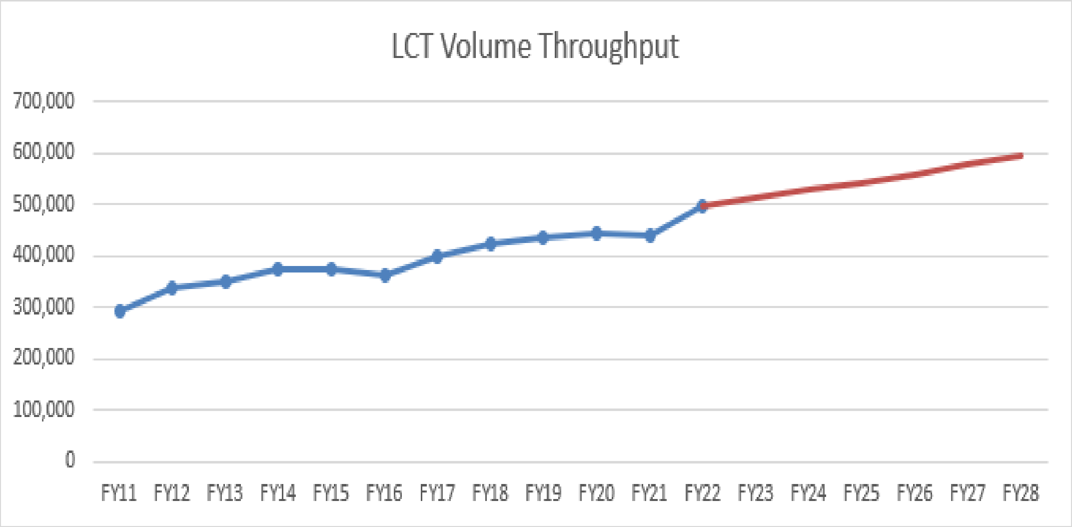
CIAL - 2023 final SOI	30 Jun 24	30 Jun 25
NPAT	42,392	49,077
Dividend to CCHL	23,025	30,900
Dividend payout ratio	54%	63%

CIAL - 2024 draft SOI	30 Jun 24	30 Jun 25	30 Jun 26
NPAT	39,854	45,198	49,195
Dividend to CCHL	23,389	28,718	31,856
Dividend payout ratio	59%	64%	65%

- Full recovery to pre-pandemic levels by 2025 is a positive
- But still leaves a 5 year period of lost opportunity and drag on returns that are never fully recovered.
- Diversification is important for CIAL as a land-holder and financial sustainability
- But adds to the concentration risk identified in the NR as a problem to consider.

	Actual FY22	Forecast FY23	Forecast FY24	Forecast FY25	Forecast FY26	Forecast FY27	Forecast FY25	Forecast FY28
CIAL - Capex	28	57	61	65	61	n/a	65	n/a

What we have heard – LPC



LPC- 2023 final SOI	30 Jun 24	30 Jun 25
NPAT	27,897	29,507
Dividend to CCHL	11,639	14,214
Dividend payout ratio	42%	48%

LPC - 2024 draft SOI	30 Jun 24	30 Jun 25	30 Jun 26
NPAT	23,747	25,466	26,883
Dividend to CCHL	10,000	10,000	10,000
Dividend payout ratio	42%	39%	37%

1. Despite projected growth in throughput and return of Cruise ships lower container volumes impacting
2. Decline in NPAT also reflecting macro-economic impacts and anticipated wage growth due to Union negotiations
3. Dividends held flat at $10m driving decline in dividend payout ratio
4. Note however minimal forecast excess cash held throughout the SOI period as emphasis switches to debt reduction

	Actual FY22	Forecast FY23	Forecast FY24	Forecast FY25	Forecast FY26	Forecast FY27	Forecast FY25	Forecast FY28
LPC - Capex	47	102	28	31	32	35	31	38

Christchurch City Holdings Limited

What we have heard – Citycare

Continuous improvement is becoming a theme

Income Statement	FY22 $000s Budget	FY23 $000s Forecast	FY24 $000s Forecast	FY25 $000s Forecast
Revenue	181,740	181,471	182,097	196,925
EBIT	5,481	4,367	5,247	7,279
ROIC	19.2%	15.3%	18.4%	25.5%

Citycare - 2023 final SOI	30 Jun 24	30 Jun 25
NPAT	7,178	10,074
Dividend to CCHL	3,385	3,707
Dividend payout ratio	47%	37%

Citycare - 2024 draft SOI	30 Jun 24	30 Jun 25	30 Jun 26
NPAT	11,979	15,590	15,584
Dividend to CCHL	-	3,867	7,013
Dividend payout ratio	0%	25%	45%

- Improved performance due to Spencer Henshaw acquisition in September 2022
- CCHL agreed no dividends until Citycare debt to CCHL is below acceptable level - nil dividends in FY23 and FY24
- Return to paying dividends in FY25 (but not a full year dividend), one year earlier than initially forecast

	Actual FY22	Forecast FY23	Forecast FY24	Forecast FY25	Forecast FY26	Forecast FY27	Forecast FY25	Forecast FY28
Citycare - Capex	6	14	9	8	n/a	n/a	8	n/a

Strategic Review: Key Issues – Income Pressures

Christchurch City Holdings Limited

Group	2023 SOI	2024 SOI	2023 SOI	2024 SOI	2024 SOI
	FY24		FY25		FY26
Net profit after tax ($m)	94	87	112	101	120
Net debt/net debt plus equity (%)	50%	48%	50%	48%	49%
Interest cover (times)	2.6	2.1	2.8	2.3	2.4
Return on equity (%)	4.1%	3.4%	4.8%	3.9%	4.6%
Return on assets (%)	n/a	1.5%	n/a	1.7%	2.0%
Shareholders' funds/total assets (%)	43%	45%	43%	44%	44%

Economic headwinds creating downward revisions to NPAT forecasts

Parent	2023 SOI	2024 SOI	2023 SOI	2024 SOI	2024 SOI
	FY24		FY25		FY26
Shareholder returns					
Dividends ($m)	50.7	50.7	57.2	57.2	51.1
Dividend yield (%)	2.0%	1.9%	2.3%	2.1%	1.9%
Return on equity (%)	2.3%	1.2%	3.0%	1.7%	1.9%
Return on assets (%)	n/a	0.8%	n/a	1.1%	1.3%
Shareholders' funds/total assets (%)	69%	67%	69%	67%	67%
Profitability/efficiency					
Net profit after tax ($m)	57	34	76	46	52
Return on invested capital (%)	2.2%	1.5%	2.7%	1.8%	1.9%
Leverage/solvency					
Debt to EBITDA (times)	13.6	21.4	10.9	17.9	17.3
Net gearing (%)	30%	33%	30%	33%	32%
Interest cover (times)	2.3	1.6	2.9	1.8	2.0
Growth					
Revenue growth (%)	107%	85%	121%	118%	102%
Dividends					
Committed dividend to Council	51	51	57	57	51
Dividend pay-out ratio	89%	151%	75%	124%	98%

CCHL can maintain projected dividends

This is standing still, at best

But we might not get that income

Which creates pressures

And might not be prudent

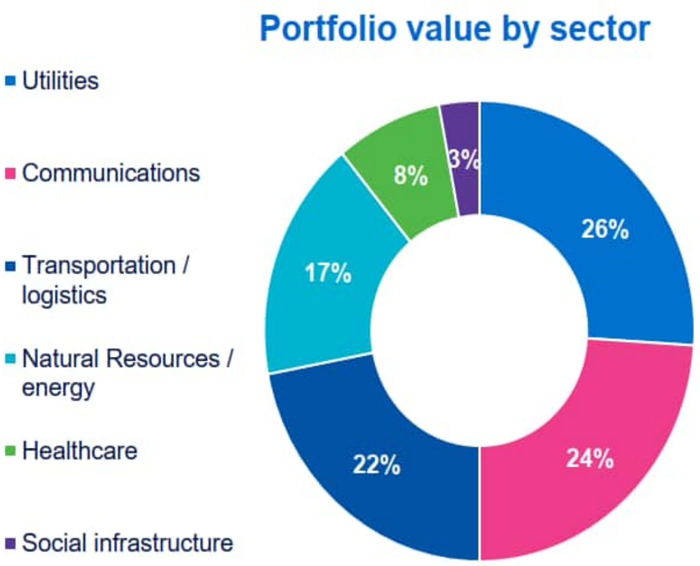
Strategic Review: Future State ?

Christchurch City Holdings Limited

Infrastructure Portfolio Investment Thesis

- Asset intensive, resilient companies
- Asset bases that are hard to replicate
- Providing essential services
- Established market positions
- Good visibility of future cash flows
- Acceptable element of demand or market risk
- Opportunities for further growth

Reference Portfolio – fully diversified



Portfolio value including commitments

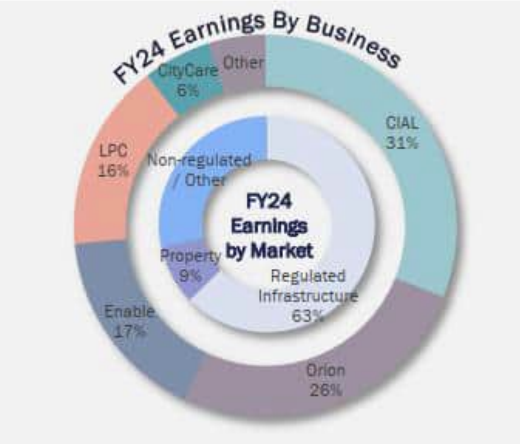
£3.2bn

Asset IRR to 31 March 2022

19%

Since inception

CCHL Portfolio



Christchurch City Holdings Limited

DOCUMENT 2

STRATEGIC REVIEW

We will understand what the CCC and the Subs needs are.
Therefore we need to think about the Portfolio options.

30 years since we looked at CCHL's purpose.

Dec 2022 Strategic Review shows Council CCHL is significantly under utilised community asset.

CCHL commence DBC to consider the positives and negatives of **'a more active approach.'***

7 Dec 2022 Council votes to Investigate a shift from a passive to an active management approach to deliver community outcomes.

CCHL progress DBC utilising the Council's Draft Strategic Framework as placeholder ahead of receiving the Values Strategy.

Council to develop a Value Strategy to guide DBC process
How Council want to build & utilise value from CCHL to create better community outcomes.

Introduction
CCHL led, Prepares Council to go through DBC process; **problem definition is clear.**

Council Workshops x 4
4-15 Aug
Presenting findings from DBC part 1.
Investment Reviews of CCHL's subsidiaries **
Expert advice on risks & opportunities.

29 Aug
Portfolio Options educational session on Portfolio Review.
Goes through the options for each asset but considering portfolio as a whole.

Northington led Councillor W/S 22 August
Values Strategy 1 - **Quantitative** guidance on how much % return do they need from the portfolio & timing for when they require $$.
This will impact what CCHL can do, and what options are presented to CCC.

Workshop 12 Sept
DBC Part 2. Long list of Options***
Responds to Councillors requirements as stated through their values strategy.

Northington led Councillor W/S 5 September
Values Strategy 2 - **Qualitative** guidance what council is comfortable with in regard to each asset what are the Councillors bottom lines.
This will impact the decisions that CCHL can make about the portfolio.

Workshop 19 Sept
Short list of options.

LTP draft - what needs to be included?

Workshop 10 Oct
DBC Part 2d. Informed option selection
Council vote on best way to utilise CCHL.

Decision Point

Consultation on LTP opens, Cantabrian's have their say.

Delivering the preferred option: Further detail about the impact on CCHL.

What is in & out of Strategic Asset register?

Understanding the Strategic Review Pathway
Investigating how CCHL can deliver more for Cantabrians

Investment Review Workshop:
Enable Services Limited

16

016

Context and purpose of this workshop

Background

- Opportunity to revisit the strategy for managing the investment portfolio
- Focus on value creation and approach to more active portfolio management
- In the context of the CCC's and CCHL's evolving financial, community and environmental needs

CCHL process and outcomes by stage

1 Investment Reviews
'Lifting the lid' on each asset, understand its value, risk and role in the portfolio

Councillor workshops
- Provide Councillors a greater understanding of the assets
- Inform Value Strategy by appraising the pros/cons of ongoing public ownership

Not intended to:
- Guide specific asset decisions

Value Strategy
Provide direction on CCC's investment objectives and success factors/constraints

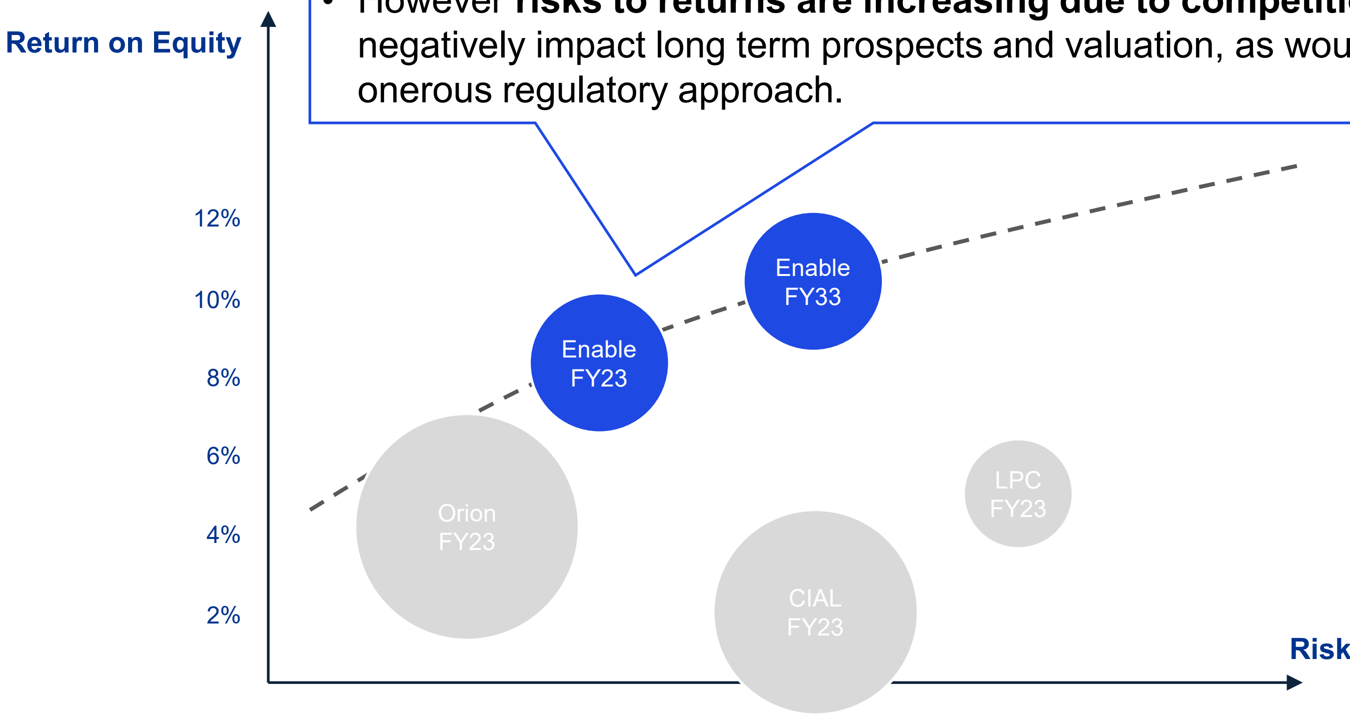
2 Portfolio Review
Evaluate options for the future shape and direction of the portfolio and approach for its management

3 Business Case
Recommend an approach for CCHL to become a more active manager

There will be further Councillor interactions along these steps

Enable offers increasing cash flows but faces growing competition

- The third largest CCHL asset by FY23 equity value, Enable fits within CCHL's portfolio of core infrastructure investments with high-quality assets and varying market risks and growth opportunities.
- It is transitioning from a capital intensive network developer to **cash generating network operator**.
- However **risks to returns are increasing due to competition**, which could negatively impact long term prospects and valuation, as would any more onerous regulatory approach.



Bubble size: FY23 equity valuation

Part one

Description of investment

Enable develops and operates the Ultra-Fast Broadband (UFB) fibre network in and around Christchurch

– Having completed the main network, Enable is **transitioning to an operating phase**

– **Has 151,500 active connections** across Christchurch and surrounding areas

– **94% of assets** by value is the fibre network

– **Main customers are telecom retailers** like One, Spark and 2degrees

– **Customers are also competitors** as they also operate broadband connections through their own network, eg using Fixed Wireless Access

Enable has been funded by CCHL through equity and debt

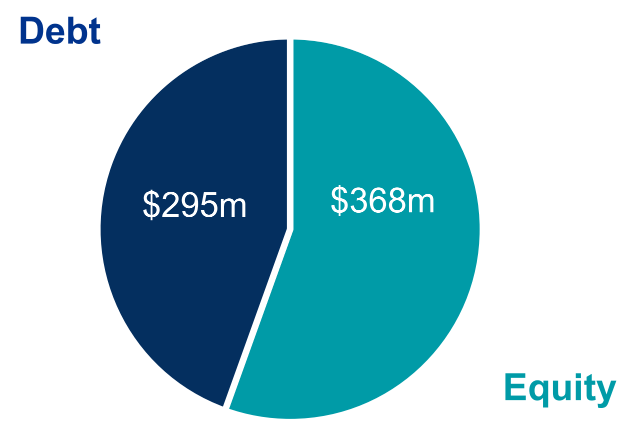
– Enable owes $294m debt to CCHL and $1m to Cisco, a relatively high but affordable amount (FY23 interest: $12m)

– All of $368m equity is owned by CCHL, including $160m of paid redeemable preference shares and $67m ordinary shares, and the balance in revaluation reserve and retained earnings

– In 2021, Enable was envisaged to return $160m to CCHL, which did not occur due to Enable's insufficient financial capacity at that time.

– Enable's current equity valuation is in the range of $540m - $710m

Capital structure, FY23 (book value)



Increasing competition from alternative technologies has altered Enable's risk profile

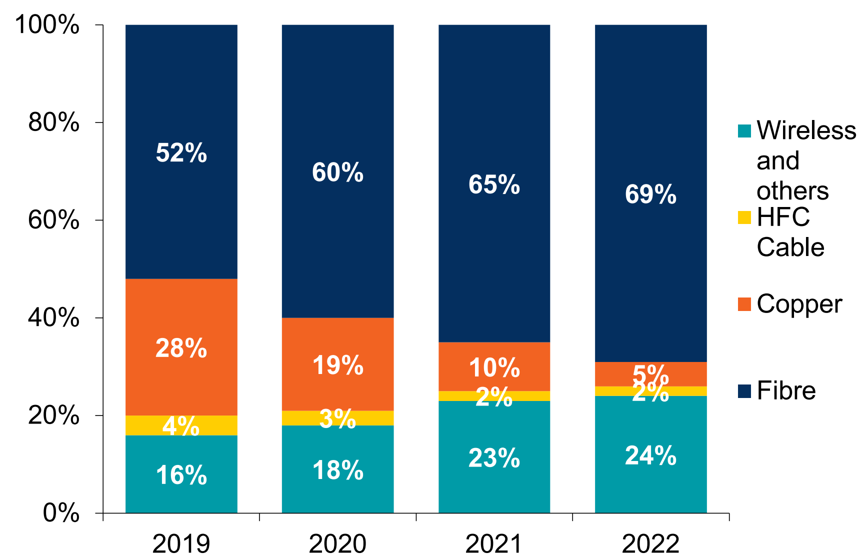
– **Chorus, NorthPower and Tuatahi First Fibre** are the other UFB network providers in NZ. They have only minor overlap with Enable's network, but economies of scale could drive industry consolidation.

– **Fixed Wireless Access** is a key competitor. It is cheaper but cannot offer the speed of fibre. 5G will narrow the 'speed gap' and may offer a suitable quality/price compromise for a wider customer base.

– **Satellite** connectivity (eg Starlink) is more expensive and slower, but will limit how far Enable can economically roll out its network into semi-rural areas.

– One NZ's **HFC** (cable) broadband overlaps with c.80k Enable households.

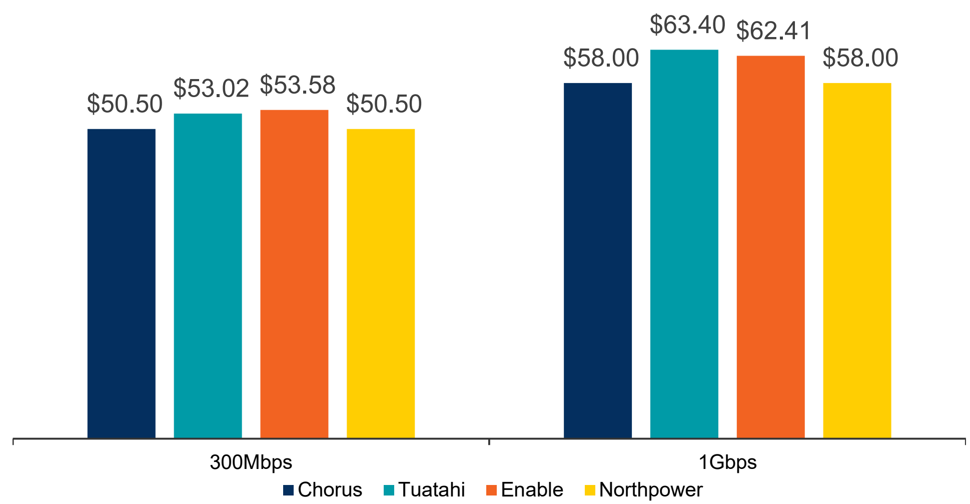
Share of broadband (fibre and others)



Regulation is 'light touch' but constrains Enable's growth opportunities

- **Enable can offer wholesale only fibre service** - cannot sell to end users
- **Must supply access to its network** on an open, equivalent, non-discriminatory basis
- **Restricted** to selling access in Greater Christchurch (may change)
- **Price levels** are linked to Chorus through information disclosure requirements
- The regulatory framework is stable, but adjustments are possible, eg review of critical infrastructure requirements, or introduction of more onerous price-quality regulation.

Wholesale fibre price, $ per month, July 2023



Source: LFC price lists
Note: Chorus refreshes its prices in Oct, others in July (the July 2023 refresh is reflected above)

Part two

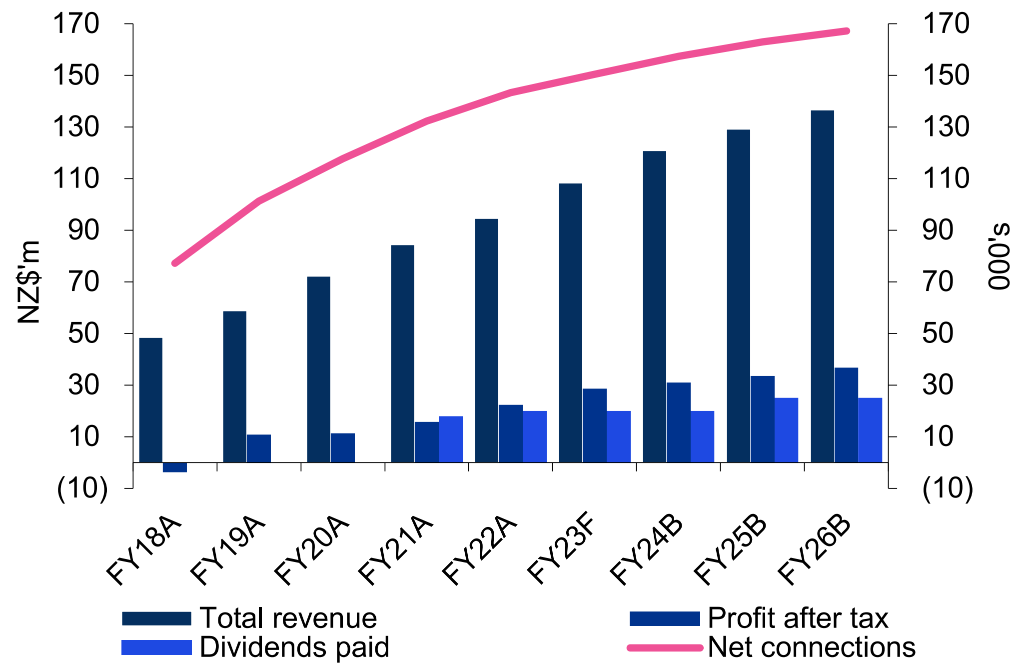
Financial performance

Growing number of connections is currently Enable's key driver of profitability

FY23:

$108million	**Revenue**
$28.6million	**Profit after tax**
$20.0million	**Dividend**

Revenue, Profit, Dividends and Connections



- Increasing connections drive revenue
- Operating cost are largely fixed so increasing revenue translates to higher profitability
- Higher profitability allows increasing distributions to CCHL for dividends and debt repayment

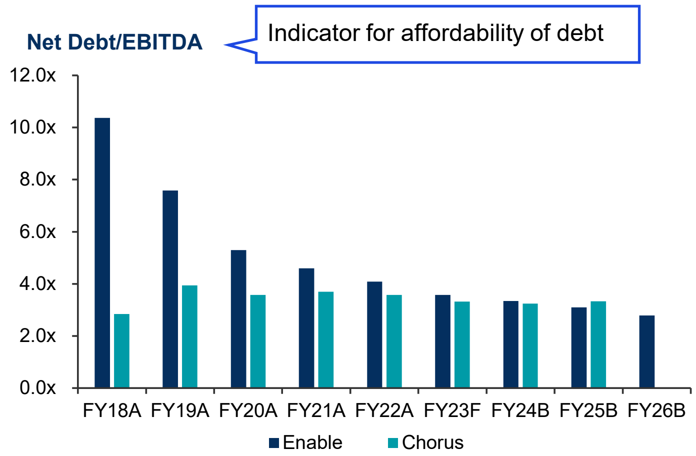
Chorus offers similar profitability and returns to shareholders as Enable

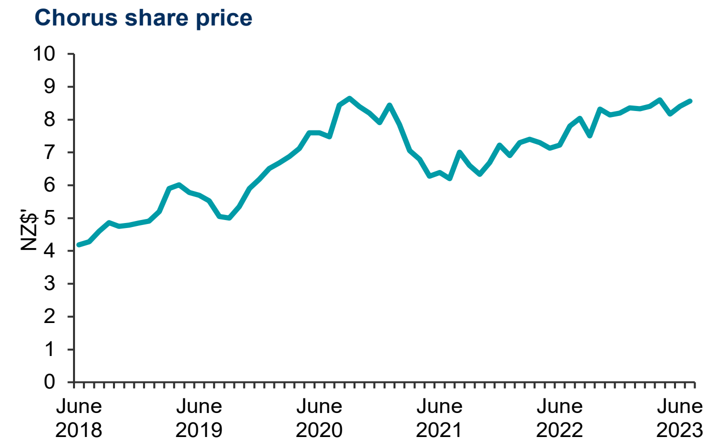
– Enable is difficult to benchmark as only Chorus publishes financial information among its close peers

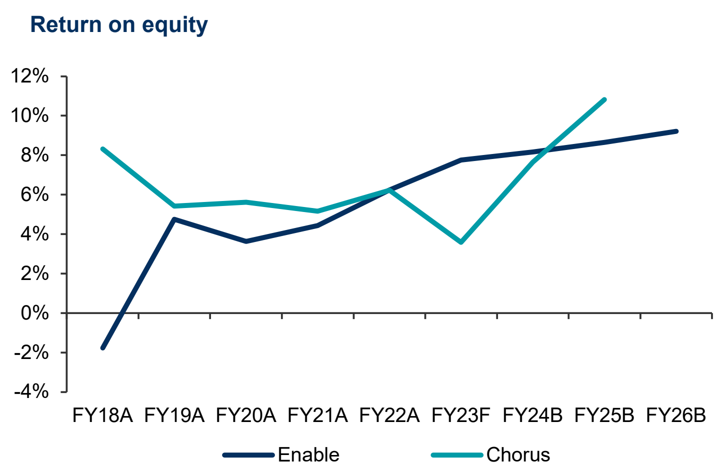
– Enable's profitability, return and debt metrics are comparable to Chorus

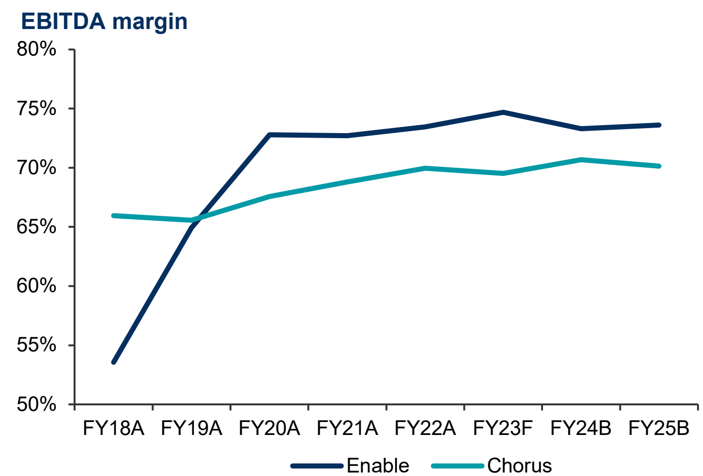
– Chorus' market price has increased with its growing dividends and share buybacks…

– … however analysts are cautious about Chorus' longer term prospects given competitive uncertainty









26 026

Longer term growth is slowing and Enable’s risk profile is changing with increased competition

- As Enable is approaching ‘peak connections’, future revenue growth is more dependent on price increases and retailers’ and consumers’ ongoing willingness to pay

- Increasing profits and returns to CCHL require Enable to ‘defend its turf’ – optimise connections vs price…

- … while competition is increasing, primarily from 5G-based wireless broadband access

[redacted]

27 027

Capital expenditures are expected to taper off over time allowing higher cash distribution to CCHL

[redacted]

- Capex requirements are higher in the next three years as Enable replaces key network components and enhances network capacity.
- Thereafter, capex is expected to decrease - largely relate to the connection of new customers to the network.
- Additional capex may be required to address unplanned new opportunities, or counter competition if extra spend is more economical than a price-led response.

Cash available for distribution to CCHL would increase from ~FY26 under a benign base case …

[redacted]

29 029

…however the balance of risks is to the downside

[redacted]

Part three

Impact assessment

Emission reduction is a key pillar of Enable's sustainability strategy

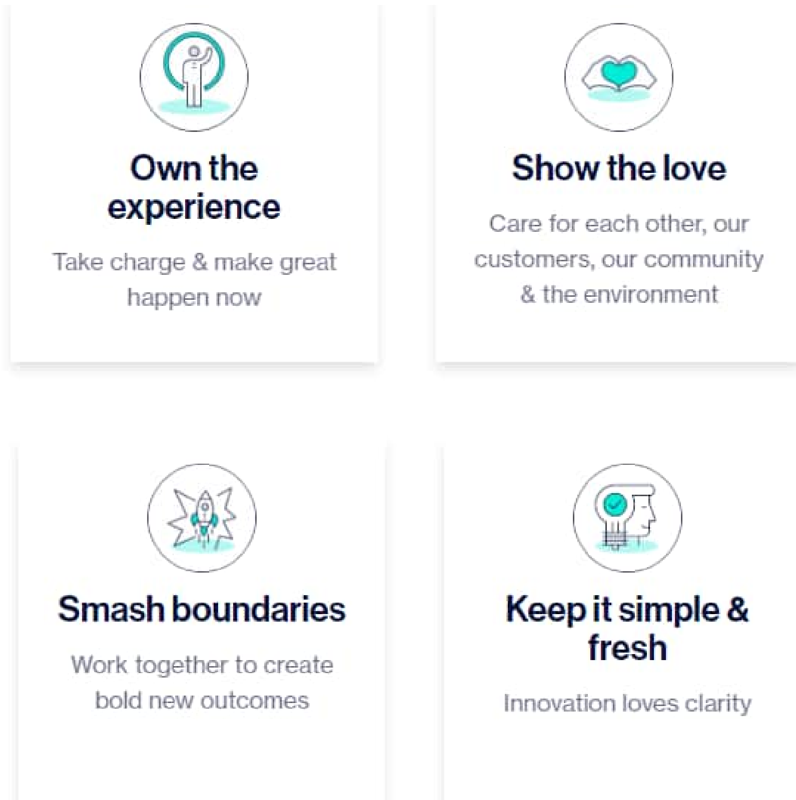
- Enable has a relatively low carbon footprint among the larger CCHL subsidiaries (and underpins CCHL's sustainability bond issue).
- Enable's emission reduction strategy focuses initially on **direct emissions** before expanding improvements to its partners/suppliers.
- **Enable has similar emissions targets to Chorus** and is ahead of Chorus in meeting them
- However, based on budgeted initiatives, Enable is currently behind its own targets due to greater than expected connection growth.

Scope 1 & 2 emission reduction targets

35%	Emissions reduction FY22 -FY25
62%	Emissions reduction FY22 -FY30
100%	Electric fleet by FY25

Other ESG initiatives

- **First CCHL asset to receive Certified B Corporation** status, which indicates a high standard for social and environmental performance
- **Digital equity:** Ensuring everyone has access to the digital world - community partnership with OCHT including installing high speed fibre to 18 community lounges
- **Integrated reporting**: working with CCHL in the transition to an Integrated Reporting Framework and the adoption of the Task Force of Climate-Related Financial Disclosures (TCFD) standards
- **Gender equality**: involved in the CCHL C3 Program of Gender Equality, resulting in the fair remuneration process (including enhanced Parental leave policy 100% for first 26 weeks for primary care giver, and all staff access to professional development)



- **Modern Anti-slavery**: undertakes due diligence to prevent, mitigate and remedy modern slavery and worker exploitation within its stakeholders, partners, and suppliers - this has been a consideration in moving away from a hardware supplier

Part four

Value opportunities & risks

Enable's organic value opportunities are constrained and show relatively low change in profitability

- Enable's value creation opportunities are **constrained by regulation and economic barriers**

- We have assessed **two stretch scenarios** to accelerate upside from planned investments:
  - Greenfield expansion outside of Christchurch brought forward and win rate ramp up accelerated
  - Increased complex revenues from co-location and DFAS (dark fibre)

- These organic scenarios show relatively **immaterial change in profitability.** Synergies through consolidation may offer greater financial upside.

[redacted]

Part five

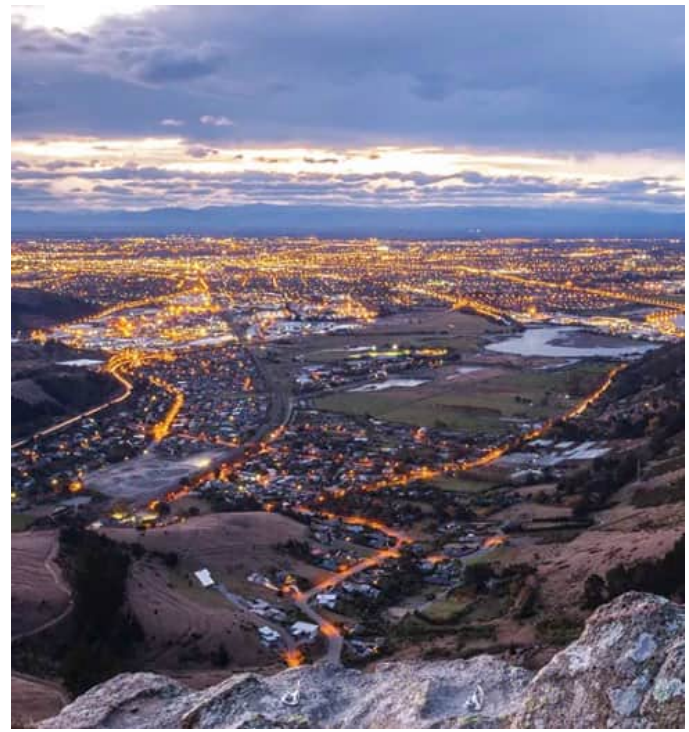
Public ownership considerations

What are the benefits of public ownership

- In the early stages of the network build, public ownership intended to **ensure rapid and high quality network build**
- Enable continues to offer **financial benefit** from increasing returns and capital gains
- However, there is **increasing downside** risk due to competition, which may erode returns and capital value.

What would be different under private ownership

- As the main network build is complete, ownership has limited impact on rollout speed and network quality
- Prices are effectively set by regulation and market competition
- Private ownership will not necessarily change Enable's Impact approach – it has a relatively low carbon footprint and private peers pursue similar ESG initiatives
- Enable's workforce is highly skilled and fair wages are unlikely to be under threat. An alternative owner may bring deeper technical capability, supplier base and corporate resources.



Part six

Summary

Key points from the Investment Review

- Enable has **strong current market position** and well differentiated proposition, but faces emerging competition from alternative technologies
- Has relatively **high but affordable level of debt**
- Returns to CCHL are increasing but Enable's growth potential is limited and there is **value erosion risk as competition weakens Enable's medium / long term market position**
- Enable is therefore **on a defensive footing** to try to minimise risks to its market share
- With the network now established, **public ownership is less likely to provide material community benefits** above private ownership

Investment Review

Orion New Zealand Limited

Christchurch City Holdings Limited

KPMG

mafic

Context and purpose of this workshop

Background

- Opportunity to revisit the strategy for managing the investment portfolio
- Focus on value creation and approach to more active portfolio management
- In the context of the CCC's and CCHL's evolving financial, community and environmental needs

CCHL process and outcomes by stage

1 Investment Reviews
'Lifting the lid' on each asset, understand its value, risk and role in the portfolio

Councillor workshops
- Provide Councillors a greater understanding of the assets
- Inform Value Strategy by appraising the pros/cons of ongoing public ownership

Not intended to:
- Guide specific asset decisions

2 Portfolio Review
Evaluate options for the future shape and direction of the portfolio and approach for its management

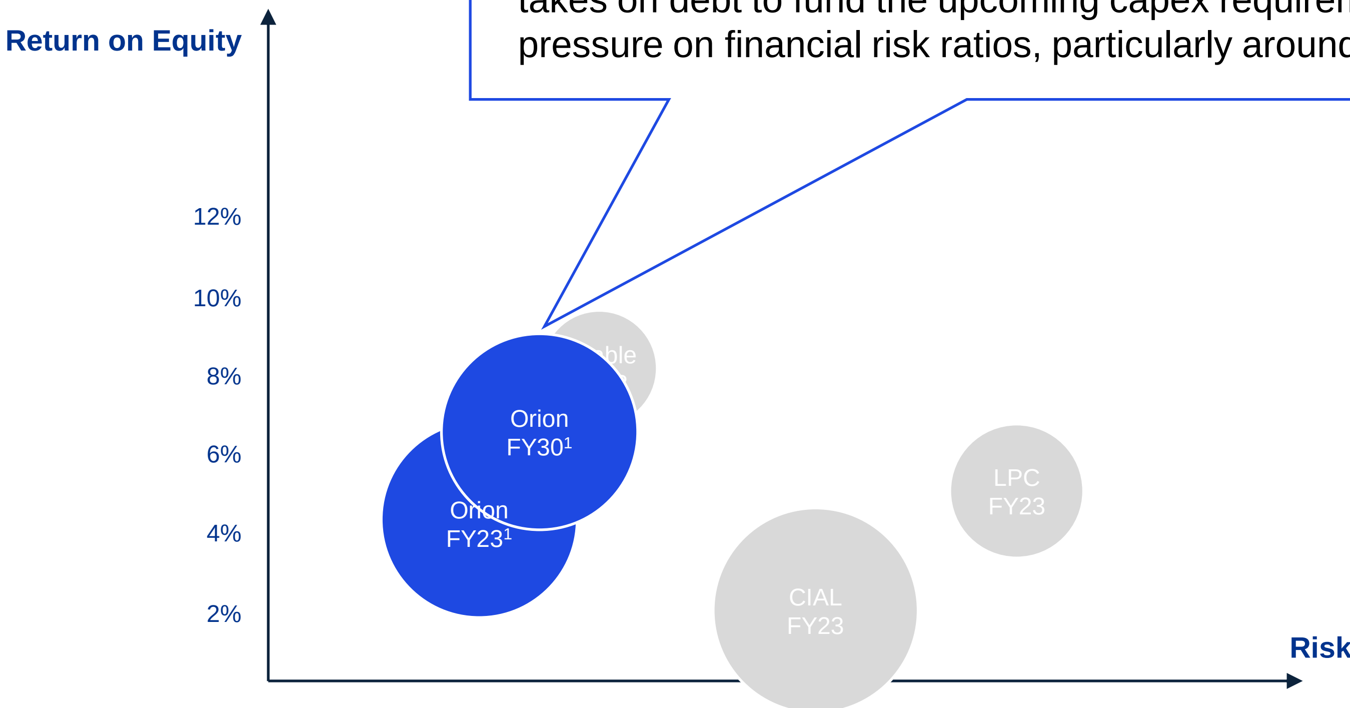
3 Business Case
Recommend an approach for CCHL to become a more active manager

There will be further Councillor interactions along these steps

Value Strategy
Provide direction on CCC's investment objectives and success factors/constraints

Orion's fit within the portfolio

- Orion's RoE is ultimately driven by the risk free rate. Orion is expected to see an uplift in ROE from FY26 as it adopts the higher prevailing interest rates. Albeit this is skewed slightly skewed over the next 10 years by one-off regulatory constraints
- Orion shareholders will also be taking on higher financial risk as it takes on debt to fund the upcoming capex requirements. This puts pressure on financial risk ratios, particularly around the mid 2030s



Bubble size: FY23 equity valuation

1. Note: Orion's RoE presented in the graph and table excludes the non-cash impact of RAB revaluations applied under the regulatory regime. This is based on inflation (~2% per annum) and provides a corresponding uplift to equity returns over (albeit this is non-cash and delivered through higher returns overtime)

Part one

Description of investment

Executive summary

Orion is transitioning to a period of significant growth and capex requirements. While this should generate value in the long-term, this is expected to dampen free cashflows over the next circa 10 years

1. **Orion has shifted from a relatively benign investment environment, to a period of significant and sustained growth**
   - **Drivers:** Decarbonisation, above CPI cost pressures and scheduled maintenance

2. **This shifts Orion's investment thesis from a business with stable and steady cashflows, to a more capital-intensive business**

3. **While this should deliver long-term capital value (via generating return on an increased regulatory asset base), this has significant funding requirements over the next ~10 years**

4. **This is assumed to be funded mostly via debt. While there is headroom (due to a conservative existing capital structure) this creates greater financial risk for shareholders which is expected to persist well beyond FY35**

5. **Notwithstanding the debt funding, CCHL will also need to accept lower medium-term dividends. Our long-term forecast suggests shareholders may need to potentially accept lower longer-term payout versus base case to shore up financial risk ratios**

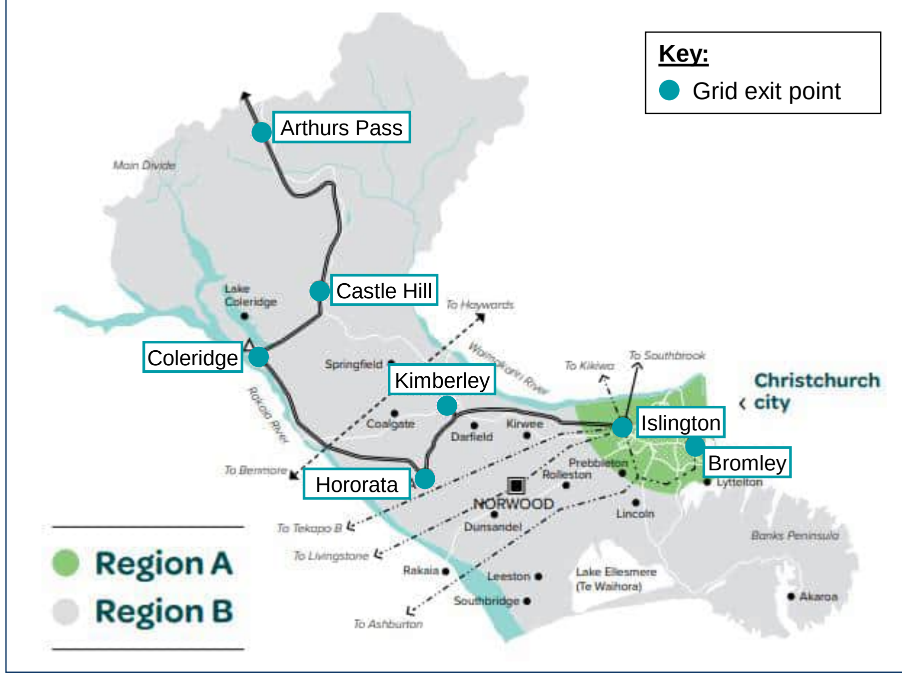
1. For the period FY24 – 28F

Overview of Orion

Orion is New Zealand's third largest electricity distribution business ("**EDB**") covering Christchurch and the Central Canterbury region. Orion also owns an electricity installation and maintenance services business that services both Orion and third-party customers across New Zealand

- **Develops and maintains** the electricity distribution network across Christchurch and the central Canterbury region
- **~220,000 connections** and **$1.4bn regulatory asset base ("RAB")**
  - #3 EDB in NZ (by connections and assets)
  - Mostly urban
- **Natural monopoly** subject to regulation from the Commerce Commission
- **Wholly owns Connetics** which represents ~10% of EBITDA
  - Provides installation and maintenance services to EDBs and other infrastructure providers
  - Orion represents almost 50% of Connetics revenues
  - Connetics is not regulated

Orion EDB catchment area



Orion asset summary (as at March 2023)

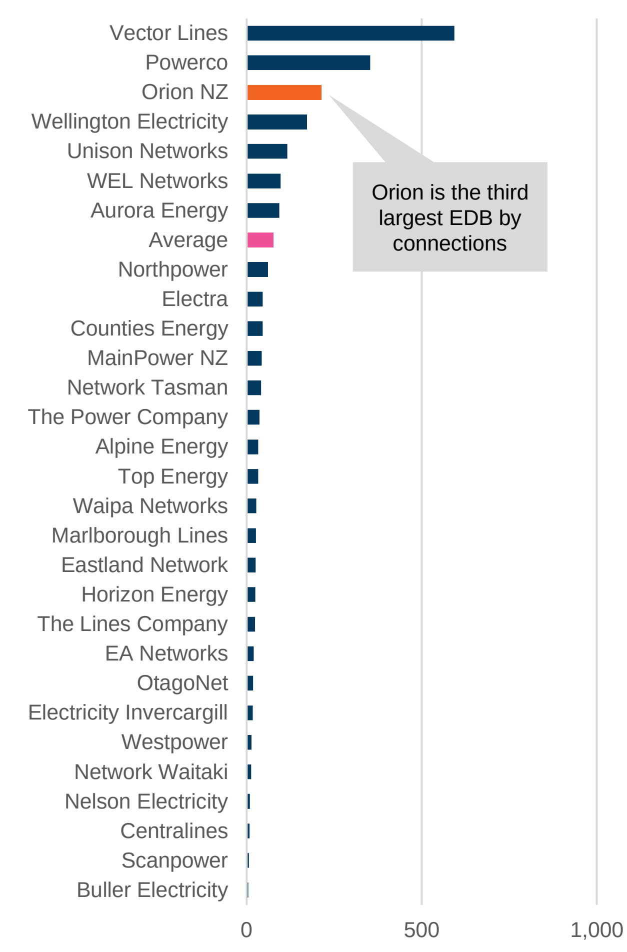
- **$1.4bn** regulatory asset base
- **220,000** customer connections
- **11,900** kilometres of lines and cables
- **90,000** Orion power poles
- **721MW** network maximum demand
- **54** zone substations
- **250** standard substations
- **12,089** distribution substations

Description of investment

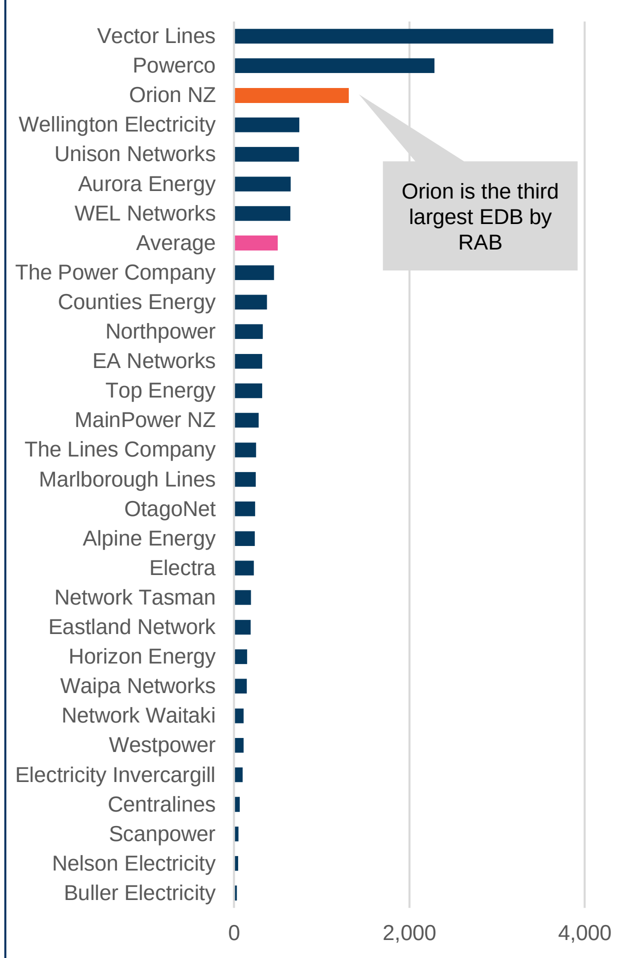
Orion regulated segment scale

Orion is the third largest EBD in New Zealand. It is also experiencing top quartile connection growth driven by strong growth in the Selwyn district

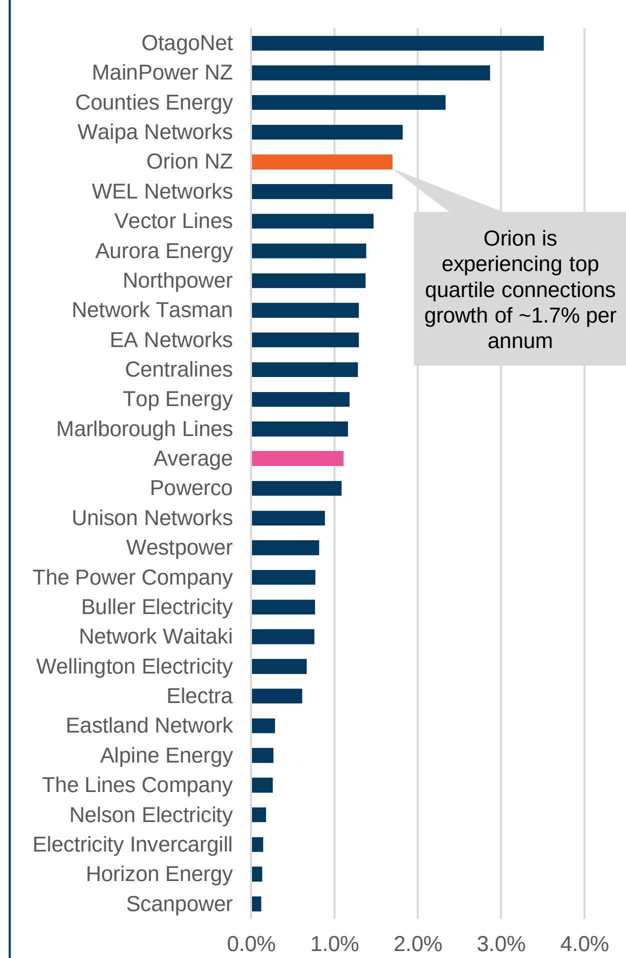
Average customer connections (000s, March 2022)[1]



RAB balance ($m, March 2022)[1]



Connection growth (5 year CAGR to March 2022)[1]



1. Source: Commerce Commission. All metrics are as at March 2022 which reflects the latest reporting by EDBs. However note that Orion has actuals as at March 2023 which is the period used for actuals in this report. As such, there will be a slight difference in reported metrics in this slide

New Zealand utilities | Australian utilities

Financial structure

While not credit rated, Orion's financial structure is conservative and is well within an investment grade credit quality. This provides headroom to help support the upcoming capex requirements

– **Conservative capital structure** supports an implicit investment grade credit quality

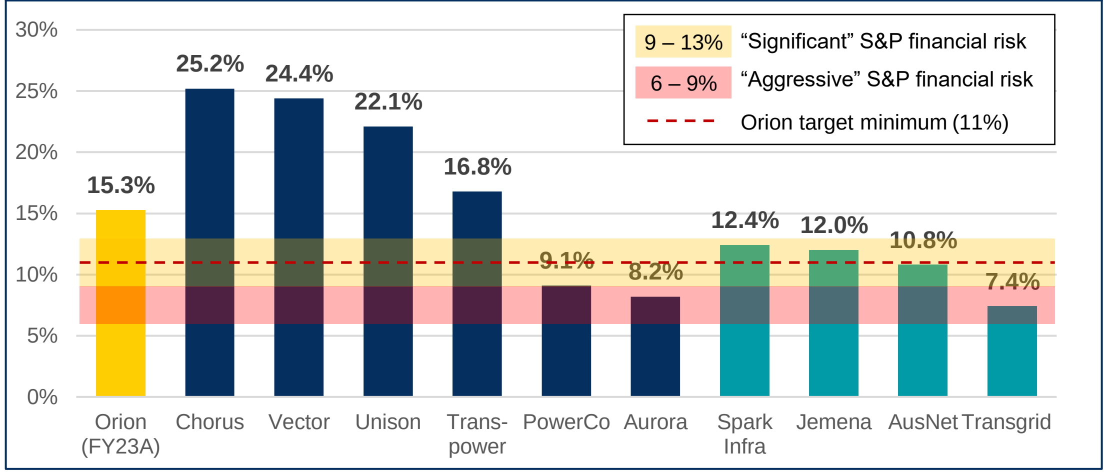
– **~$500m of debt** which represents **~35% of Orion's regulated asset base** ("**RAB**")

– This **provides some headroom to help support the upcoming capex**

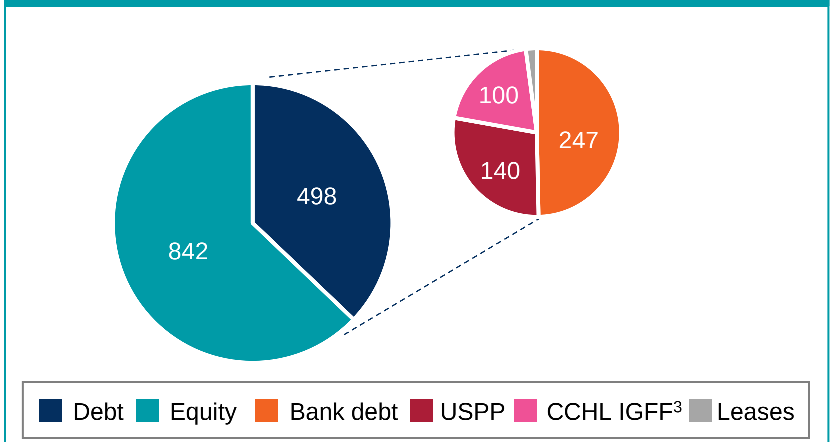
– **Maintaining an implicit investment grade credit quality** / standalone credit profile[1] is important in enabling strong access to a wide range of low-cost debt

  – Ideally requires a "significant" FFO/debt risk

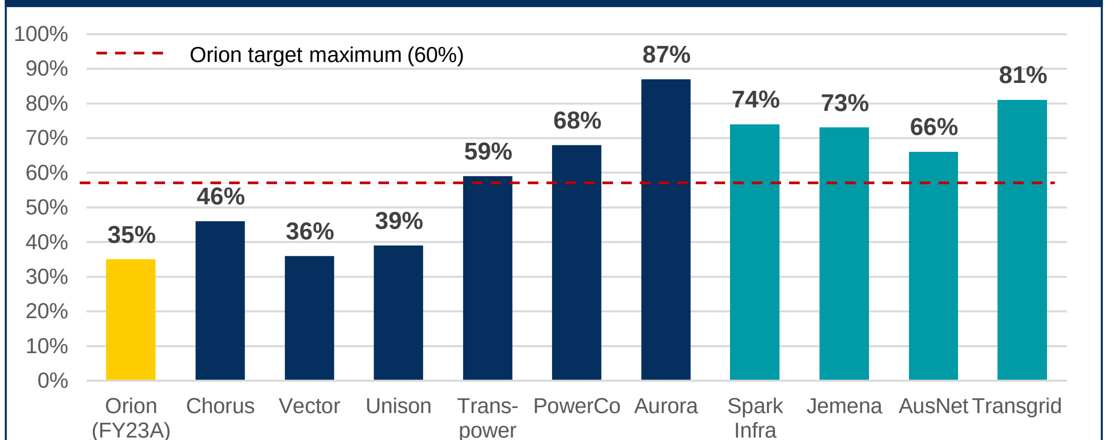
FFO / debt



Capital structure (FY23A)



Debt / RAB



1. Note under CCHL ownership, Orion would theoretically benefit from a higher credit rating due to implicit [redacted] support. A "significant" financial risk ratio (or "aggressive" in some cases) is what is likely required to deliver an investment grade "stand alone credit profile". While this would translate to a higher Orion credit rating, we see an investment grade standalone credit profile as critical given this aligns to the credit quality of other utilities

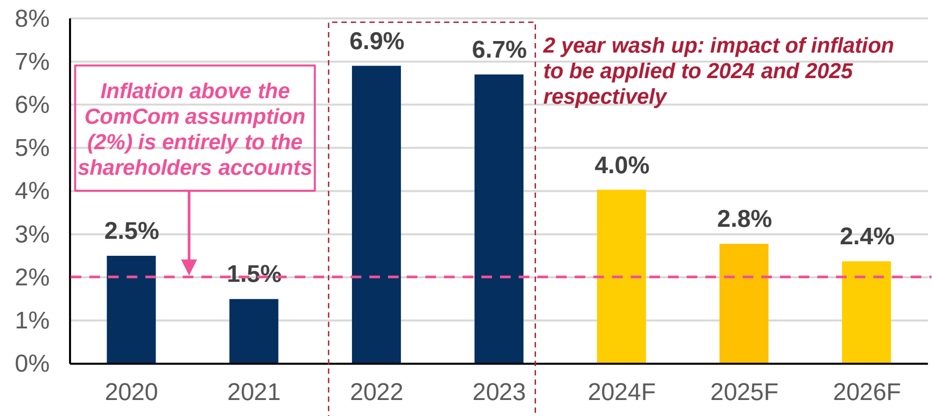
Regulatory overview

Orion can charge a "maximum allowable revenue" which is determined by covering costs and achieving a regulatory return on assets. This is determined every 5 years and is calculated at the beginning of the period. The next period ("DPP") is FY26

Regulatory consideration	Implications to Orion's forecast
Capex recovery: Capex is recovered overtime via depreciation (which can be up to 50 years)	– **Lower medium term free cashflows:** Significant upcoming capex spend does not deliver immediate cashflow recovery for CCHL. This has financing implications
Capex overspend: EDBs are subject to a 120% capex overspend constraint[1]. Orion is expected to exceed this during the next DPP (FY26 – 30) with forecast net capex equal to ~217% of historical[2]	– **Up to 10-year deferral of returns:** Regulation (including IRIS penalties) effectively means Orion doesn't generate a return on capex overspend for two DPPs (up to 10 years)
Higher return from FY26: Based on current interpolated NZ government bond rates, we forecast regulated return / WACC to increase from 4.23% to ~6.3% for the next DPP (FY26 – 30)	– **Higher return on equity from FY26**
Two-year Inflation lag: This means the high March 2022 / 2023 CPI experienced in New Zealand hasn't flowed into revenue	– **Revenue step up in FY24 / 25**

5 year NZ government bond rates[1]

CPI (March year end)[2]



1. Percentage of historical real capex. 2. This compared to the historical period (real $) between FY19 – 23 which is used in the base case forecast. However, the historical period is not defined by ComCom and therefore may differ

Part two

Financial performance

Key Messages

Orion’s forecast is largely driven by its capex requirements and associated impact on debt and dividends. While there is some debt headroom, a largely debt funded solution sees higher financial risk for shareholders

Significant step up in Orion capex and funding requirements

Higher return on assets due to higher prevailing risk-free rate

Regulatory constraints skew performance over the next ~10 years *(e.g. capex overspend, revenue cap, IRIS penalties)*

Capex funding is mostly funded via debt. This sees weaker financial risk ratios in the mid 2030s which are expected to persist beyond 2035

Shareholders will also need to accept lower medium-term dividends to support capex requirements. We also see dividend risk beyond 2030 to improve financial risk ratios

Careful consideration is required to balance maintaining Orion’s distribution payout ratio with financial risk

Gross regulatory capex

Orion is forecasting a material increase to capex over the next 10 years, driven by decarbonisation initiatives, capex inflation and Orion's asset replacement program

Regulatory capex (nominal, $m)[1]

[redacted]

Key drivers

- **Process heat conversion**
  - ~100 process heat customers within the region. Government is seeking to transition process heat to lower carbon solutions by 2037
- **Electric vehicles ("EV")**
  - Investment required to manage EV uptake. Forecast demand in line with Ministry of Transport
- **New renewable generation**
  - The catchment has over 680MW of utility scale solar under consideration
- **Above CPI capex inflation**
  - Capex inflation has run at ~11% per annum over the last 2.5 years[2]. This is expected to continue in FY24. Base case assumes capex inflation reverts to CPI thereafter
- **Population growth and densification**
  - Approximately 5,000 connections per annum. Cost to upgrade to upgrade housing intensification is higher
- **Significant asset replacement / renewal**
  - Driven by 66kV cable replacement and pole replacement programmes
- **Smart grid / technology efficiencies**
  - Key savings included in base case: (i) optimised asset replacement, (ii) improved network utilisation, (iii) improved works management system, (iv) faster reaction time to unscheduled downtime

Net capex

Orion is proposing to increase the level of customer contribution and reduce the level of cost socialisation across its customer base. Overall, this will reduce regulatory capex and RAB

Capex breakdown (nominal, $m)

[redacted]

EBITDA trends

[redacted]

[redacted]

Key observations

- **Historical EBITDA impacted by lower WACC (DPP3 from FY21) and more recently inflation cost pressures**
  - Inflation impacts cost immediately but revenue two years after
- **EBITDA step up from FY24F due to**
  - FY22/23 Inflation wash-up
  - DPP4 WACC
  - Higher RAB due to capex
  - Steady growth over DPP4 as regulation caps revenue growth by 13% per annum[3]
- **Capital contributions (a pass-through item only) grows significantly due to decarbonisation capex and customer contributions policy**

with the Regulatory segment. 3. Commerce Commission restricts cap

NPAT and return on equity

054

Orion's RoE is ultimately driven by the regulatory WACC which is applied on RAB. There is potential for deviations during DPP's due to one-offs such as capex/opex overspend and IRIS penalties

[redacted]

Financial risk

Orion sees a significant increase in debt. This weakens financial risk ratios during the mid 2030s and sees FFO/debt falling below Orion's target minimum

[redacted]

Dividends

Orion's base case sees lower dividends, versus historical, over FY24 – 30. This reflects a combination of lower profit and reinvestment of profit (base case assumes a 50% distribution policy from FY26 -30)

[redacted]

Sensitivities

We see capex, regulatory WACC and weaker Connetics growth as the key sensitivities that require consideration

[redacted]

Investment performance

[redacted]

Section three

Impact assessment

Impact framework overview

Orion’s purpose “powering a cleaner and brighter future with our community” drives its key ESG focus areas and initiatives

Key areas of ESG focus

SOI area	SOI area	Key initiatives and performance metrics
Decarbonisation and network	**Facilitating decarbonisation and hosting capacity at the lowest cost**	— Maximising the use of the existing network with smart technologies and better data — Maximise the scope for customer participation through “flexibility”
Community and environment	**Being a force for good in the community we serve, enabling the net zero transition**	— Collaborate with local authorities and stakeholders on regional decarbonisation plans — Reducing its environmental impact of our operations — Foster and promote energy efficiency
Workplace	**Creating the preferred workplace**	— Undertaking a complete assessment of its organisation capability and future competency needs — Orion is currently measuring gender pay gap but is also focused on expanding this to ethnicity and Connetics

Decarbonisation and network

	FY24	FY25	FY26
RAB / maximum system coincident demand	>= Lower quartile	>= Lower quartile	>= Lower quartile
Low voltage network visibility[1]	9%	11%	13%
Accuracy of operational/day ahead load forecast[2]	>=80%	>=85%	>=90%
Feasibility of flexibility: # of sites assessed	4	n/a	n/a
Flexibility services: # of sites taken to tender	2	n/a	n/a

Community and environment

	FY23	FY24	FY25	FY26	FY30
Net promoter score	36	>40	>40	>40	n/a
Group operational carbon emissions (scope 1, 2 and 3	2,803	2,620	2,456	2,292	1,630
Planting of native forest	n/a	45,000 seedlings	50,000 seedlings	300ha established	n/a

Workplace

	FY23A	FY24	FY25	FY26
Engagement score (% positive)	n/a	>65%	>67%	>69%
Voluntary turnover	n/a	<16%	<14%	<12%
Female / male / any gender	34:66	35:40:25	38:40:22	40:40:20
Gender pay gap	17.3%	<15.9%	<14.9%	<13.9%

1. Calculated as a percentage of transformers monitored across the LV network. 2. Used for peak demand management

Section four

Strategic opportunities

[redacted]

[redacted]

Section five

Ownership considerations

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What are the benefits of public ownership?

Benefits of CCHL ownership include:

- Network reliability and facilitation of decarbonisation projects can be tailored to CCC's objectives (albeit such costs are ultimately socialised to the community)
- Orion is a core infrastructure asset, capable of generating steady returns in the long-term

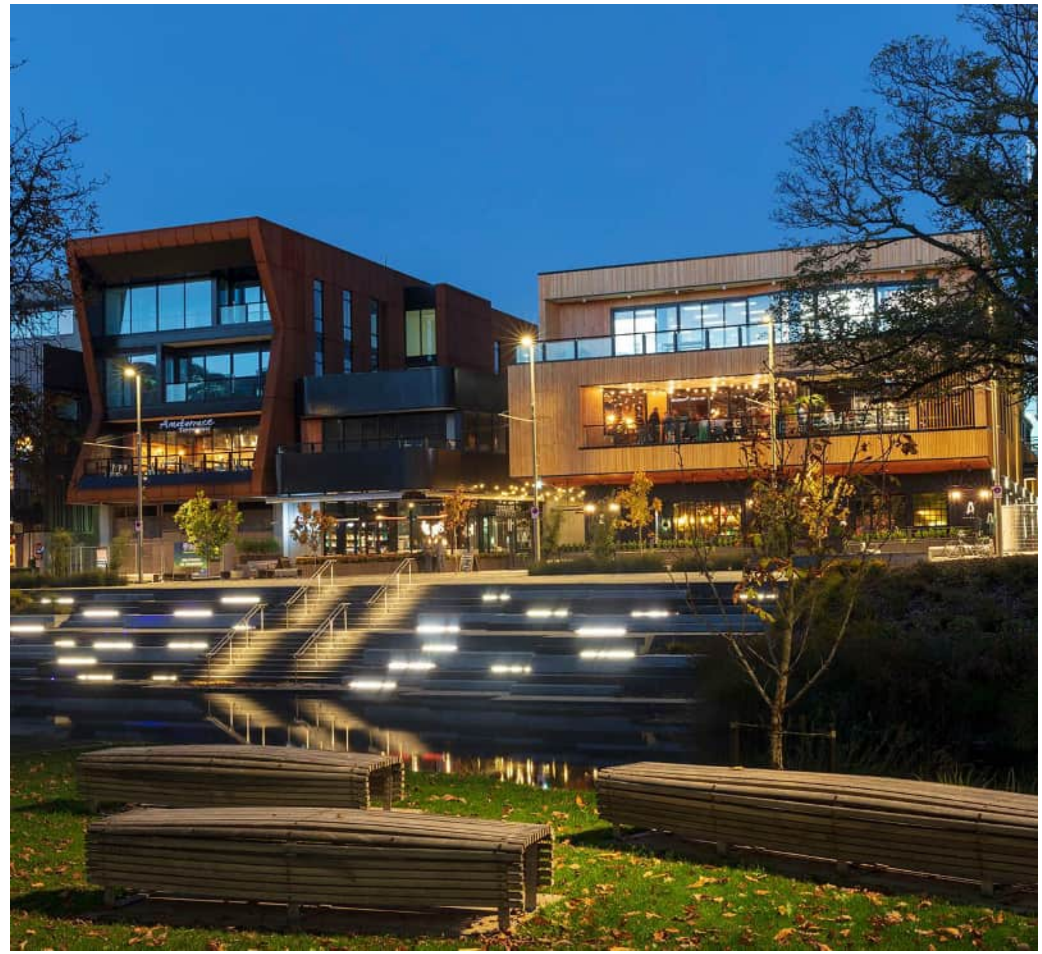
What would be different under private ownership?

– **Right size capital structure and enable a higher dividend payout ratio:** Additional equity could be used to reduce upcoming debt requirements and reinvestment of CCHL profit

– **Support decarbonisation projects:** Investing in decarbonisation projects outside the regulatory framework allows (i) Orion to generate a return on all decarbonisation capex, (ii) cost efficiency to end customers, and (iii) reduces capex overspend

– **Long-term decision making:** Typical investors have a long-term investment horizon and will be less dependent on short-term distributions. The regulatory framework creates the right incentive to invest in the network for the long-term and deliver a reliable service

– **Non-regulatory sector capability:** Can bring capability and financial rigour to grow Orion's non-regulated segment (e.g. Connetics) which could generate long-term value of CCHL's remaining stake



Section six

Appendices

[redacted]

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[redacted]

Description of investment

[redacted]

Description of investment

[redacted]

[redacted]

[redacted]

[redacted]

Investment erformance

[redacted]

1. FFO is adjusted to remove capital contributions, in line with S&P methodology

[redacted]

[redacted]

1. Shows the closing balance. Return on RAB Commences on day 1 of FY31

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Document Classification: Confidential

Investment Review Workshop

Lyttelton Port Company

Christchurch City Holdings Limited

mafic

Context and purpose of this workshop

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- Opportunity to revisit the strategy for managing the investment portfolio
- Focus on value creation and approach to more active portfolio management
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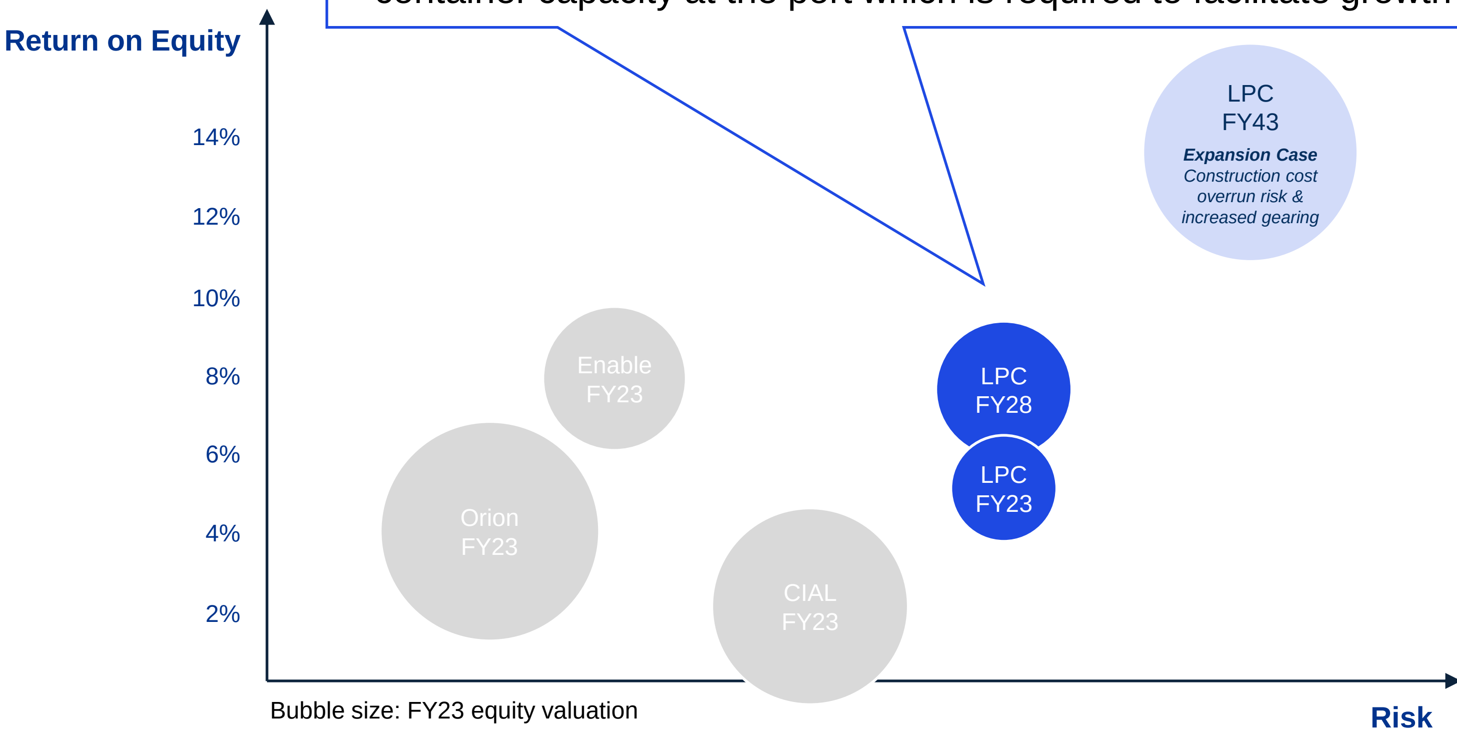
Value Strategy
Provide direction on CCC's investment objectives and success factors/constraints

LPC's fit within the portfolio

- LPC is the smallest of the four main assets by equity value
- Benefits from a **competitive position** as the major international gateway to the South Island, however **inflexible labour arrangements** put pressure on profitability versus peers
- Has **large capex requirements** over the next decade to achieve further container capacity at the port which is required to facilitate growth in the region



Bubble size: FY23 equity valuation

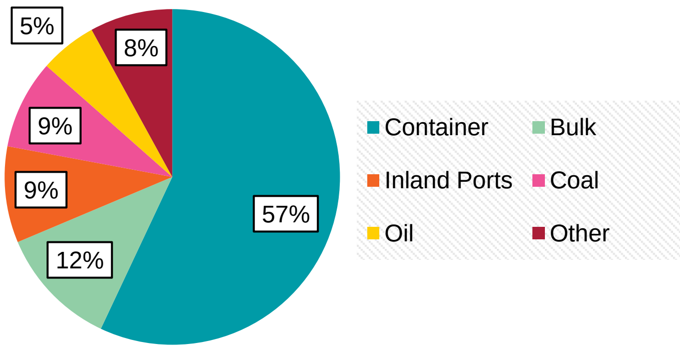
Section one

Description of investment

What does LPC own and do?

LPC is the largest port in the South Island of New Zealand acting as the international trade gateway facilitating exports from and imports to the region

— The port's major trade is containers, with other trades including coal, logs, petroleum, dry bulk and motor vehicles



— Note that inland port revenues are also driven by container volumes through the port

— LPC's customers include South Island importers and exporters, transport companies and shipping lines – making it an essential part of the supply chain

— LPC owns two inland port facilities, Midland Port and CityDepot, which have direct rail links to the port – as well as a dry dock, fuel wharf and tank farm, cruise berth, marina and retail precinct

$182million	Revenue	$47.9million	EBITDA
454,076	Containers	$21.0million	NPAT

Based on FY23 actuals

LPC Networks and Connections

How is LPC funded?

While LPC is currently funded by a combination of external bank debt and CCHL lending – these credit facilities are insufficient to fund LPC's expansion plan

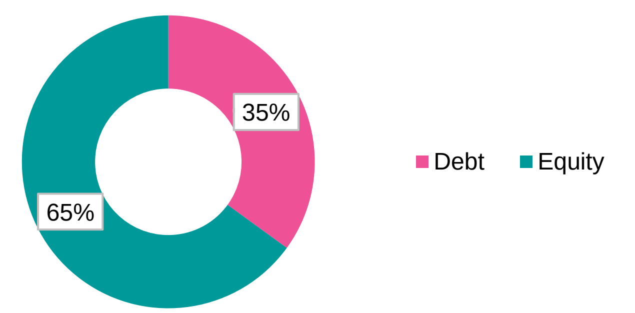
— Debt is provided by CCHL ([redacted]), Westpac ([redacted]) and China Construction Bank ([redacted]) for total credit available of $275 million – $213m of which is currently drawn

[redacted]

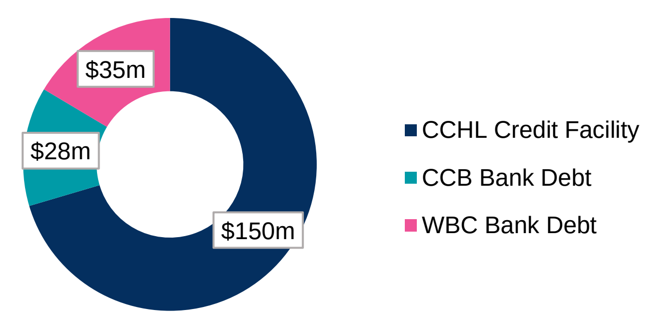
— Post the Christchurch earthquake the port has been pursuing a large-scale development programme to gradually expand and shift operations to the east side of the port – capex has been funded to date by a combination of earthquake insurance proceeds and debt

— Forecast free cash flow generated by the port, combined with current undrawn debt ($62m), is insufficient to fund the full extent of the port's development ambitions, namely the ~$600m Te Awaparahi Bay reclamation development

Capital Structure (as at Jun-23)



Drawn Debt (as at Jun-23)



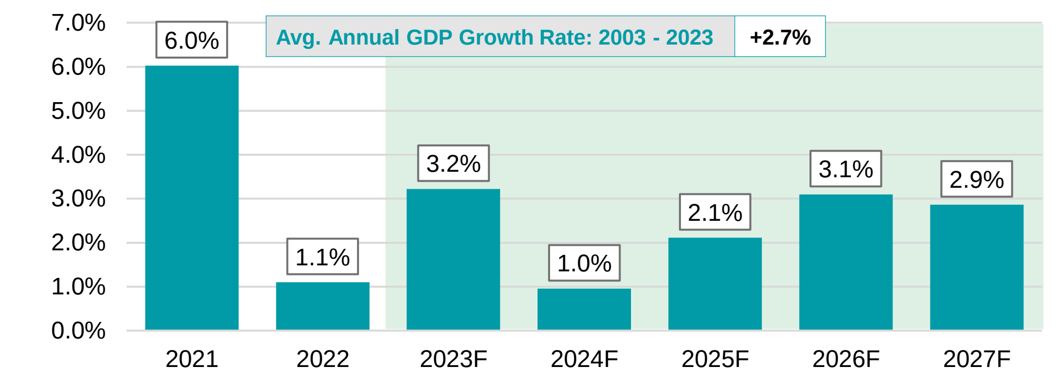
Lender	Facility Limit	Maturity Date	[redacted]
CCHL	$150m	30 Jun 2030	
Westpac	$55m	4 Jul 2025	
CCB	$70m	31 Jul 2026	
Total	**$275m**		

What drives demand?

There is a strong link between GDP, trade volumes and imports / export volumes through LPC, therefore we expect long term container growth to continue notwithstanding short term economic headwinds

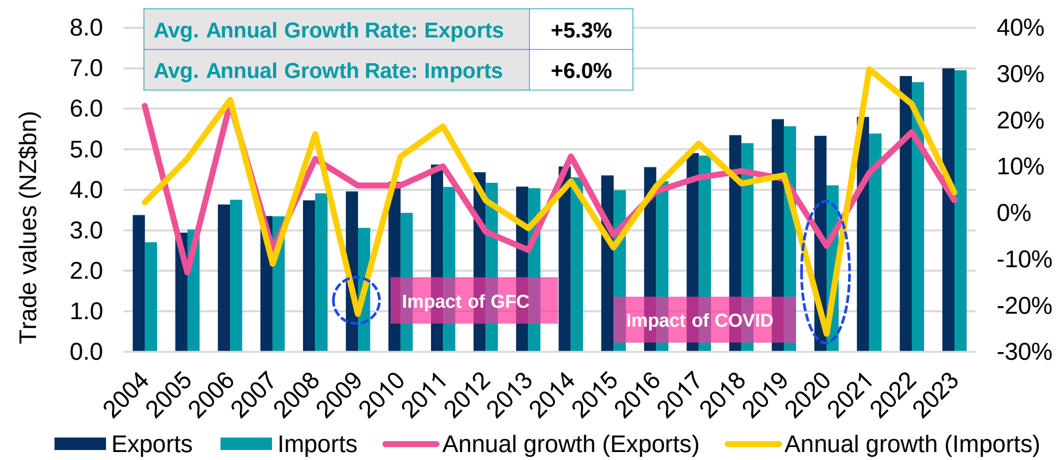
- Forecast GDP (or a multiplier thereof) is often used as a guide to estimate future trade volumes given GDP is associated with economic growth prospects
- New Zealand has been experiencing high inflation since 2022, resulting in the domestic economy contracting over the previous two quarters, indicating the beginning of a recessionary period
- Near term trade growth is likely to underperform the long run average due to subdued economic conditions – however, given the cyclical nature of the economy, trade volume growth in the recovery is expected to exceed the long run average
- Latest economist forecasts suggest that recessionary pressures will be short lived and stabilise around +3% by 2026

GDP Forecast



Source: NZ Treasury Budget Economic and Fiscal Update (May 2023)

New Zealand Trade Values (May months)



Source: Statistics NZ

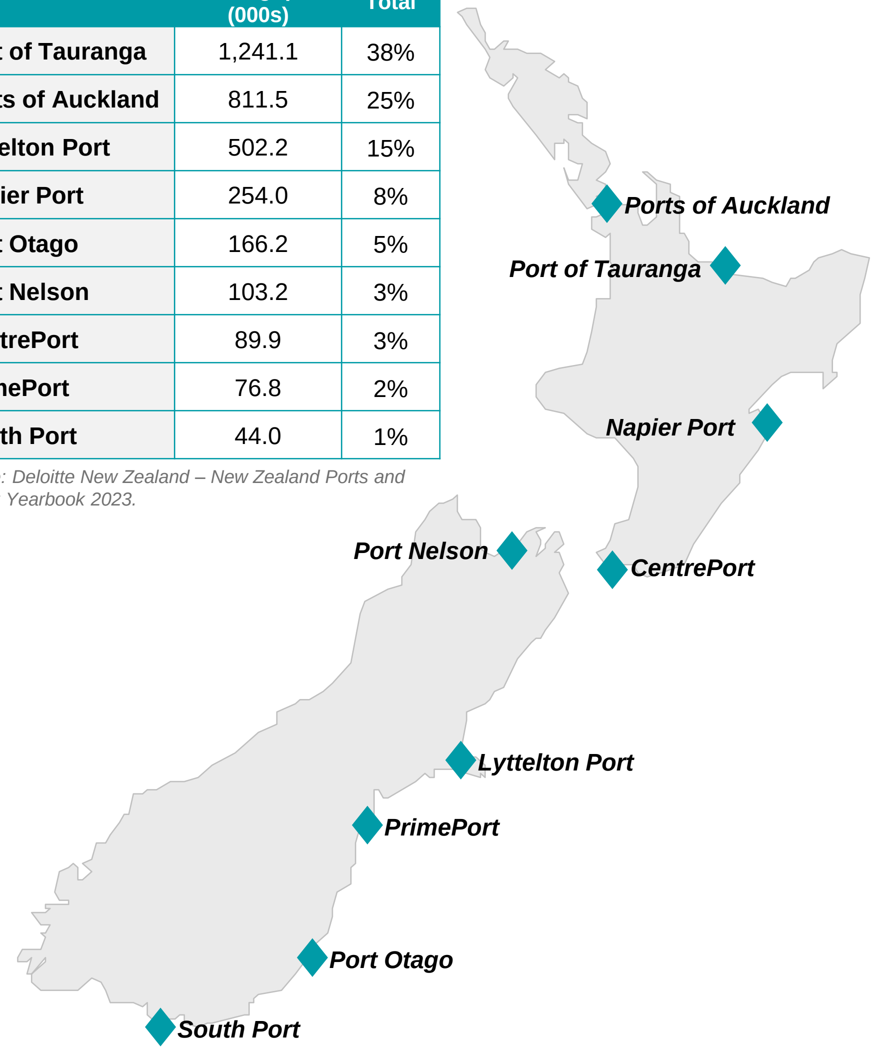
What underpins LPC's competitive position?

LPC benefits from a strong competitive position as the only major NZ port with development capacity

- The majority of LPC's contracts are short term (1 – 3 years) and provide LPC with scope to vary pricing, but with little contractual certainty regarding volumes
- Container volumes drive 67% of total annual revenue – of which two customers, Maersk and Pacifica, make up 60% of total container volumes
- Customer concentration and volume risks are mitigated by:
  - Alternatives to LPC being more expensive, less timely and more carbon intensive – e.g., requiring transport over the Cook Strait and/or road or rail to its final destination
  - Lack of current capacity at major North Island ports and infrastructure at other South Island ports capable of servicing larger vessels preferred by shipping lines, also contribute to LPC's strong competitive position
- LPC is uniquely positioned given no other NZ port has **consented** development capacity of a similar scale

	Container Throughput (000s)	% of Total
Port of Tauranga	1,241.1	38%
Ports of Auckland	811.5	25%
Lyttelton Port	502.2	15%
Napier Port	254.0	8%
Port Otago	166.2	5%
Port Nelson	103.2	3%
CentrePort	89.9	3%
PrimePort	76.8	2%
South Port	44.0	1%

Source: Deloitte New Zealand – New Zealand Ports and Freight Yearbook 2023.



Section two

Investment performance

Key messages

LPC is well-placed to generate long term value for CCHL, however capitalising on value drivers requires significant capex and short-to-medium dividend relief

LPC is benefitting from improved financial performance via implementation of a range of pricing and levy increases

The business case and timing for undertaking expansion at the port rests on CCHL's view of long-term growth in the region

There are avenues available to further improve profitability, however they require changes to existing labour arrangements via union renegotiations, which will likely result in redundancies

To not undertake the expansion in favour of stable dividends has economic and social consequences for the region

To realise long term value, LPC needs cash and a restructure of its existing borrowing arrangements and covenants – this will impact short term dividends

Revenue & EBITDA

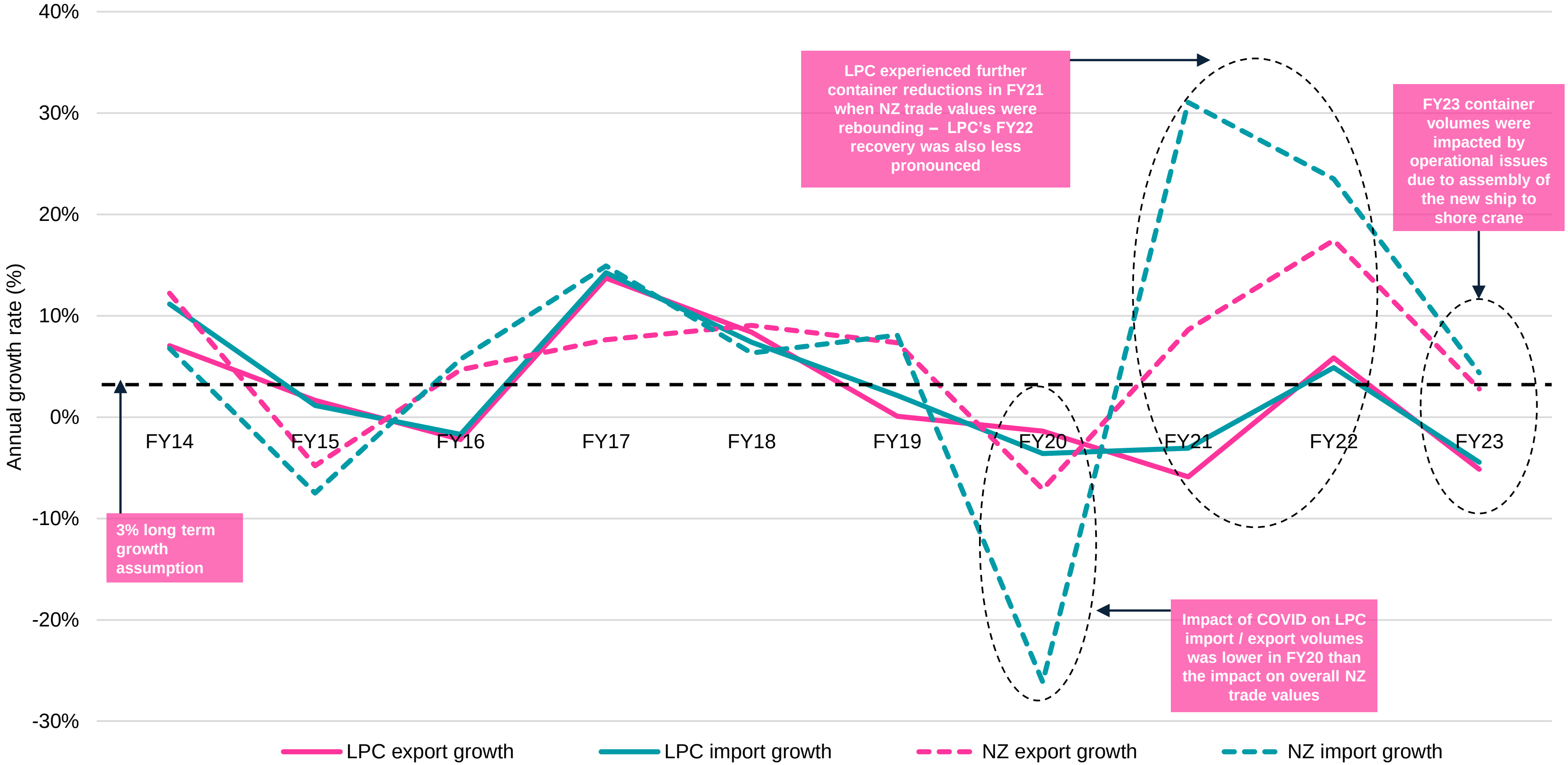
Revenue and earnings growth is underpinned by expected container growth and implementation of price increases

- Forecast revenue is underpinned by assumed container volume growth of +3% p.a. from 2024 and implementation of planned price increases across all revenue sources
- Revenue growth is expected to slow down from 2030 when coal revenues fall away and current container capacity is reached under the current volume growth assumption
- Container volumes came under pressure in 2H23 driven by the loss of quay space due to new crane assembly and labour shortages, resulting in a distinct reduction in tranship volumes – these volumes are contracted to return from August
- Impact of COVID on LPC FY20 import / export volumes was lower than the overall impact on NZ trade values – LPC also benefits from movements of empty containers which have no trade value

[redacted]

Historical container growth

LPC's historical import / export growth moves closely with changes in overall trade values, bar a couple of periods of notable exceptions



While the container growth assumption is reasonable, and arguably conservative, volume growth is inherently more volatile than the flat +3% growth assumption suggests – while growth is likely to be lumpy, it is highly likely that container capacity is reached at some stage within the next decade

Operating costs

LPC's operating costs make up a larger proportion of revenue than peers, primarily due to higher payroll costs

- LPC's revenue and operating performance continues to improve
- Introduction of the infrastructure levy in January 2021 had a positive impact on operating costs as a % of revenue given the levy does not have a corresponding cost impact
- Operating costs as a % of revenue are expected to marginally improve over time as general price increases and container volume growth result in a disproportionate increase in revenue (than opex)
- Irrespective of the downward sloping trend, LPC's operating and payroll costs as a % of revenue are at the higher end of peers
- LPC is highly unionised and collective agreements are renegotiated every 3 years – however wage increases generally mirror inflation expectations

[redacted]

Leverage & capex

While gearing remains within acceptable levels under the base case, it does not account for any debt funded expansion, electrification or automation capex – which will have broader implications for the region

[redacted]

Profile of returns

Growth in NPAT driven by revenue and earnings improvement is expected to gradually increase return on equity and deliver greater dividends to CCHL – albeit the revenue profile is expected to be lumpier than presented given near term economic headwinds

[redacted]

Expansion considerations

Capping trade flows into and out of the region by not investing in additional container capacity at Lyttelton will have social and economic consequences

Cost to end-consumer

Increasing wait times for berth capacity at Lyttelton will introduce both shipping delays and additional cost for importers / exporters – which will ultimately be passed down to end consumers

Transport constraints

If trade flows divert to smaller South Island ports due to capacity constraints at Lyttelton, this will introduce additional last mile costs for end consumers and necessitate upgrades to transport infrastructure in order to facilitate more trucks on the road or rail capacity

Stimulating competition

If capacity at Lyttelton is unavailable, then shipping lines will have to divert volumes to other ports – these ports may opt to develop infrastructure capable of servicing larger ships preferred by the major shipping lines, thereby creating a long-term competitor for LPC and increasing future price tension

Profitability

LPC's financial performance will likely deteriorate below the base case in the event increasing price tension eventuates as it calls into question LPC's ability to put through continuous price increases as modelled in the base case

095

Section three

Impact assessment

Emissions pathway

In order to reduce Scope 1 emissions, five initiatives focused on electrification of plant and equipment have been identified to enable LPC to reduce its direct GHG emissions from sources owned and controlled by LPC

— LPC's Scope 1 carbon reduction initiatives relate to electrification of existing diesel-powered plant and equipment (e.g., straddle carriers, vehicles, container handlers, and marine assets)

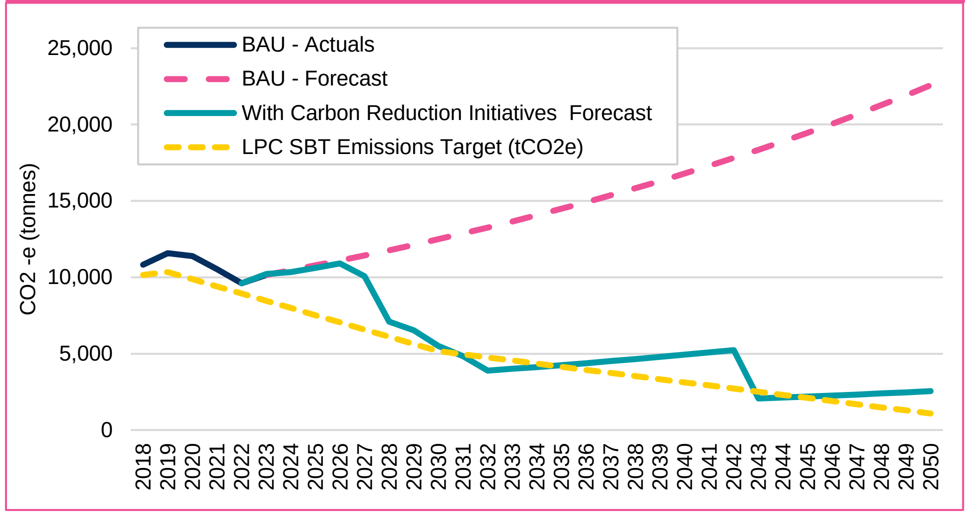
— Incremental capex required to undertake this transition under a no expansion scenario is ~$70m – if LPC were to wait for equipment to reach end of useful life, then it may be that electrification can be achieved within budgeted capex

— HPC expansion options achieve electric operations by ~2036 and avoid this capex

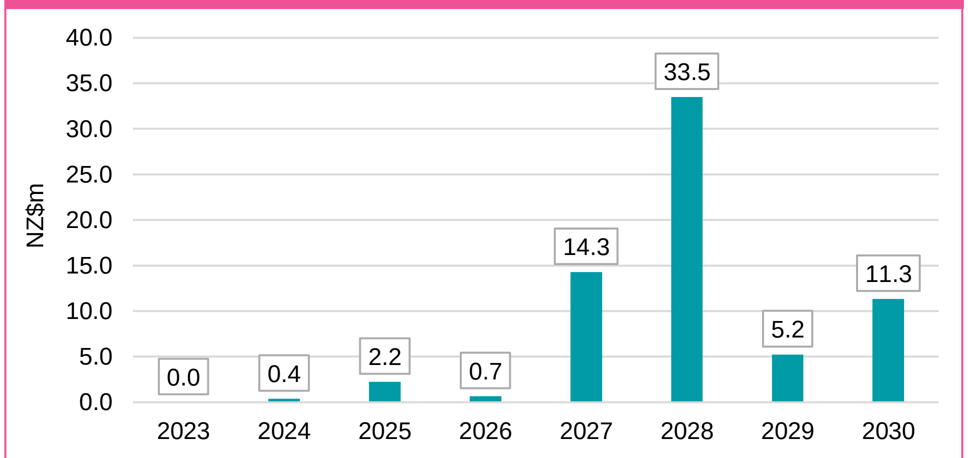
— To address Scope 2 emissions, LPC commenced purchasing of certified renewable energy in FY21

— LPC currently only report mandatory Scope 3 emissions, which are minor in nature (e.g. air travel) – they intend to undertake a full scope 3 inventory in FY24. We would expect upstream/downstream scope 3 emissions to be material on the basis they likely capture rail/road transport to/from the port

Impact of electrification initiatives



Accelerated decarbonisation capex



Other initiatives

LPC's Leading the Way strategy was developed in 2020 as a 5-year change plan focused on how LPC's cultural and commercial turnaround would occur

Leading the Way Strategy – four pillars

Sustainable Profitability

Sustainable profitability that enables LPC to deliver customer, cultural and commercial excellence while providing a fair return to our shareholders

TEU	NPAT
502,210 ↑	$18.9m ↑
FY20-21: 438,343	FY20-21: $15.9m

Whanaungatanga

Build relationships at LPC through shared experiences, working as one LPC team where everyone feels they belong and can contribute to building a stronger LPC whānau together. We will achieve this through improved safety, a cooperative approach to high performance high engagement (HPHE), staff development and the management of talent

TRIFR	LTIFR	Gender Split
2.59 ↓	1.62 ↓	88 % Male 12 % Female
FY20-21: 5.4	FY20-21: 3.46	FY20-21: 87% Male, 13% Female

Infrastructure for the Future

Ensure LPC has the right infrastructure it needs, at the right time and at the right cost to deliver sustained profitability and growth.

Berth Utilisation	Container Transportation: Road	Container Transportation: Rail
59% ↑	82.4% ↑	17.6% ↓
FY20-21: 43%	FY20-21: 80.7%	FY20-21: 19.3%

Manākitanga and Kaitiakitanga

Commitment to contributing positively to our communities and working in partnerships to value and protect the natural environment. We are focused on addressing climate change, delivering a net positive effect on biodiversity, and waste minimisation and avoidance.

Landfill waste	Recycling	Sponsorships	Total Trucks Serviced
83% ↓	17% ↑	37 ↑	176,426 ↓
FY20-21: 91%	FY20-21: 9%	FY20-21: 24	FY20-21: 177,968

Total emissions	Trucks Serviced in under 30 Mins
9,470 ↑ Tonnes	61% ↓
FY20-21: 9,191 tonnes	FY20-21: 67%

Peer comparison

It is difficult to make direct comparisons between NZ ports, given the different approach taken to calculating key metrics

Key metric	Lyttelton Port Company	Port of Tauranga	Ports of Auckland
Total emissions FY22 (tonnes of CO_2)	9,470 *(Scope 1)*	42,534 *(Scope 1-3)*	11,465 *(Scope 1-2)*
Change in emissions (vs. FY21)	**+3%**	**-2.1%**	**-8.3%**
Carbon intensity (tonnes of CO_2 per TEU)	0.00910 tonnes	0.00164 tonnes	N.D.
Change in carbon intensity (vs. FY21)	**-7.3%**	**-0.6%**	N.D.
Total recordable injury frequency rate FY22	2.59 *(rolling monthly average as at FYE22)*	26.6 *per million hours (incl. contractors)*	N.D.
Total recordable injury frequency rate FY21	~4.20 *(rolling monthly average as at FYE21)*	13.8 *per million hours (incl. contractors)*	N.D.
Male / Female FY22	88% / 12%	78% / 22%	N.D.
Male / Female FY21	87% / 13%	81% / 19%	N.D.
Staff Turnover FY22	13.3%	11.5%	N.D.
Staff Turnover FY21	11.7%	9.6%	N.D.

Section four

Strategic opportunities

Strategic opportunities

As the largest port in the South Island LPC is strategically positioned to become the economic gateway for the entire region – this would require significant capital to expand the port, but could create significant value for CCHL

Port expansion and automation

- Without further investment in development of the port, total container capacity will be reached in the next decade if container growth continues
- Hitting container capacity constraints will significantly constrain growth prospects in the Canterbury region and have adverse social and economic consequences
- LPC have been working with Hamburg Port Consulting to establish a range of expansion scenarios that utilise existing consents for the Te Awaparahi Bay Expansion
- These expansion plans also include transitioning the port to electric operations and in some scenarios automate container operations

[redacted]

101

Port expansion

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Completion of the Eastern Development has bought LPC's container capacity to ~600k – completing the next stage of the Te Awaparahi Bay expansion will increase capacity to ~860k

[redacted]

102 102

When will the expansion capacity be needed?

Even under a conservative case, assuming nil growth for the next two years, before returning to the base case assumption, LPC hits its capacity constraints by FY32

[redacted]

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Capital expenditure

Under the expansion scenario, the bulk of capex expenditure is incurred in 2027 and 2028, resulting in an increase of ~260k container capacity and transition to predominantly electrified operations

[redacted]

104

Port expansion

While the Te Awaparahi Bay expansion requires significant investment, it has the potential to generate a material increase in revenues and profitability by unlocking operational efficiencies and further container growth

[redacted]

[redacted]

 106

Section five

Ownership considerations

What are the benefits of public ownership?

107

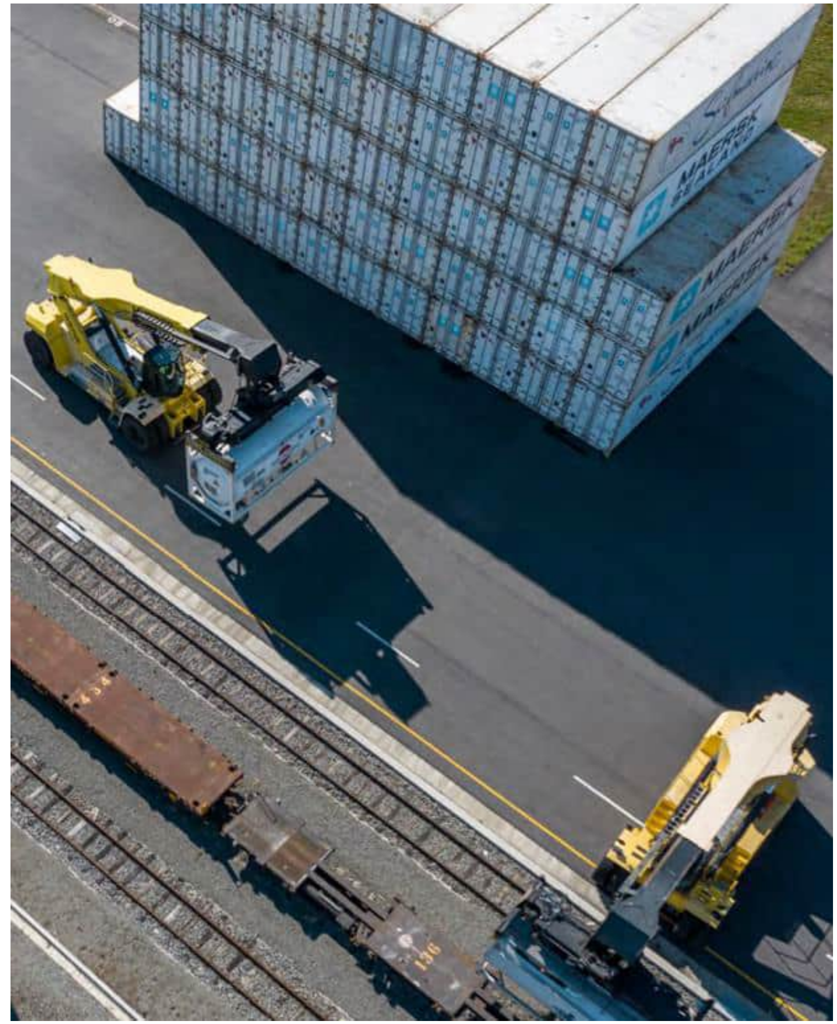
Benefits of CCHL ownership include:

- Potentially accelerates the transition to electrification and decarbonisation targets, albeit this attracts additional cost which will reduce LPC's returns / dividends
- Ability to retain status quo labour arrangements and higher levels of local employment, however this will continue to negatively impact LPC returns / distributions
- Ability to pursue initiatives which drive better outcomes for Christchurch end-consumers and NZ Inc, rather than purely profit oriented
- LPC is a core infrastructure asset, and notwithstanding short to medium term expansion capex demands, should be a strongly cash generative investment over the long term given its attractive underlying fundamentals
- Port consolidation in the South Island, if pursued, is more likely to succeed under CCHL ownership (given council port ownership in the South Island)

What would be different under private ownership?

Key priorities for third party capital are expected to include:

- Restructuring of labour arrangements to bring them more in line with peers – this could result in redundancies
- Retain decarbonisation as a priority, but take a more economic approach that results in less timely outcomes given the young age of some of LPC's core infrastructure (e.g., straddle carriers)
- Introduce capacity to fund future expansion given access to other sources of capital, and potentially more comfortable carrying higher debt levels – capital could be used to maintain CCHL dividends
- Depending on the type of private ownership pursued, incoming investors may be able to leverage international expertise to improve operational efficiency and profitability at the port
- Ability for CCHL to structure private ownership arrangements to retain control of key operational aspects which are important to the Council



109

Investment Review Workshop:

Christchurch International Airport Limited

Christchurch City Holdings Limited | KPMG | mafic

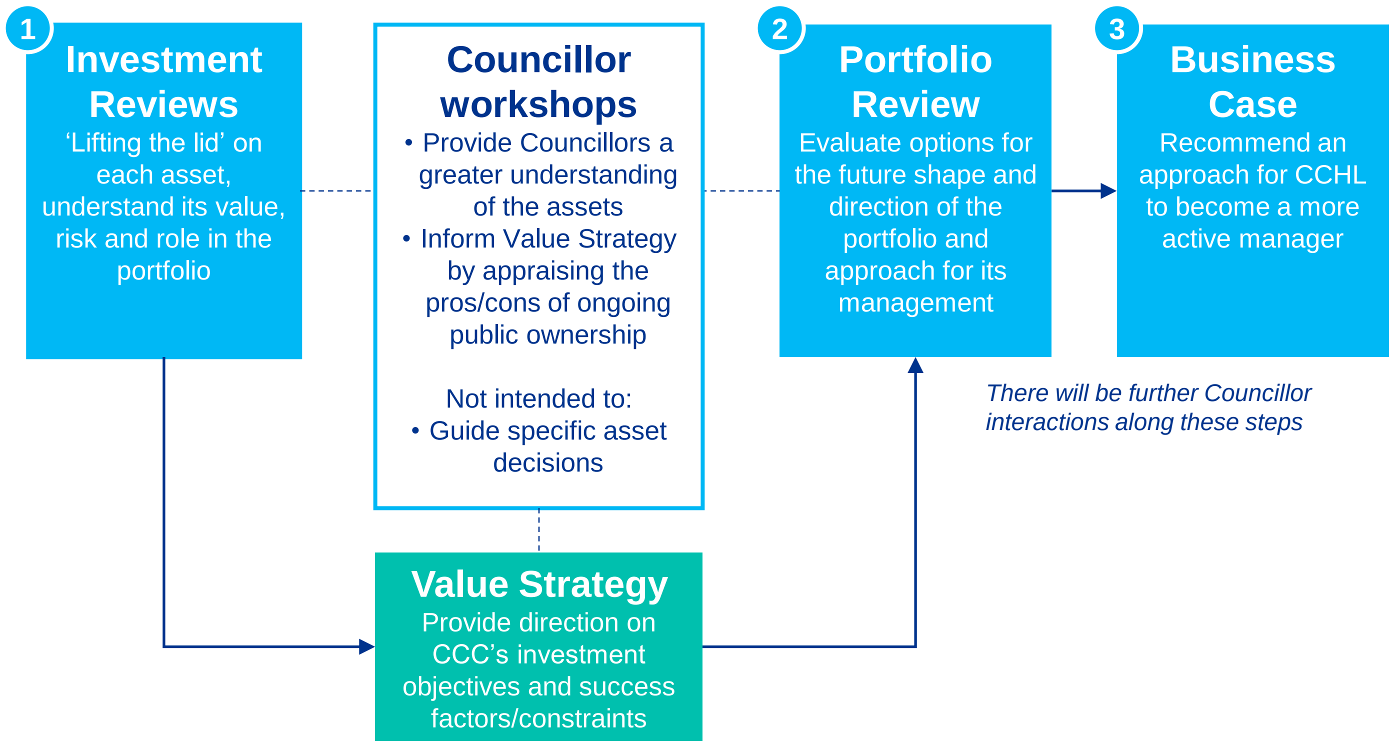
110 110

Context and purpose of this workshop

Background

- Opportunity to revisit the strategy for managing the investment portfolio
- Focus on value creation and approach to more active portfolio management
- In the context of the CCC's and CCHL's evolving financial, community and environmental needs

CCHL process and outcomes by stage



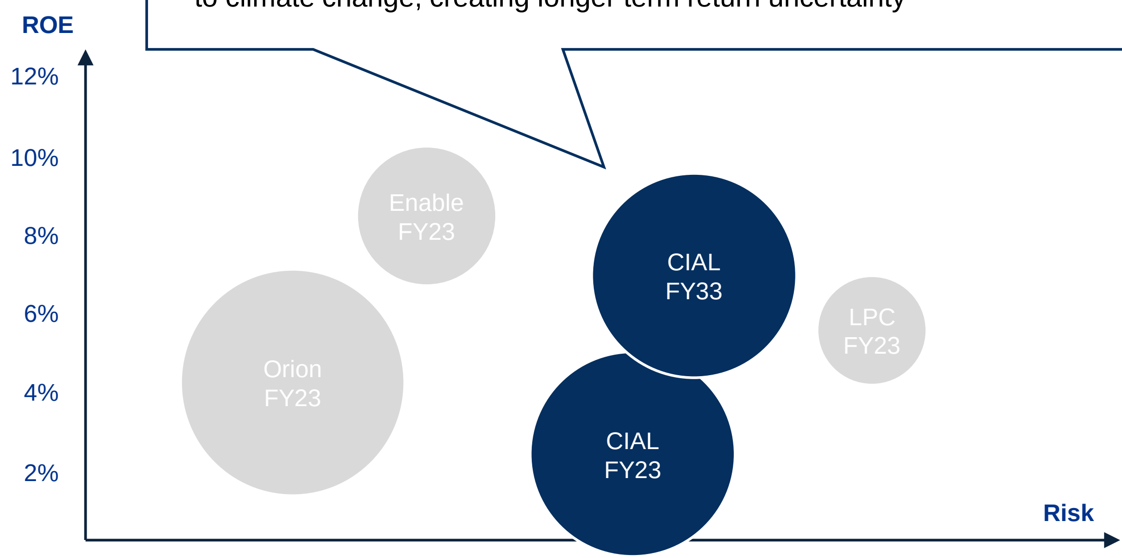
There will be further Councillor interactions along these steps

111 111

CIAL is expected to shift to a higher risk-return position due to a growth trajectory and increasing climate risk.

Fit within portfolio

- CIAL is the second largest CCHL asset by equity value
- It offers the highest short term cash flow growth opportunity in the portfolio due to its post-pandemic demand recovery and low capex needs.
- As LPC, CIAL is an economic gateway and its prospects are linked to regional economic growth.
- It is most exposed within the portfolio to the policy and customer response to climate change, creating longer term return uncertainty



Bubble size: FY23 equity valuation

 112

Part one

Description of investment

 113

CIAL has three service pillars generating $196m revenue (FY23B) with 39% coming from properties

FY23B snapshot

5.7m	Passenger movements	$33.6m	Planes revenue
$747.2m	Investment property value	$85.4m	Passengers revenue
$115.8m	EBITDAF	$76.8m	Property revenue

Current Christchurch campus

Three pillars

- **Planes**: services related to aircraft, cargo and passenger movement on the airfield.
- **Passengers**: ground transport and terminal services to retailers and airlines.
- **Property**: renting investment property on the airport campus and hotel operations.

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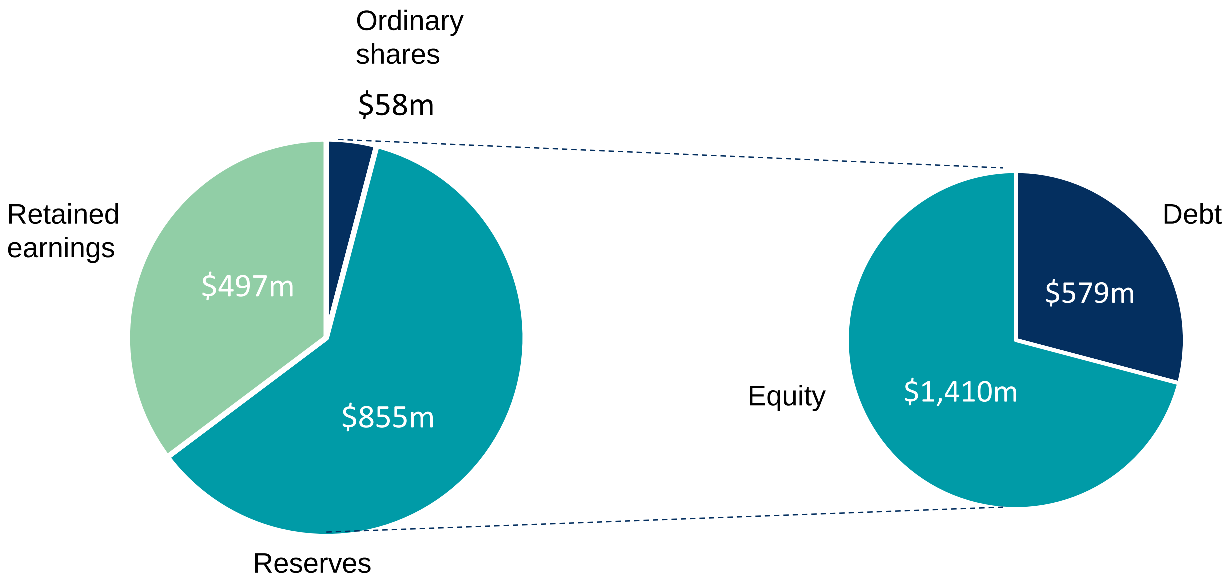
CIAL has been funded primarily through retained earnings and external debt

Capital structure, FY23 (book value)



- 75% of equity is owned by CCHL, 25% by the Crown
- CIAL's current equity valuation is in the range of $1.9bn - $2.3bn
- CIAL has $579m of bank debt and listed bonds

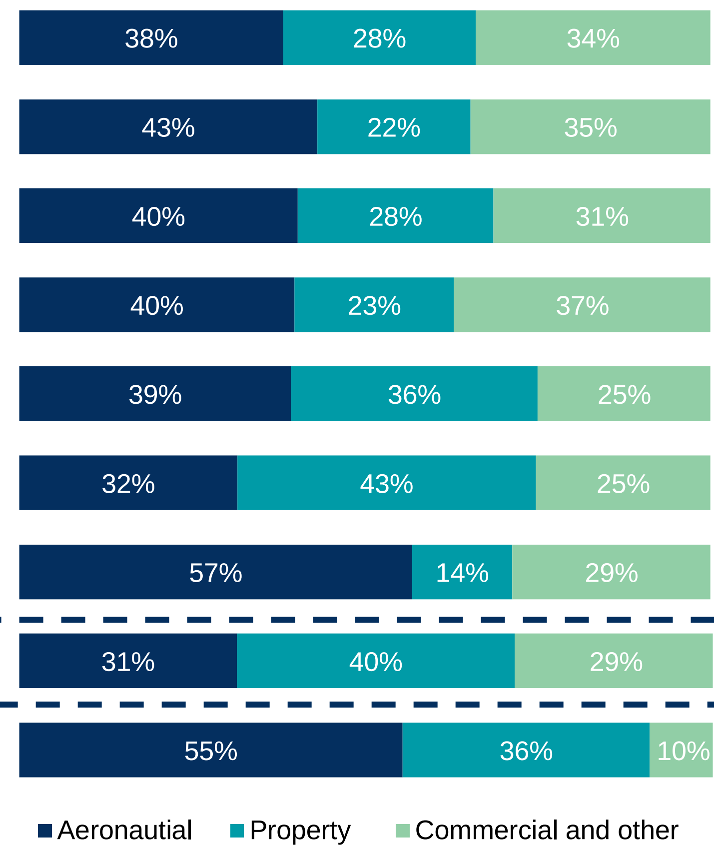
115

Description of investment

CIAL’s revenue and passenger profile

	Pax domestic: international		Total pax (m)	
	FY19	FY22	FY19	FY22
Sydney	2:1	3:1	44.4	29.1
Melbourne	2:1	6:1	37.4	12.9
Brisbane	3:1	11:1	23.8	10.2
Perth	2:1	14:1	14.5	7.3
Adelaide	7:1	30:1	8.5	4.0
AIAL	1:1	3:1	21.1	5.6
WIAL	6:1	72:1	6.4	3.5
CIAL	3:1	20:1	6.9	3.3
Q’town	3:1	29:1	2.3	1.1

FY22 revenue profile

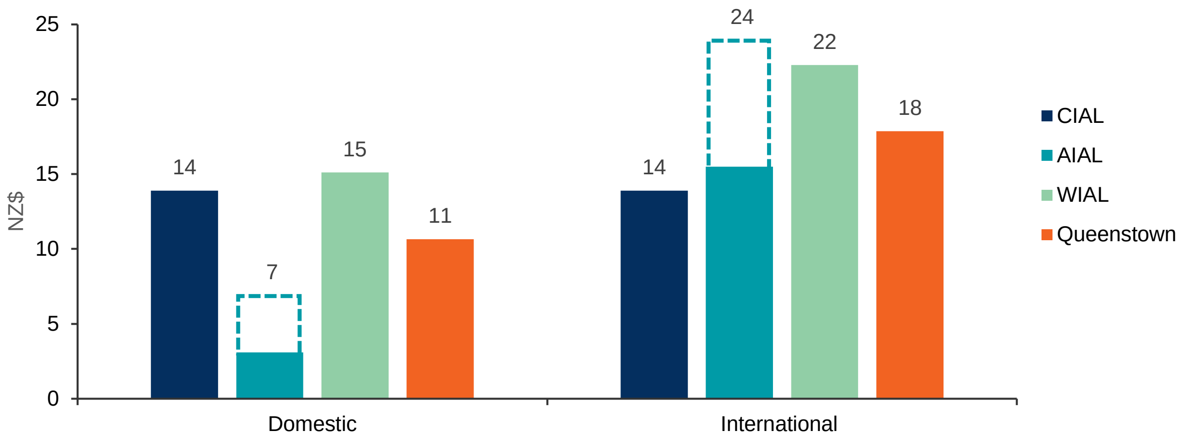


CIAL is the only one of the above in full public ownership. All noted Australian airports are privately held.

116 116

CIAL's aeronautical revenue is subject to regulation, limiting the return it can generate

Current per passenger terminal and airfield charges



Sources: Disclosure Relating to Reset of Aeronautical Prices Jul 22 – Jun 27, AIAL Schedule of Charges. WIAL Schedule of Charges, ZQN 2022 Disclosure Annual Accounts Final

Notes: AIAL sets airfield charges per plane rather than per passenger. The dotted line above indicates the estimated total passenger charge based on FY19 effective per passenger airfield charge. Regional services are charged at a lower rate to those shown in the graph.

- Two key inputs to pricing methodology are the **Regulated Asset Base (RAB)** and **Weighted Average Cost of Capital (WACC)**
- **Prices are reset every five years**, with CIAL last setting prices for FY23-FY27.
- In addition to per passenger charges, there are also regulated **landing and parking fees**

 117

Part two

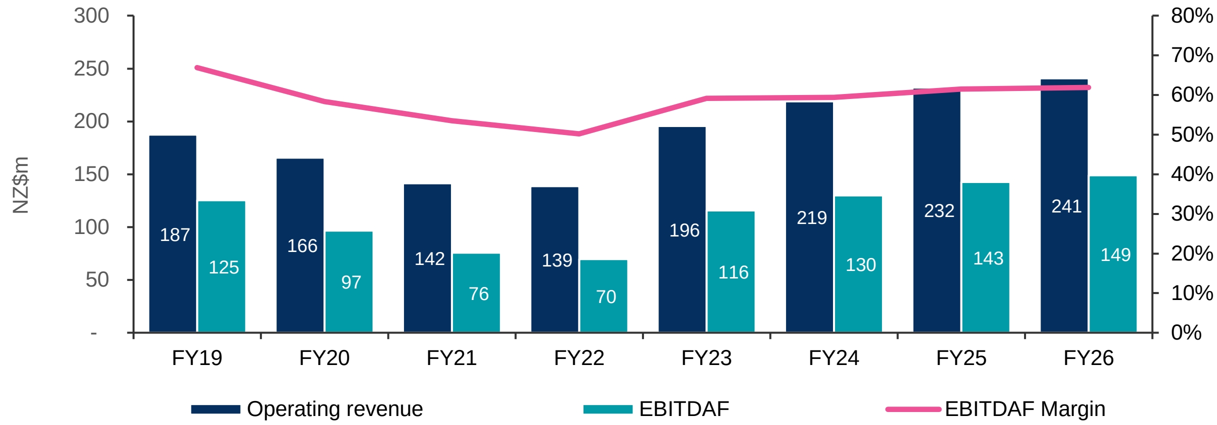
Financial performance

118

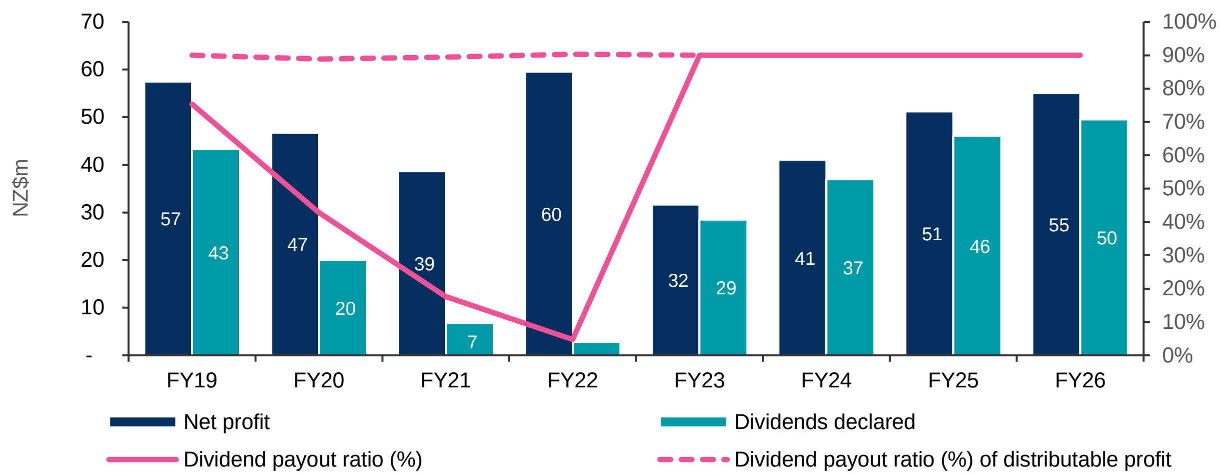
CIAL's dividend returns are expected to recover to pre-pandemic level by FY24

- **Operating revenue** recovered to **pre pandemic levels in FY23**.
- **Revenue growth is a result of property revenue**, with aeronautical revenue back to FY19 levels in FY24.
- Passenger numbers will **return to FY19 levels by FY25.**
- CIAL's **operating cost are largely fixed** so changes in revenue translate to change in profitability
- Expected increasing profitability will allow **increasing distributions to CCHL**

Revenue and EBITDAF



Net profit and dividends



Notes: *Dividend payout is calculated as a percentage of net profit. When removing the impact of revaluation gains and deferred tax movements, the percentage has remained at 90% over the FY19-FY22 period.*

119 119

Property revenue cushioned the impact of Covid-19, with aeronautical performance recovering by FY25

- CIAL's **resilient property pillar** limited the effect of COVID-19 on revenue

- Number of passengers is projected to recover to pre-pandemic level by FY25

- **Planes and passengers pillars** are expected to **lead revenue and profit growth** from FY23-26.

[redacted]

120

CIAL's profit, return and debt metrics have been aligned with the average of regional peers over FY19-FY22

– **All airports suffered pandemic impacts** to earnings and debt serviceability.

– **EBITDA reduced industry wide** as passenger numbers reduced, with costs largely fixed.

– **CIAL's EBITDA was less impacted** than its New Zealand peers due to significant proportion of property revenues.

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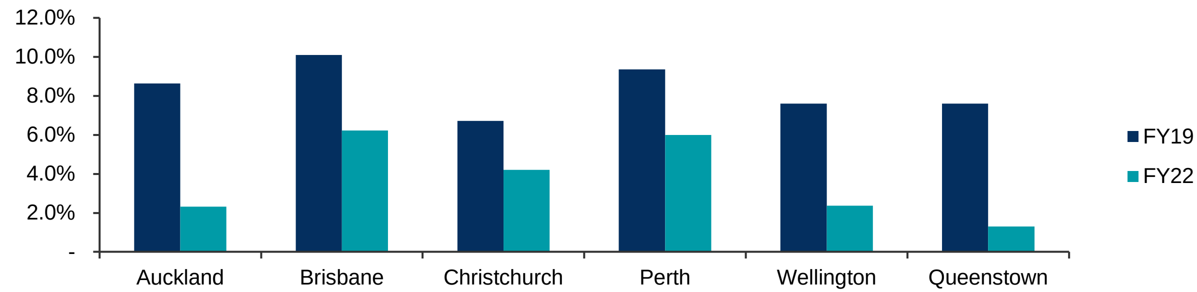
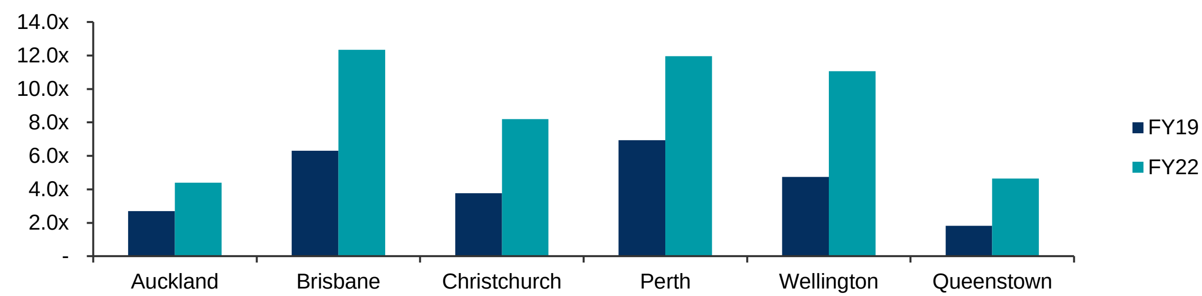
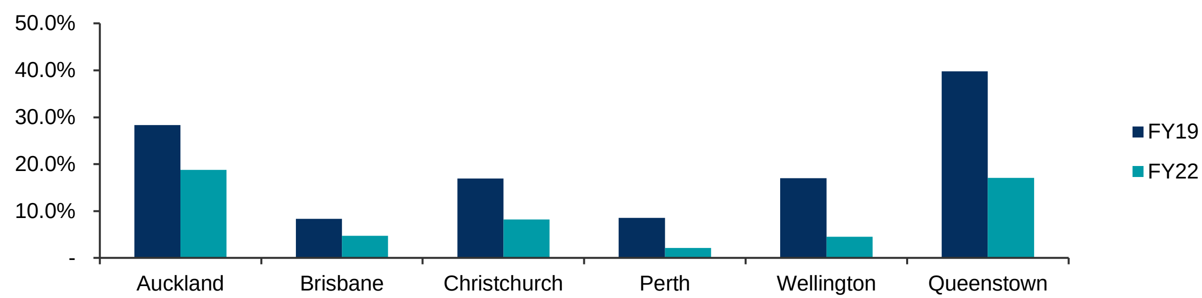


Debt / EBITDA



FFO / Debt



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Long term profitability is expected to increase year on year, resulting in higher dividends

[redacted]

122 122

Property revenue is increasing but is less profitable than aeronautical operations

[redacted]

123 123

Debt is forecast to be relatively stable across the next ten years due to low levels of capex

[redacted]

124 124

Base Case forecast appears reasonable in the medium term, the sensitivities below illustrate the level of longer term risk to returns

We've illustrated sensitivities that reflect changes in regional economic prospects, as well as policy and consumer response to climate changes. Sensitivities take into account the impact of regulated pricing

[redacted]

125

Part three

Impact assessment

126

CIAL has a 6 pillar sustainability strategy considering climate, energy, biodiversity, waste, water and noise.

- CIAL is setting more ambitious sustainability goals and is ahead of its peers in scope 1 and 2 emission reduction.
- In 2022 CIAL was reported as the first climate positive New Zealand airport (based on scope 1 and 2 emissions, and offsets).
- However **scope 3 emissions from airlines are significant** and require major technological changes to resolve.
- The development of **Kōwhai Park** is a cornerstone CIAL's plan for further decarbonisation and energy resilience.
- CIAL aims to have **60% waste diversion** and **20% water reduction** from FY17 levels by FY25

Emissions reduction progress:

88%	Scope 1 emissions reduction from FY15 levels
2/3	Reduction in scope 1 and 2 emissions from FY17 levels
Net Zero	Scope 1 and 2 emissions achieved in FY21
67%	Electric vehicle fleet

Sustainability targets:

Absolute Zero	Carbon emissions by 2050
60%	Waste diversion from FY17 levels by FY25
20%	Water reduction from FY17 levels by FY25

 127

Part four

Value opportunities & risks

Value opportunities and risks

[redacted]

Value opportunities and risks

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[redacted]

Value opportunities and risks

[redacted]

Value opportunities and risks

[redacted]

[redacted]

133

Part five

Public ownership considerations

134 134

What are the pros and cons of public ownership

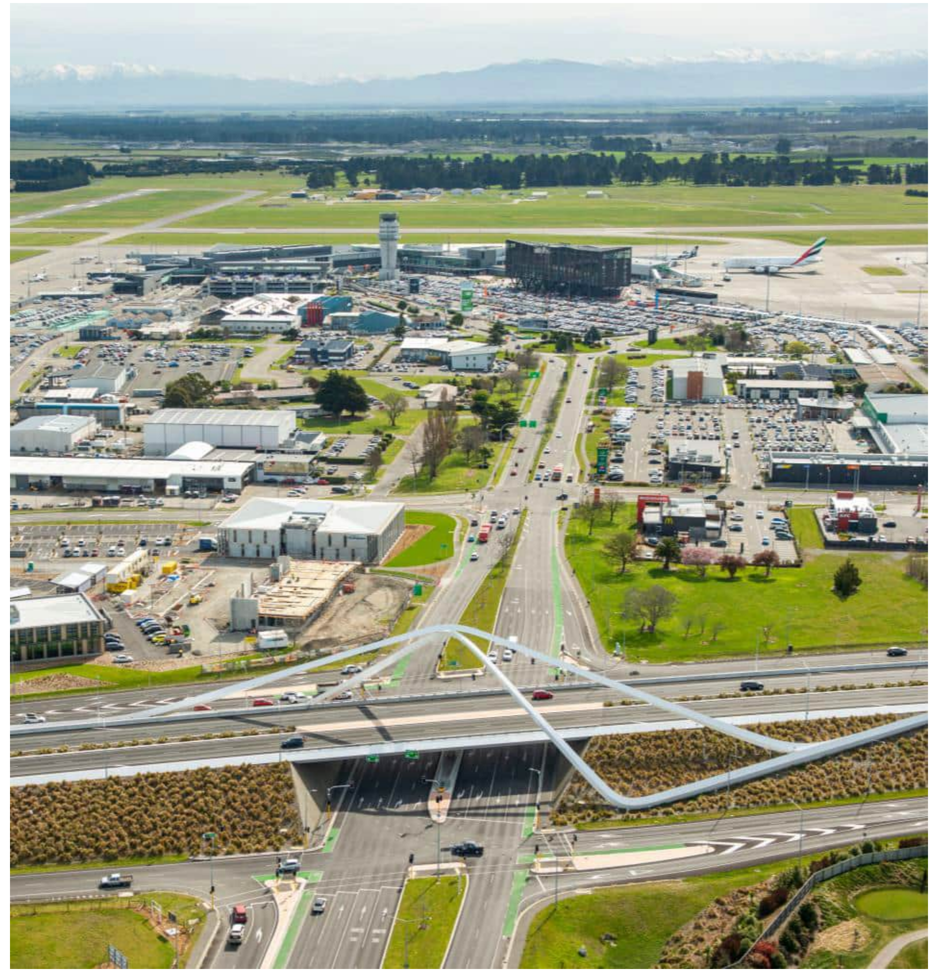
- CIAL is a mature business and **high quality, relatively low risk** investment for CCHL, which is largely ‘self-funding’ given low capex requirements.

- It is a **high profile asset** of national significance and a regional gateway that generates indirect economic benefits for the Christchurch region

- CIAL will continue to offer **financial benefit to CCHL** from increasing dividends and capital gains.

- Conversely, CIAL is the CCHL asset that is most exposed to climate change transition risks, which could impact its longer term prospects

- Key strategic projects, such as Tarras and electricity micro-grid developments, would require additional capital and/or expertise that external partners could provide



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What would be different under private ownership

- Investment in CIAL would be attractive to other airport operators, and infrastructure and institutional investors with access to **low cost capital.**
- **Airport services** would be subject to customer contracts that safeguard service levels.
- **Key aeronautical charge would remain regulated** and set through consultation with stakeholders and the Commerce Commission.
- Private ownership may impact some of **ESG goals** that require financial trade off, but CCHL could structure arrangements to safeguard these
- Incoming investors may **enhance technical capability/oversight** and efficiency of CIAL

136

Part six

Summary

137

Key points from the Investment Review

- CIAL has a strong market position as a key economic gateway to the Christchurch region
- In the short/medium term, passenger growth, price increases and relatively low capex drive cash generation and dividend growth.
- CIAL's key risks are economic (demand and cost), climate change transition and force majeure events.
- CIAL's growth, under the base case, can be funded mainly through cash flows, however a significant new investment, such as Tarras, would need additional funding

138

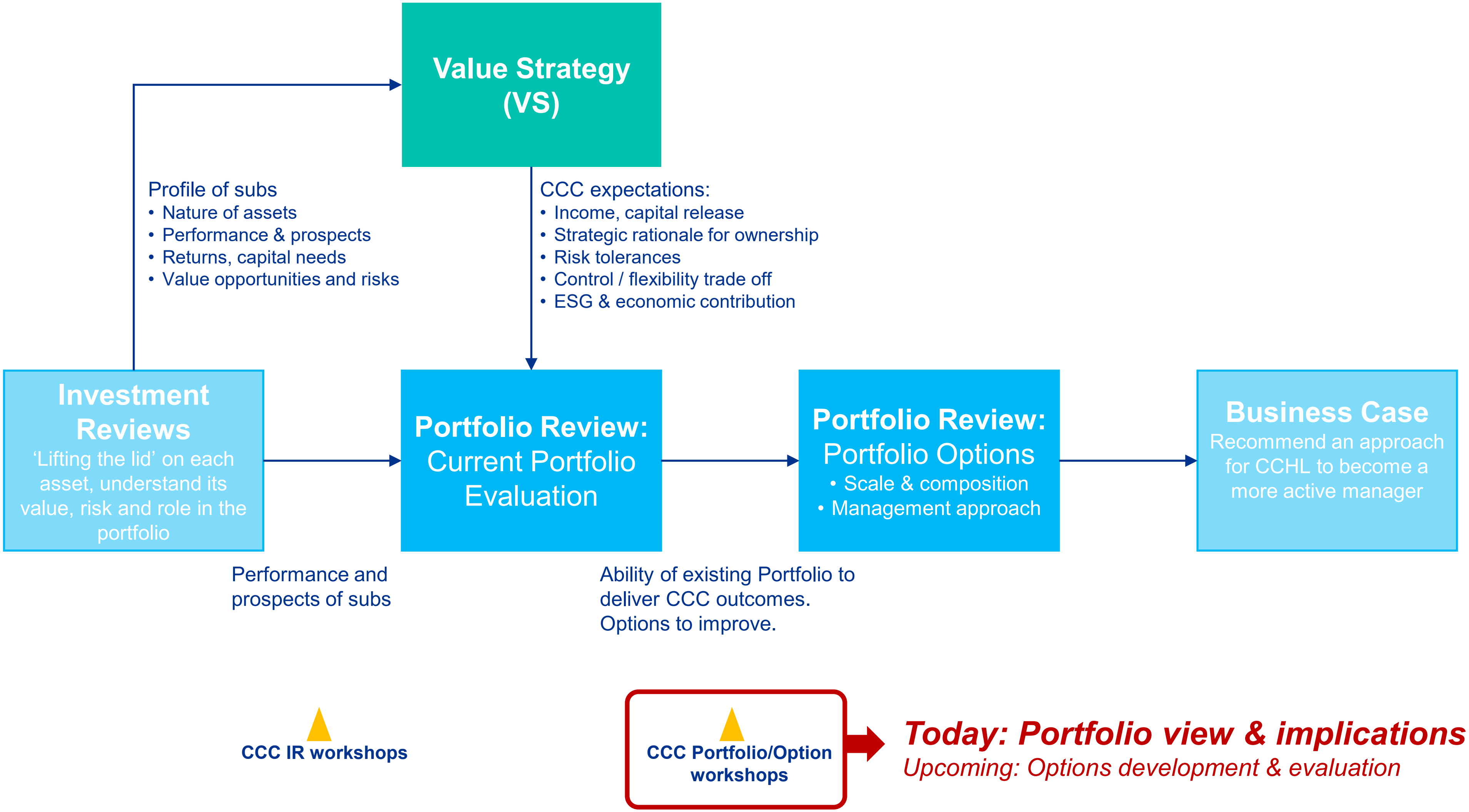
Portfolio Review Workshop

Portfolio highlights and potential strategic response

Christchurch City Holdings Limited | KPMG | mafic

139

Context of this workshop



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Today's discussion

Purpose

- Summarise the findings of the Investment Reviews at Portfolio level
- Draw out the implications for CCHL and CCC
- Explore the potential strategic response

Key content

1 **Portfolio highlights and implications**
What are the key challenges and opportunities for the current portfolio?
What does this mean for CCC and CCHL?

2 **Potential strategic response**
What could change so CCC gets more out of the portfolio?
How could CCHL organise itself to drive this change?

 141

Part one

Portfolio highlights and implications:

OVERVIEW

 142

Investment Review headlines

Investment Review headlines	Examples
High quality assets with regional/national significance	• Enable and Orion are critical network assets that underpin economic activity and connectivity • CIAL and LPC are key gateways into Christchurch
The subsidiaries have **supported CCC and CCHL objectives** by maintaining essential infrastructure and building capital, over time	• Avg. annual growth in equity value (FY18-23): 7.6% • Greater focus and investment in ESG performance
However, the portfolio is producing **low cash returns** vs capital invested	• FY23 dividend yield: ~2% (government bond: ~5%) • Avg. annual growth in cash returns (FY19-26): <1%

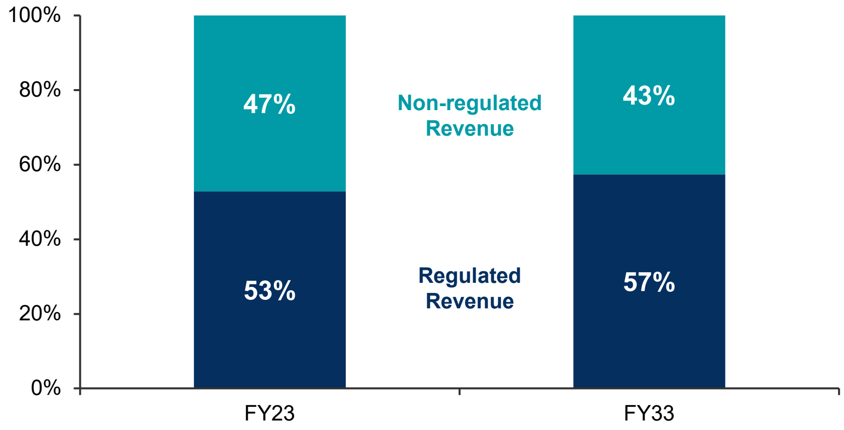
Looking forward, the subsidiaries **face greater risks** …	• Enable: technology change and competition • CIAL: climate change and impact on passenger demand • Orion: regulation, significant investment programme • LPC: international trade volatility, capacity constraints
…. and **need more investment**	• Orion: driven by electrification of the economy • LPC: driven by need for more capacity • CIAL: supporting regional growth

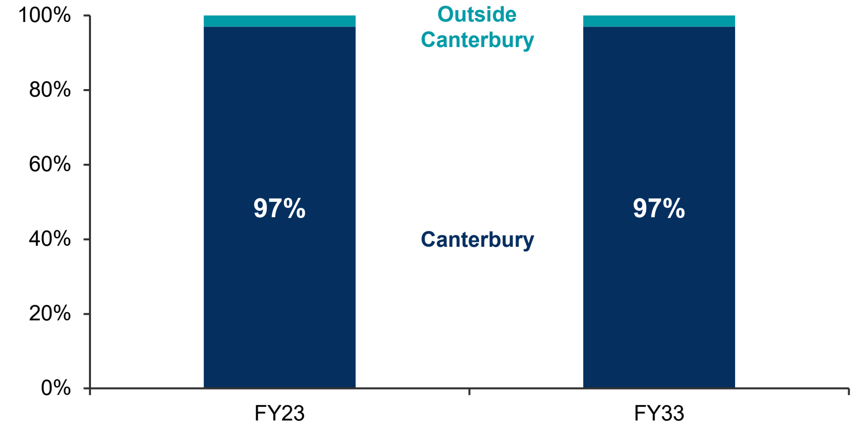
This **change in risk / return profile** means:

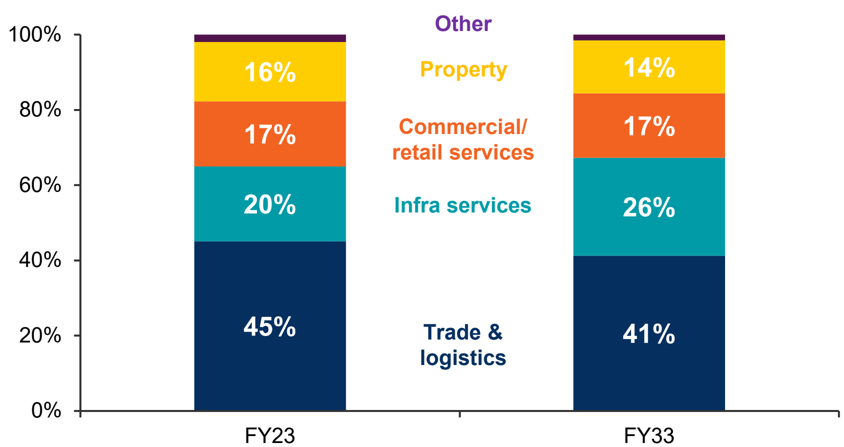
- **More volatile returns**
- **Balance of risks on downside**
- **Delayed return**: investment today with promise of return tomorrow
- **Portfolio returns need to increase** to be competitive vs alternative investments and compensate for increasing risk

143 143

Income mix is expected to remain unchanged, linked to regulated activities and local economic prospects







As revenue mix is unchanged, return potential will be constrained

While the profile of the portfolio is stable, the balance of risk is on the downside due to higher financial risks, increasing competition and macro-trends like response to climate change

Key:

Trade & logistics = LPC

Infra services = Orion capital contributions and Connectics

Commercial/ retail includes = CIAL retail services and LPC cruise

Property = CIAL investment property portfolio

144

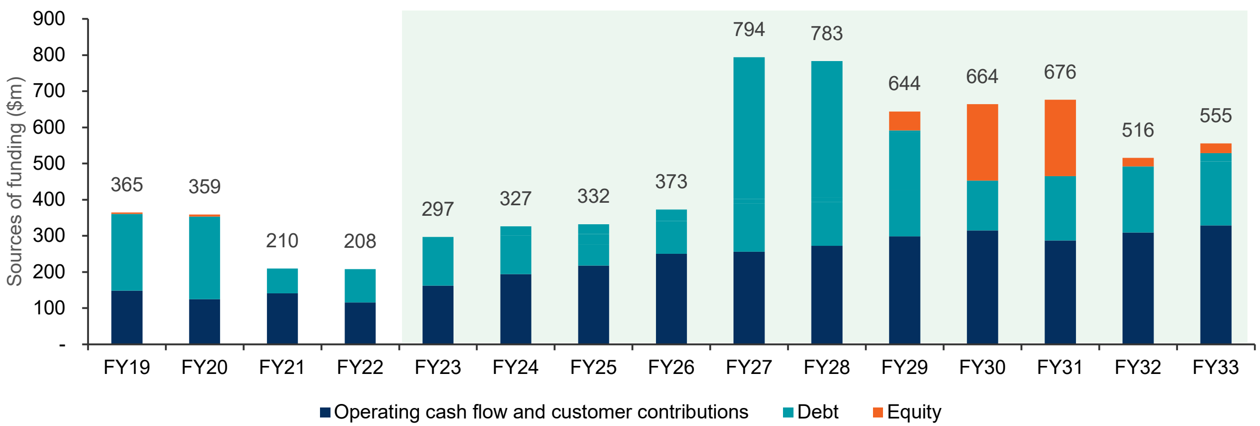
Portfolio risk profile increases due to capital investment

[redacted]

Investment increasing to $1bn in FY24-26, up to $2.2bn in FY27-29

Spent on: increase in resilience and growth at Orion, LPC, CIAL

Sources of funding for capital expenditure

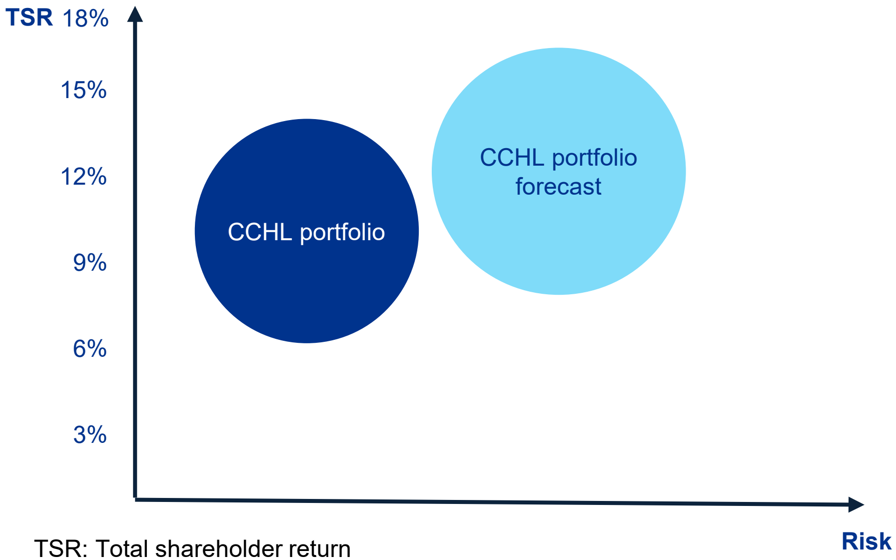


Base case mostly funded by debt and operating cash flows. Stretch case likely requires additional parent capital (debt and equity).

Source:

Aggregation of the base case financial forecasts per the investment reviews for Orion, CIAL, LPC and Enable.

Increasing risk across the portfolio = need to increase returns



TSR: Total shareholder return

[redacted]

	Core	Core Plus	Value Add
Definition	Essential assets with limited operational risk, clear demand, limited or no competition and long-term stable cash flows.	Assets with higher sensitivity to economic conditions and lower pricing power relative to core assets.	Assets with growth potential that may require significant investment or enhancement to generate a return.
Target Return	8-10%	10-15%	15%+
Assets	Orion CIAL (Regulated)	Enable CIAL (Unregulated) LPC	Citycare

We consider the portfolio is part “Core” /“Core +” implying a benchmark target return of 10-12%. Historically it has performed within of this range, however the majority of this is through capital appreciation (based on external valuation) rather than cashflow that can be returned to Council. Increasing risk means greater return is warranted.

146

Part one

Portfolio highlights and implications

RETURNS TO CCHL

147 147

Returns to CCHL are expected to improve but remain below pre-pandemic levels until FY26

[redacted]

FY24-FY26: recovery

FY27+: ramp up in growth driven by investment

[redacted]

Cash return remains low (below ~5% NZ government bond yield)

Additional returns may accrue in capital gains - need capital release to access

Source:

Aggregation of the base case financial forecasts per the investment reviews for Orion, CIAL, LPC and Enable.

Figures for CityCare are based on financial forecast per the CCHL portfolio model.

148 148

Orion and CIAL are expected to be the main source of dividends in the long term

[redacted]

149

Part one

Portfolio highlights and implications

RETURNS TO CCC

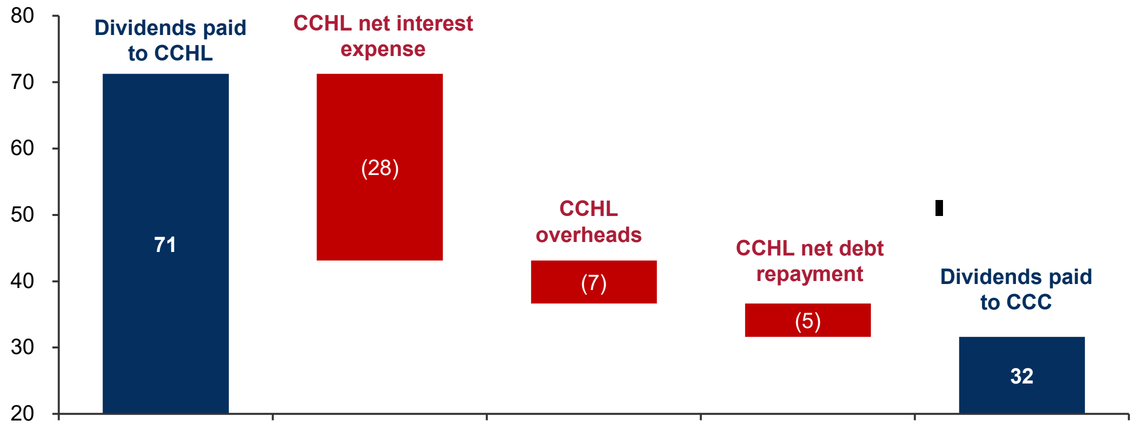
150 150

Debt at CCHL level is relatively high and limits distribution of dividends to CCC…

[redacted]

CCHL will have relatively high debt compared to its income in the short term which will limit its ability to borrow more

FY23 illustrative cash flow waterfall



CCHL's debt service costs materially reduce the amount it can pass through to CCC

Source:

Aggregation of the base case financial forecasts per the investment reviews for Orion, CIAL, LPC and Enable.

Figures for CityCare are based on financial forecast per the CCHL portfolio model.

CCHL debt profile assumes Orion debt is funded through the intra-group facility, and LPC and CIAL borrow externally. If Orion's debt is external, than ICR improves from FY30

Downside ICR sensitivity assumes downside distributions from subs and no repayment of CCHL core debt

151 151

... as a result, cash returns to CCC are forecast to be constrained in the short-medium term

[redacted]

Short term distributions are constrained by investment in subsidiaries and the cost of CCHL's debt.

Longer term those investments can generate increasing returns, subject to:

- **Earnings volatility of subsidiaries**
- **Subsidiaries prioritising dividends to CCHL vs reinvestment of earnings**
- **CCHL prioritising dividends to CCC vs debt repayment**

[redacted]

[redacted]

152

Summary implications

Increasing risks and investment in the portfolio mean greater opportunity and need to:

- increase return from individual assets
- optimise performance at portfolio level
- increase synergies across the portfolio
- improve alignment with CCC objectives

This can achieved by more active involvement by CCHL

e.g. in driving performance, allocating capital, shaping the portfolio to the long term needs of CCC

Potential strategic response

(ie the spectrum of options to become a more active investment manager) is introduced in the following section

153

Part two

Potential strategic response

154

The options to respond to increasing risks and capital requirements range from more active management to capital release

Active Investment Management

Taking a more **active** role in **investment choices**, **strategy** and **performance**

Partner Co-Investment

Co-investment with **partners** into growth projects **within** the **portfolio**

- 'organic'
- easier to implement
- more control

- 'inorganic'
- harder to implement
- less control

Strategic Liquidity Generation

Generate cash through **borrowing or non-core asset disposals,** e.g.

- [redacted]
- raising debt at subsidiary / CCHL level (limited capacity)

Capital Release

Release of **capital** through **transactions**, e.g.

- Concession
- Sale and Leaseback
- IPO
- Asset Sale

155

155

There are options which can be delivered without changing the composition of the portfolio

Active Investment Management

CCHL could take a more active role in managing the investments, beyond a monitoring and reporting function.

This could be implemented via:
- involvement in strategy-setting
- setting performance hurdles
- direction in investment decisions

Strategic Liquidity Generation

There are opportunities to generate liquidity (cash) to respond to CCC financial needs via:
- optimising capital at an investment level (e.g., borrow more)
- targeted non-core asset disposals

Partner Co-Investment

External partners could be brought in to co-invest into new projects within the portfolio

Growth projects could progress without the need for the subsidiaries or CCHL to inject new capital, although returns from the projects would be limited

This would lead to eventual dilution of ownership, but no asset sale

- easier to implement
- more control

- harder to implement
- more control

156

CCHL's management approach could be tailored to CCC's objectives

What should CCHL look like?

Considerations:
- Level of activities – e.g., to shape portfolio performance, size and composition
- CCC value strategy
- Available / achievable management capability

Scope of activities / *key levers*

Monitor existing portfolio
Governance appointments, performance reporting

+

Drive investment discipline in existing portfolio
Oversight of subs' investment decisions

+

Optimise capital in existing portfolio
Oversight of subs' funding and distributions

+

Optimise portfolio
Delegations for acquisitions, disposals and capital raise and distributions

Examples / operating model features

Current CCHL model
- Small team focused on monitoring investments, promoting investment priorities, sustainability and profitability within subs

Quayside, Ngai Tahu Holdings
- Significant restricted/strategic assets + diversification strategy
- Sustainable, inflation proof, intergenerational revenue objective coupled with growth target and some regional benefit and sustainability objectives
- Mid-sized team with investment expertise

MCo/ Infratil
- Active manager that drives subs performance
- Defined infra investment mandate and hands-on board (client) approval requirements
- Contracted KPIs, incentives, accountabilities
- Large team with significant investment experience

Discretionary infra fund
- Similar to Infratil model but manager has full discretion within parameters without client approval

ACC
- Strong focus on risk adjusted returns across portfolio
- A Board that sets investment strategy and guidelines and delegates authority to Investment Managers who have discretion within tolerances
- Broad, experienced team incorporates investment managers but also outsources to fund managers

New Plymouth PIF Guardians
- Balanced portfolio with listed and unlisted securities and some low risk investments
- Small in-house team, management outsourced

157

Capital release options can provide one-off cash proceeds and reshape the portfolio in line with investment objectives

Option	Overview	Ease of execution	CCHL retains control	Volume of capital released	Investor appetite
Asset Sale	• **Minority sale**: would enable CCHL to retain control while releasing some capital, however market appetite may be constrained.	✓	✓	-	-
	• **Majority sale**: would maximise value but negate CCHL's right to any future upside.	✓	✗	✓	✓
IPO	• Shareholder equity is sold on the public market, enabling CCHL to raise capital	✗	✗	✓	✓
Sale and Leaseback	• An arrangement whereby a company that sells an asset can lease back that same asset from the purchaser	✓	✗	✓	✓
Concession	• CCHL could offer the rights to lease / operate the asset for a defined term	✓	-	✓	✓

158

Investor universe

There is a wide universe of potential investors that are interested in investing in the infrastructure sector, attracted by long term and (relatively) low risk returns

Australasian Funds

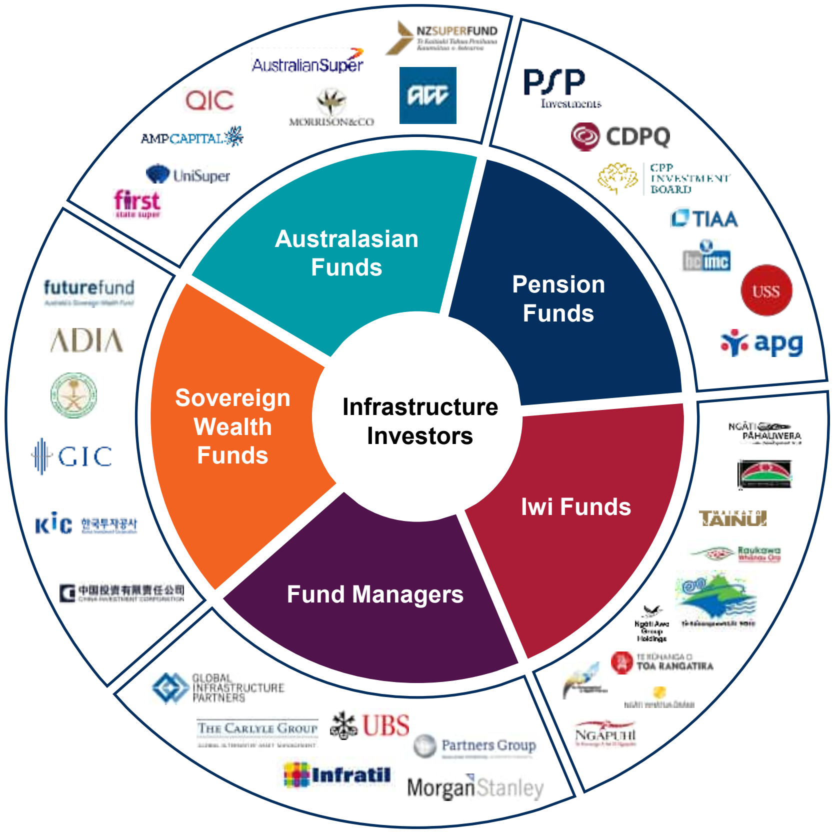
- NZ Super Fund and ACC are New Zealand's largest institutional investment funds, whilst smaller private and iwi funds continue to grow
- Such larger funds are investing directly in infrastructure and have the flexibility to assess infra-like opportunities

Sovereign Wealth Funds

- Generally seek minority stakes (~20%) which will limit the size of their investments
- Many global infrastructure investors have experience across a broad range of mandates active in Australia and New Zealand

Infrastructure Fund Managers

- Typically investors looking at more complex transactions to deliver core plus returns – often driven by a higher fee structure
- Can be restricted by mandates (e.g., GIP and Brookfield Infrastructure have mandates targeted at specific infrastructure sectors)
- Private equity funds such as Blackstone are raising longer-dated funds targeting "infra-like" assets



Pension Funds

- New Zealand has been an attractive market for many global pension funds
- Canadian funds have a long track record of investing in Australian and New Zealand markets with some UK/European funds becoming more active
- Whilst the U.S. is the largest global pension system, investments are typically made via fund managers

Iwi Funds

- Iwi investors tend to have a strong home bias, long time horizons, limited access to new capital and typically have constraints on their ability to sell certain assets
- Iwi across New Zealand hold sizeable assets in property and the primary industries, such as fishing, forestry and farming
- Many iwi continue to diversify their asset base through direct investments in new sectors such as infrastructure

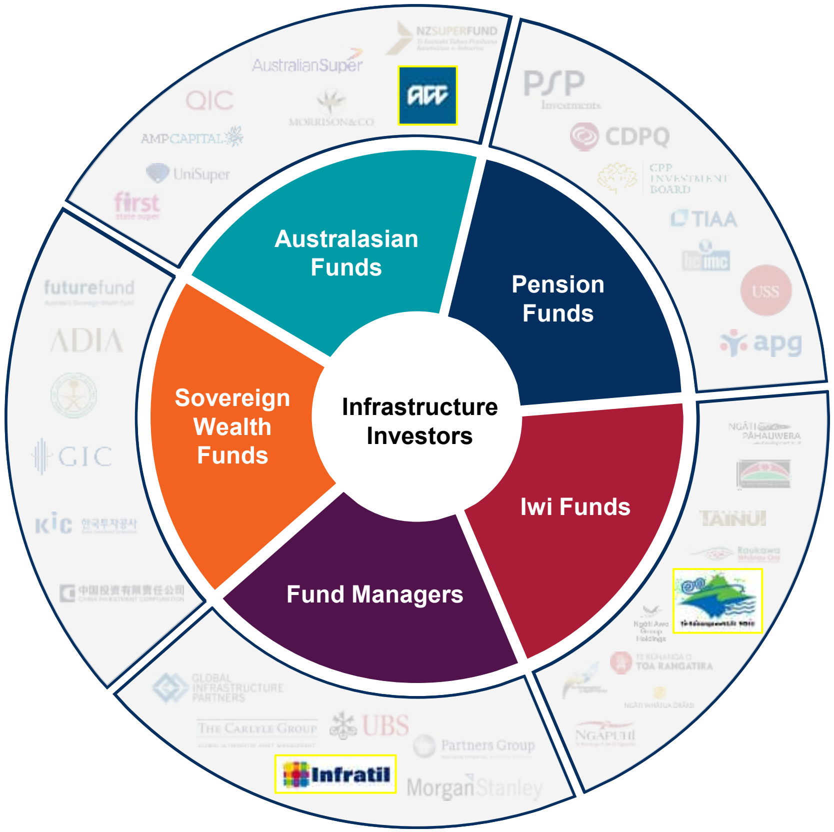
159

Investor case studies

Australasian Fund: ACC

- ACC is a $46bn institutional investor. It's fund helps New Zealand to meet the costs of injury claims as well as generating significant financial returns
- Larger funds such as ACC are investing directly in infrastructure and have the flexibility to assess infra-like opportunities

Target Return	Risk Appetite	Time Horizon	Mgmt. Style
Low (8-9%)	Low	Long	Mixed



Iwi Fund: Ngāi Tahu Holdings

- The largest Iwi investment fund, Ngāi Tahu Holdings (NTH) seeks to create revenues which allow for increasing levels of distribution for charitable purposes to the Ngāi Tahu whānau and communities on an intergenerational basis
- The majority of NTH's assets are in the Property, Farming, Seafood, Forestry and Tourism sectors
- NTH is engaged in several partnerships with the public sector, particularly across the South Island, on projects that seek to improve social and economic prosperity in the region

Target Return	Risk Appetite	Time Horizon	Mgmt. Style
Low (8-9%)	Low	Long	Mixed

Fund Manager: Infratil

- Infratil is an established, high conviction investor with significant platforms across digital and social infrastructure, healthcare and renewables
- Active management of businesses and portfolio; exposure to growth infrastructure while also maintaining a rising dividend and conservative financial risk
- Infratil, overseen by parent company Morrison & Co., invests in areas of management expertise

Target Return	Risk Appetite	Time Horizon	Mgmt. Style
Mid (9-12%)	Mid	Mid	Active

160

Conclusion and next steps

The portfolio is facing increasing risk and investment requirements

There is a spectrum of options to optimise capital which range from CCHL becoming more active through to changing the composition of the CCHL portfolio

The approach to the portfolio will be guided by CCC value strategy, taking into account both quantitative and qualitative considerations

Qualitative considerations:
- Assets which support the future growth of Christchurch
- Fit for purpose intergenerational assets
- Meet future service needs
- Resilience of portfolio - ability of portfolio to withstand external events
- Consistency with ESG objectives

Quantitative considerations:
- Strength of financial returns
- Certainty of dividends
- Increase in shareholder value
- Ability to access one-off capital

Problem definition → *Case for change* → *Value strategy options for CCC*

 161

DOCUMENT 7

CCHL Inputs into Value Strategy Discussion

5 September 2023

Christchurch City Holdings Limited

CCHL Portfolio Review – What have we learnt?

162

Well established and high-quality assets facing elevated and more present risks than in the past

STRATEGIC FOCUS

- Portfolio of high-quality Assets that have supported the growth of Christchurch and Canterbury
- Will continue to do so as well-established infrastructure assets, with monopoly characteristics
- High barriers to entry and regulatory frameworks provides reasonable assurance on future service levels
- Portfolio assets will grow overtime with return mix largely the same, if nothing changes
    - 60 % regulated assets, 40 % growth assets
- Strategic Focus is pivoting to enabling decarbonisation and future growth
    - Orion addressing pressures for accelerated investment in decarbonisation
    - LPC responding to impact of widely-accepted population growth and GDP assumptions
    - CIAL contemplating a material shift in the economic geography of the South Island toward Central Otago
- All subsidiaries will also need to adapt to acknowledged mega-trends of climate change, digital transformation and demographic shifts (urbanisation and aging population)
- Group revenue streams further challenged by expected sustained and increased macro-economic volatility
    - Less reliance on earnings projections
    - Higher cost of doing business = wage costs, construction costs, interest rates, supply chain frictions and even more regulatory capture
- Risk profile is changing at a shareholder, portfolio and asset level = pressure on case for ownership

Christchurch City Holdings Limited

CCHL Portfolio Review – What have we learnt?

Stronger revenue does not readily translate to equally strong dividend growth

EARNINGS FOCUS

- Earnings Profile is expected to see medium-term growth, supported primarily by
  - [redacted]

- However, volatility attached to those earnings is also expected to increase
  - Regulatory drag on Orion's earnings could be substantial, [redacted]
  - LPC and CIAL's base-case assumes normal growth resumes and no change in consumer preferences
  - Enables base-case assumes modest growth and an ability to defend its turf against competitive threats
  - Business costs are forecast to be the same as headline inflation = unlikely

- Balance of earnings risk is skewed to the downside - puts pressure on Council's need for increased certainty
  - [redacted]

- Subsidiaries call on available cash must also increase IF we are to support growth and decarbonisation objectives
  - Orion, LPC and CIAL are all projecting retaining a greater share of their respective earnings = lower dividends to CCHL
  - [redacted]

- CCHL's commitment to prudent, long-term financial management also requires a renewed focus on debt repayment

- **THEREFORE, CASH PROJECTED TO BE AVAILABLE TO COUNCIL SHOWS ONLY MODEST GROWTH**

  FY 2023 – 26 ~$30M - $50M

  FY 2031 – 33 ~$50M - $70M

Christchurch City Holdings Limited

164

Income generated has wide distribution – highlights risks, volatility and competing demands on access, to earnings

[redacted]

Cash available from trading operations

Cash potentially available should capital invested generate adequate returns

Actual distribution likely to be impacted by elevated risks and competing demands

Cash available for distributions

Subject to reinvestment by subs and debt reduction by CCHL

CCHL Board's current assumptions under a prudent financial strategy

[redacted]

[redacted]

[redacted]

165

Christchurch
City Holdings
Limited

Dividend yields are below current government bond yield throughout the forecast period – even with 2 % inflation Council is simply standing still

[redacted]

166

Christchurch City Holdings Limited

CCHL Portfolio Review – Capital Focus - What have we learnt?

We can do more but we can't do it all

- Capital Demands are increasing under any scenario

[redacted]

[redacted]

- Group Debt will increase as appropriate part of capital strategy
  - New borrowing to fund capex (FY24-33): Base-case: $1.4B, Growth: $2.2B
  - CCHL Core Debt + CCTO Debt balance: FY23 ~2.2B, FY33: ~$3.1B - $3.5B

- We can't do it all – shareholder equity capital likely to be required under different scenarios

[redacted]

- Limited capacity for further investments (resilience) in other parts of the portfolio, nor new investments

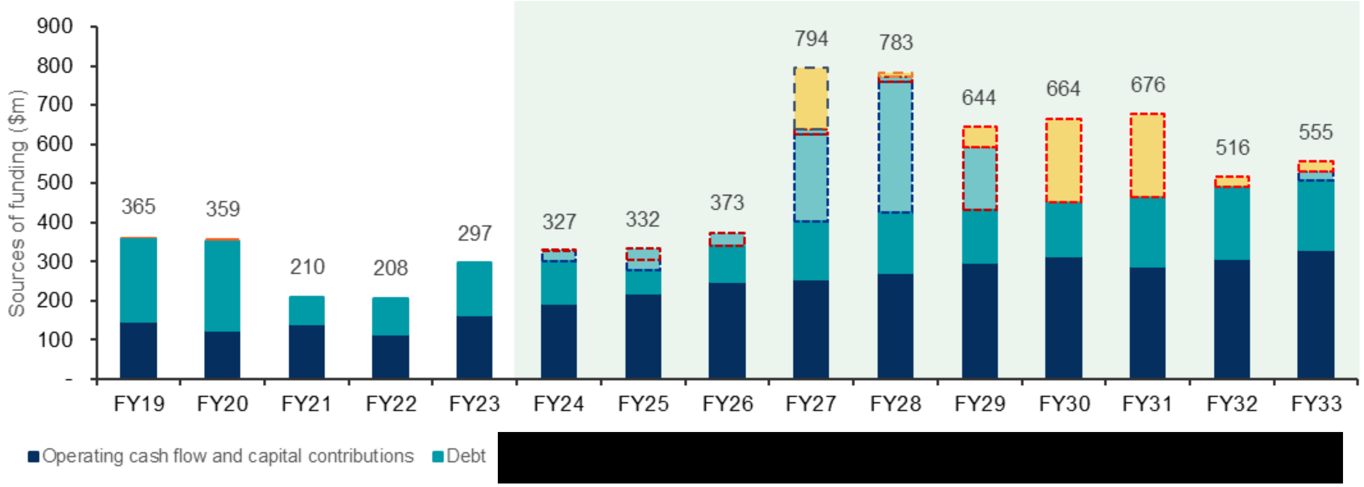
- Financial Risk profile also increasing across the Group:
  - Gearing ratios pivot from being modest (< 40 %) to highly geared (> 60 %)
  - Significantly more pressure on debt servicing capacity and credit rating

Portfolio highlights and implications

Portfolio risk profile increases due to capital investment requirements

[redacted]

Sources of funding for capital expenditure



Base: funded from operating cash flows and debt

Growth: requires call on additional parent capital

[redacted]

Christchurch
City Holdings
Limited

168

CCHL Portfolio Review – Entity Focus - What we have

More active ownership is a given, more flexibility a need and more agility preferable

- CCHL's role as a more active owner is a given
  - Transitioning from monitoring several discrete investments to creating more value and stronger prioritisation through a portfolio approach

- To meet Council's current objectives CCHL also requires a more flexible mandate
  - Active ownership is certainly necessary, but not fully sufficient if we are to support decarbonisation AND growth
  - Inability to access liquidity within the portfolio is a material constraint which could impact infrastructure in Christchurch. Also inequitable across generations

- To meet Council's long-term vision and medium-term objectives CCHL likely to require more autonomy over capital allocation AND investment decisions. CCHL currently has no capacity to invest in any new initiatives Council might consider beneficial for Christchurch
  - CCHL's competitive edge is concentrated on this city and region = a strong point of leverage
  - Ability to seek co-investment and recycle existing capital are confirmed as options for our business case
  - Caveated by appropriate safeguards to preserve and grow public benefits

- The concept of "Asset Sales" does not necessarily subtract from ownership, control and outcomes – despite narratives to the contrary

- "Capital recycling" is genuinely additive to a city's overall levels of infrastructure investment, IF
  - Private investment wants to own established infrastructure assets for largely the same reasons as Council, and
  - Capital is recycled into increased resilience and new infrastructure sectors and assets the city and communities want

OBJECTIVES DEVELOPMENT WORKSHOP WITH ELECTED MEMBERS

12 September 2023, commencing at 1.30pm

The presentation team set the scene for the date noting that feedback is required today from Councillors with the conversation focusing on the investment objectives. It was asked that today's session focus on getting some feedback at holistic or outcomes levels to allow the Team to bring some guardrails back from the feedback taken away today.

This portfolio is anticipated to grow over time and as part of the growth we would expect to see a growth in revenue and NPAT however it is noted that competing demands on access to this cash is going to also grow from the portfolio.

[redacted] referred to there being limited choices, being:

(1) Increasing rates (at unsustainable level)
(2) Council living within its means (this could include reducing spending, reducing levels of service, deferring renewals and removing capex); and / or
(3) Getting more out of the Portfolio (this could include rebalancing returns, releasing capital, changing to a distribution policy)

Three other inputs into investment objectives we have reflected on, these being:

(1) Council's own strategic objectives and priorities;
(2) Things we have learned as we have gone through the investment and portfolio reviews; and
(3) Things that CCC has reflected back to us, issues raised etc.

It was noted that CCHL has landed on four draft investment objectives to reflect what we have heard:

(1) you want certainty of income – CCC currently has volatility of income - you desire to see sustainable, consistent and real growth; what the implications for CCHL would be and what the outcome would be if we were successful in achieving those outcomes
(2) Supporting growth and resilience in local critical infrastructure focusing on sustaining the growth for Christchurch and Canterbury.
(3) That the portfolio should be invested for the benefit of current and future generations. One of the objectives of that CCHL makes, owns and returns should be for the benefit of future generations.
(4) Doing this without undue risk (noting that there is risk associated with the current mega trends and macroeconomic environment which is continuing to change).

[redacted]

 170

[redacted]

171

Round table exercise

(a) What does good look like? List up to four key things you are looking for out of CCHL's portfolio and the order of priority

	Table 1	Table 2	Table 3
Sustainable real growth in dividends	Agreed No. 2	No 4 – would rather see CCHL pay down debt.	Agreed No. 2 =
Supports growth and resilience in critical local infrastructure	Agreed No. 2	No. 2	Agreed No. 3
For the benefit of current and future generations	Agreed No. 1 (need a balance)	No. 1 – current is important, but future is more important.	Agreed No. 1 = (future is more important / balance)
Without undue risk	Agreed No. 4	No 3. - Didn't all agree – drill into risk appetite – without undue calculated risk. Would rather go with a safe portfolio. However others decided they need to take on more risk.	Agreed No. 4

(b) If needed, propose any change to the investment objectives to fit with your statements:

- Operational efficiencies;
- working with other stakeholders (such as the Port);
- need to find consensus on rates rises and appetite
- Doesn't look like a high growth portfolio

[redacted]

Reserve Bank
of New Zealand
Te Pūtea Matua

DOCUMENT 9

Inflation in New Zealand

Rebecca Williams (Manager, Forecasting)

173

The Reserve Bank's inflation target

Annual Consumer Price Index (CPI) inflation between 1 and 3 percent over the medium term, with a focus on 2 percent

174

Flexible inflation targeting: The best contribution monetary policy can make to the NZ economy

- Inflation is economically costly
  - High and variable inflation makes it much harder for businesses and households to plan, and to know where to direct any investment
  - Unexpected changes in inflationary arbitrarily affects relative outcomes for savers and borrowers
  - High cost of living particularly challenging for people on low or fixed incomes, as it is effectively a pay cut

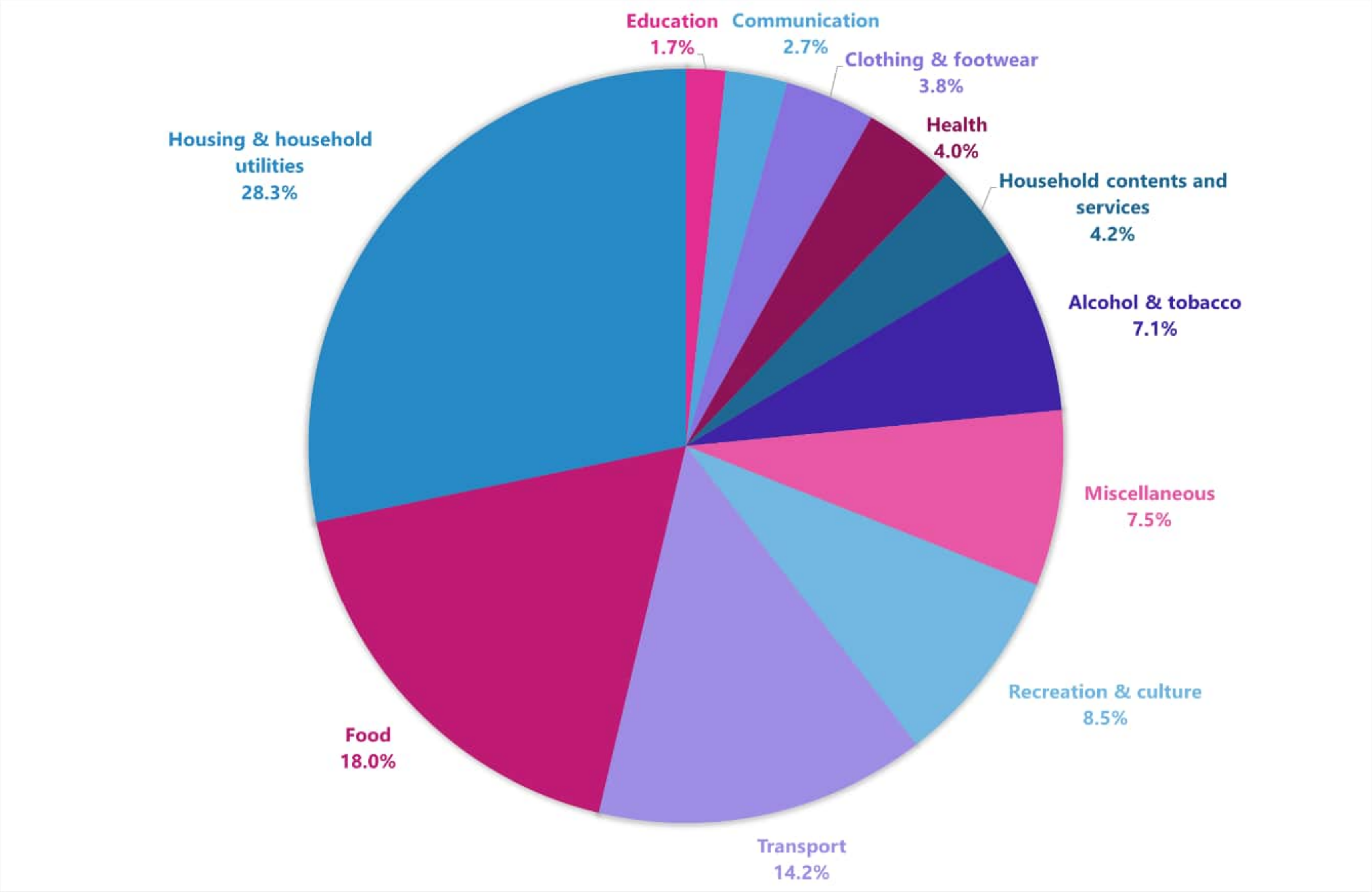
175

Measures of inflation

- **Consumers Price Index (CPI) inflation**
- Core inflation
- Wage inflation & income growth (includes more hours, high employment)
- Producer price index inflation
- Capital goods price index inflation
- Household living-costs price index (HLPI) inflation
- Asset price inflation (e.g. house prices)

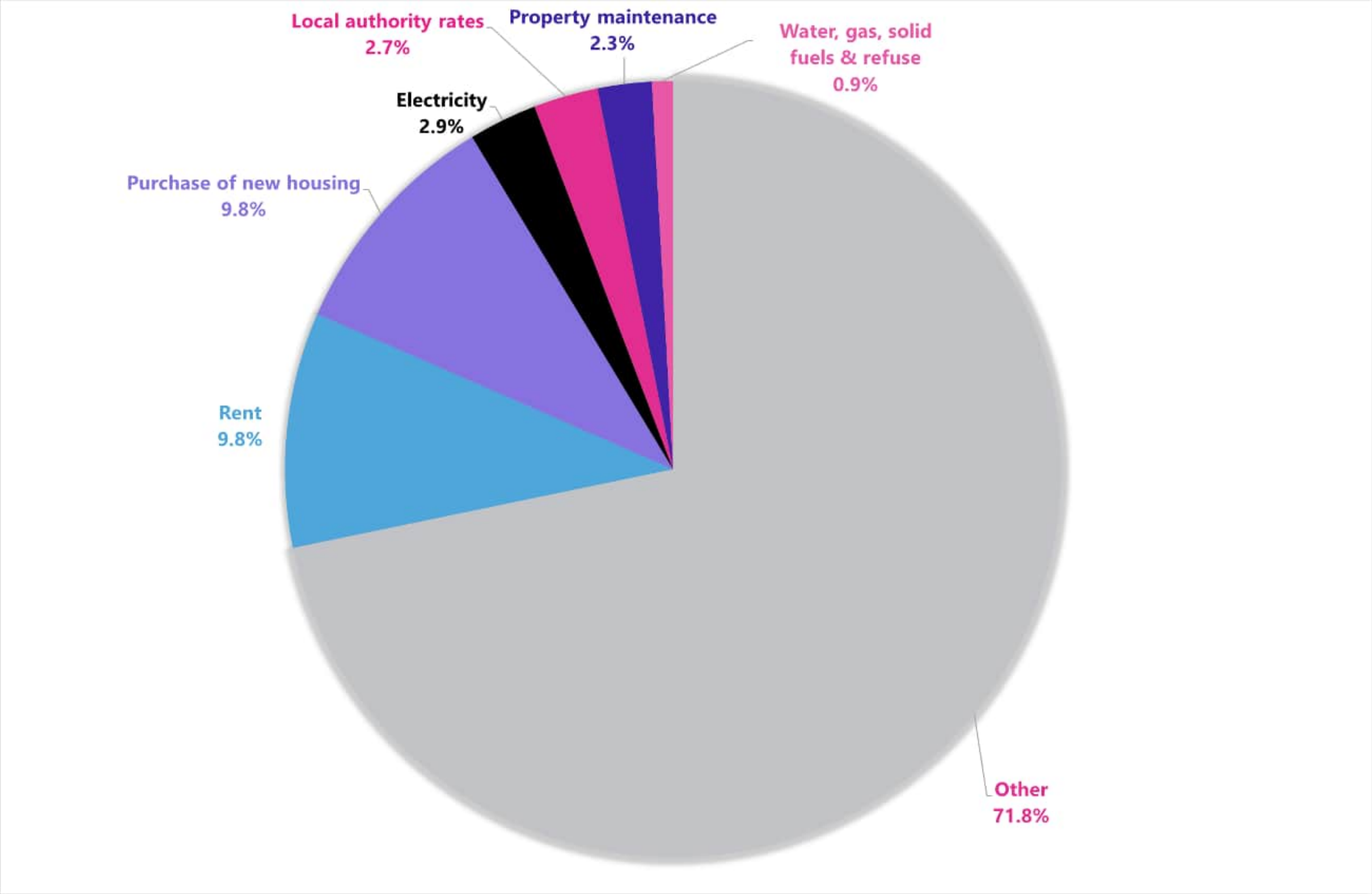
176

What makes up CPI inflation?



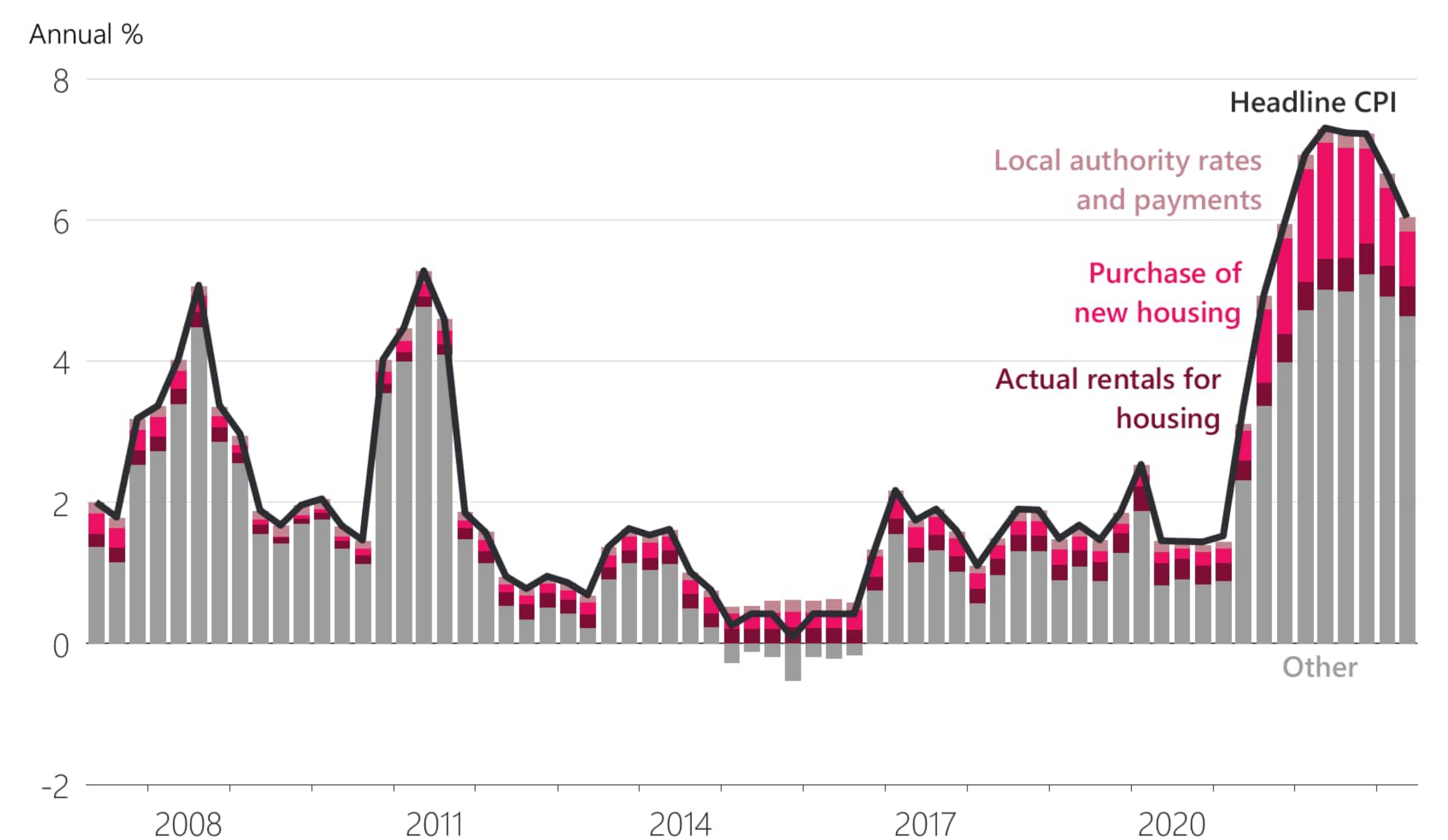
What makes up CPI inflation?

177



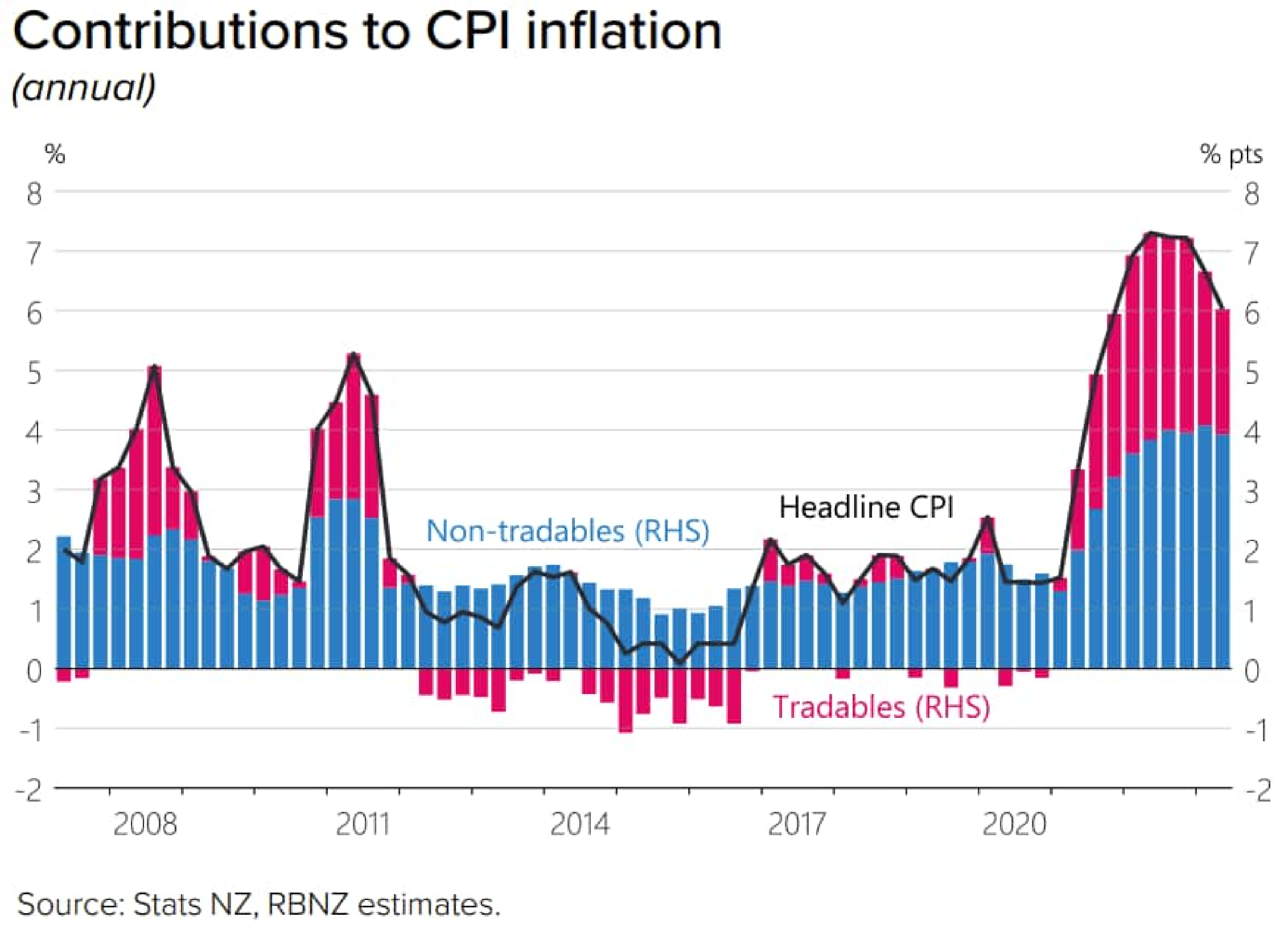
178

Contributions of selected groups to CPI inflation



179

Tradables vs. non-tradables inflation



180

The role of inflation expectations

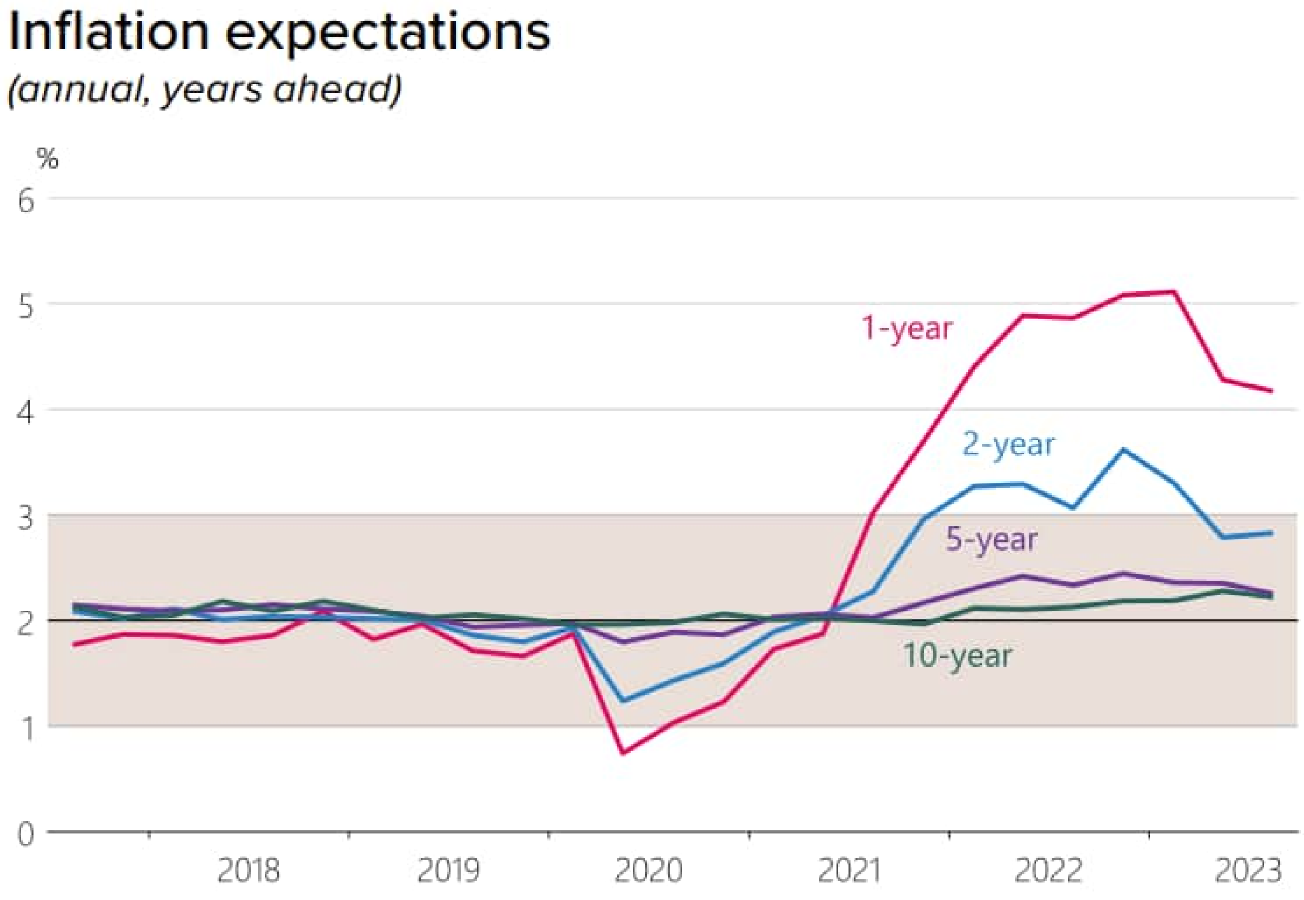
- What households and businesses expect inflation to be influences their wage demands and pricing decisions

- Expectations are self-fulfilling – if enough people expect inflation to increase, ultimately it will

- Given the economic costs of high inflation, a wage-price spiral is something all inflation-targeting central banks must lean against

181

What are expectations currently?

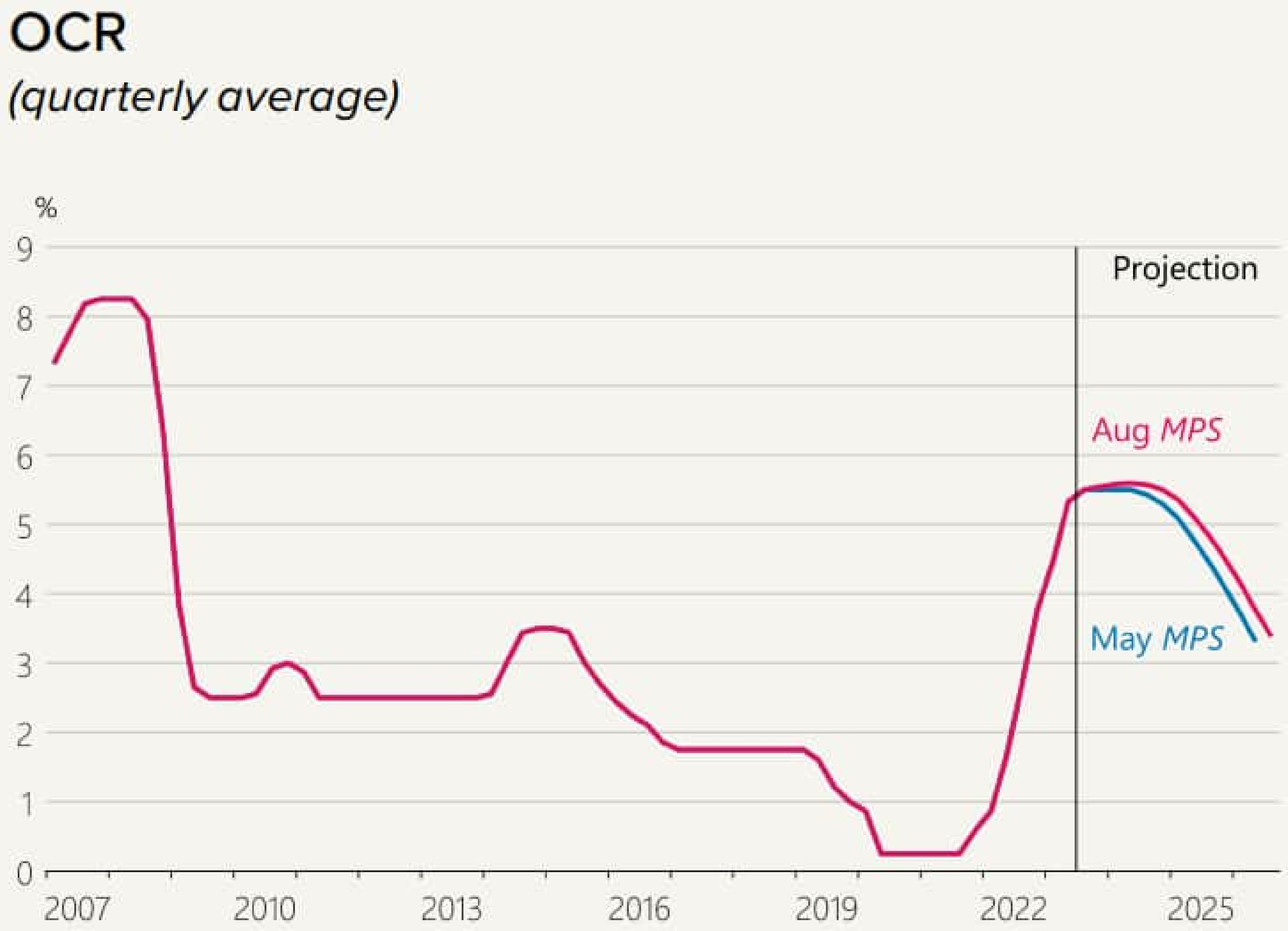


Source: *RBNZ Survey of Expectations (Business).*

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

What is the RBNZ doing about high inflation?

182



Source: RBNZ estimates.

183

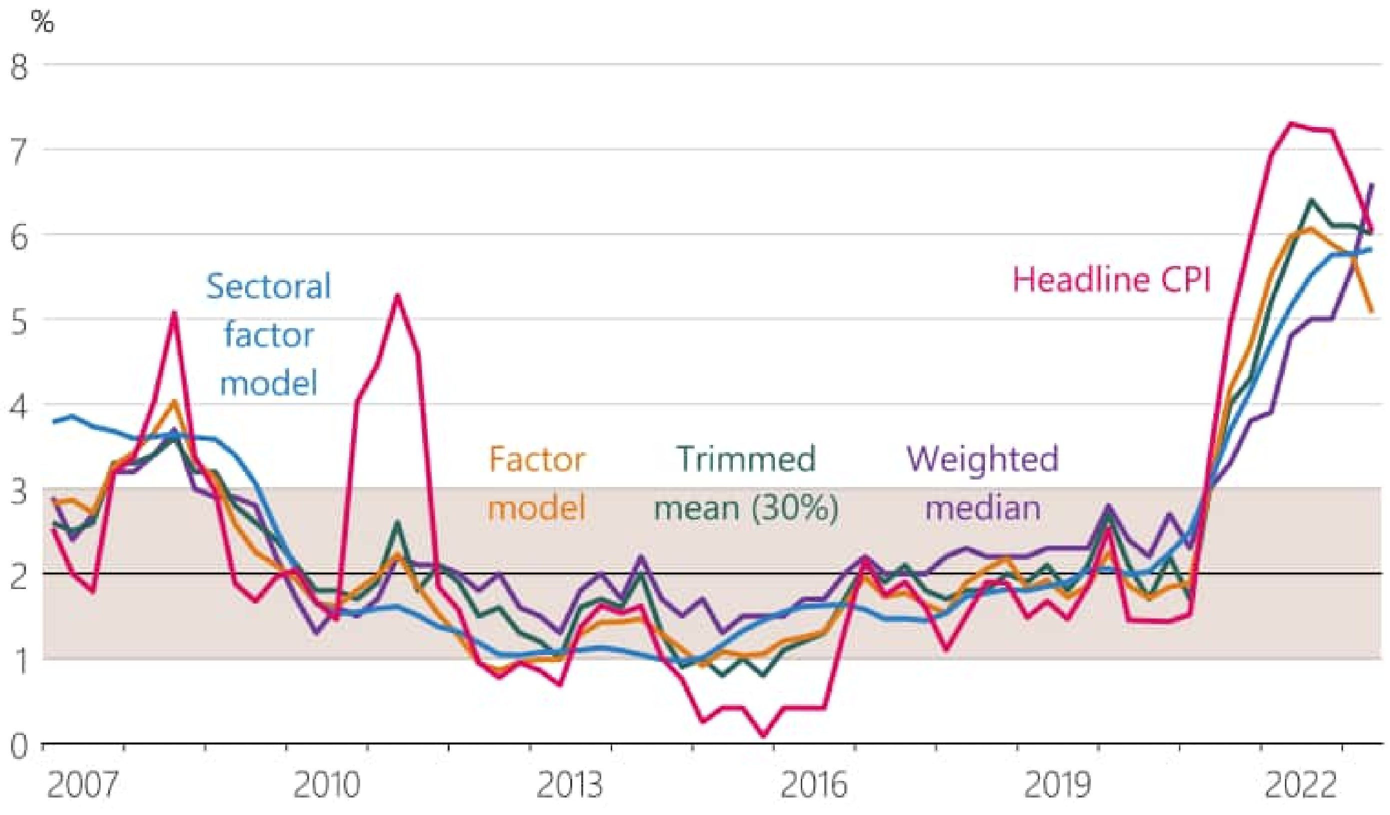
Extra charts

Core inflation

184

Headline and core inflation measures

(annual)

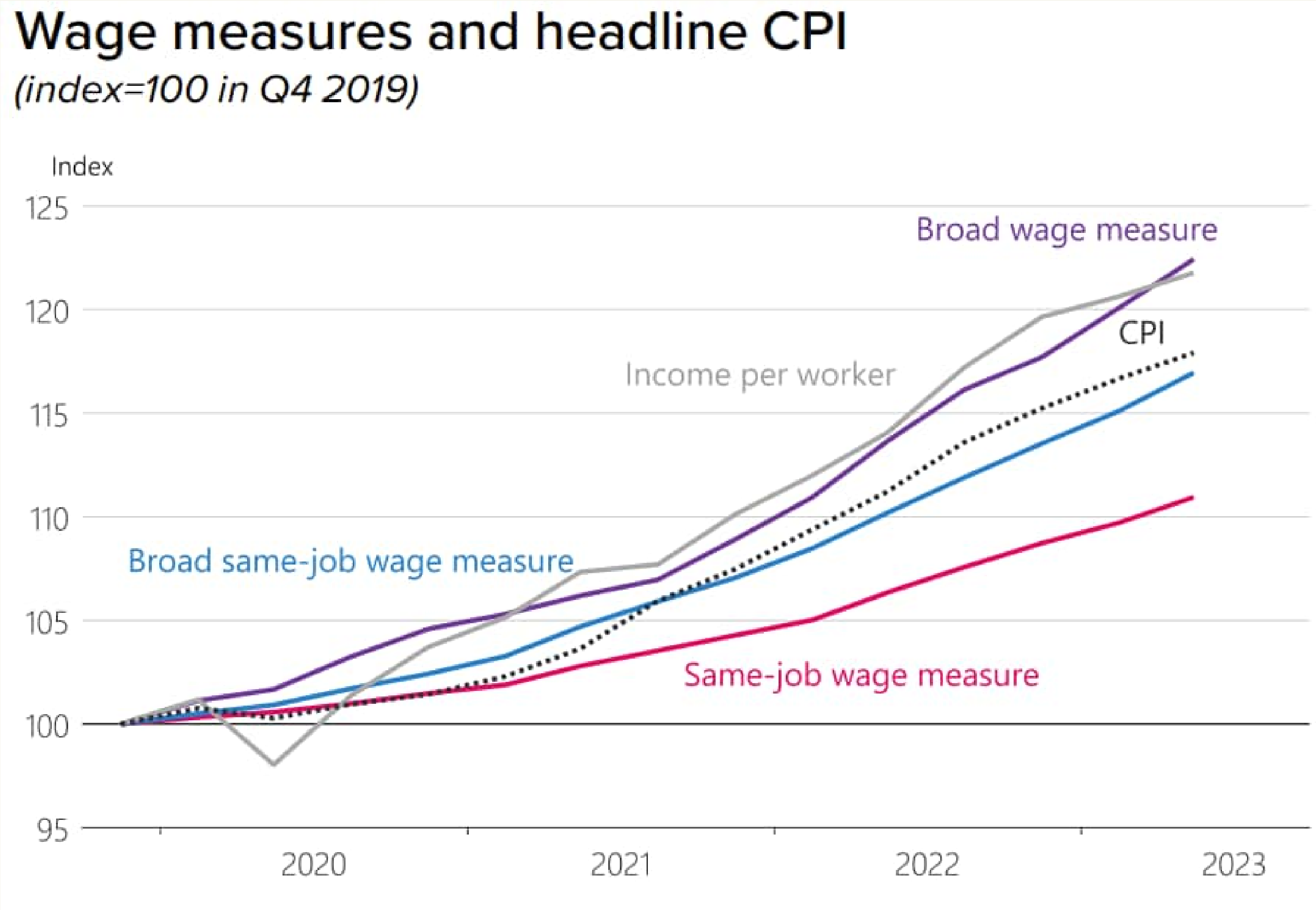


Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for inflation over the medium term.

185

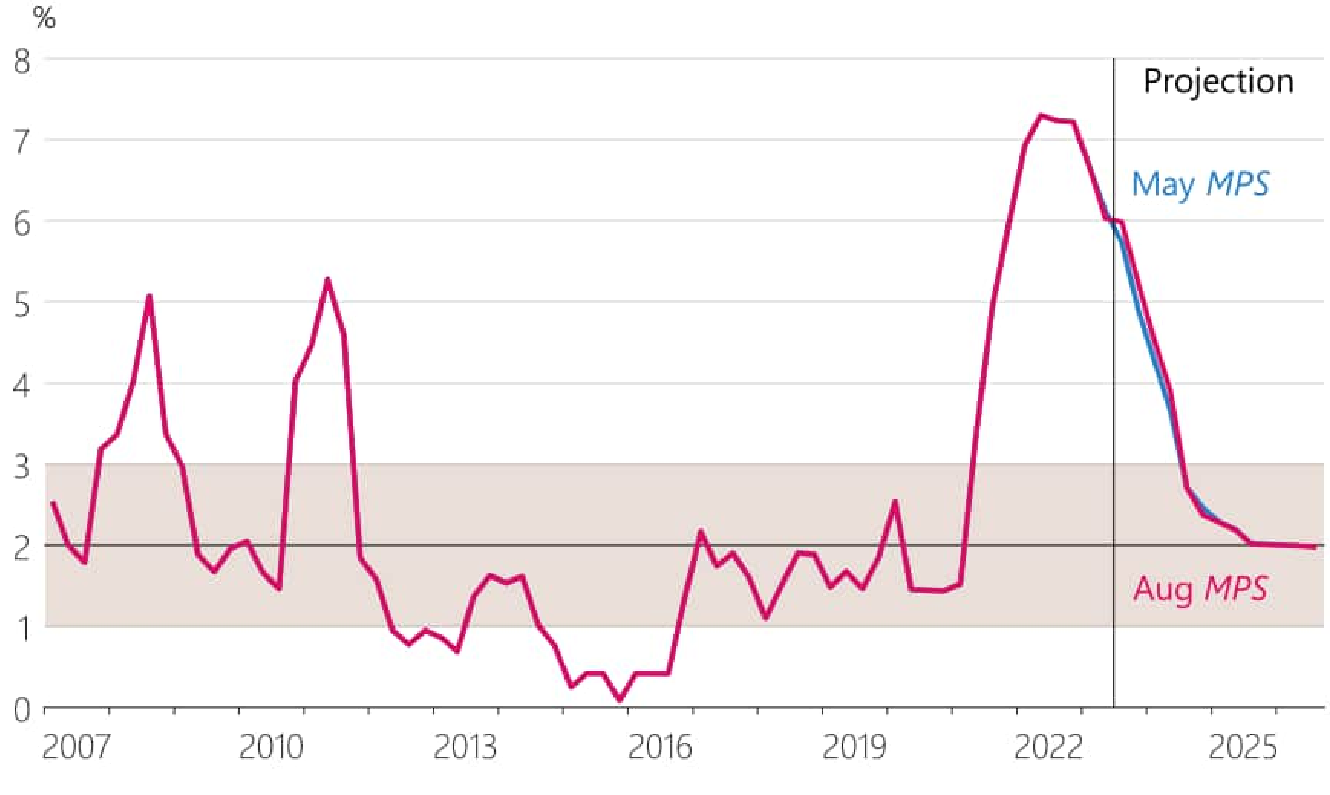
Wage and income growth



Inflation forecast (August 2023 *MPS*)

186

CPI inflation
(annual)

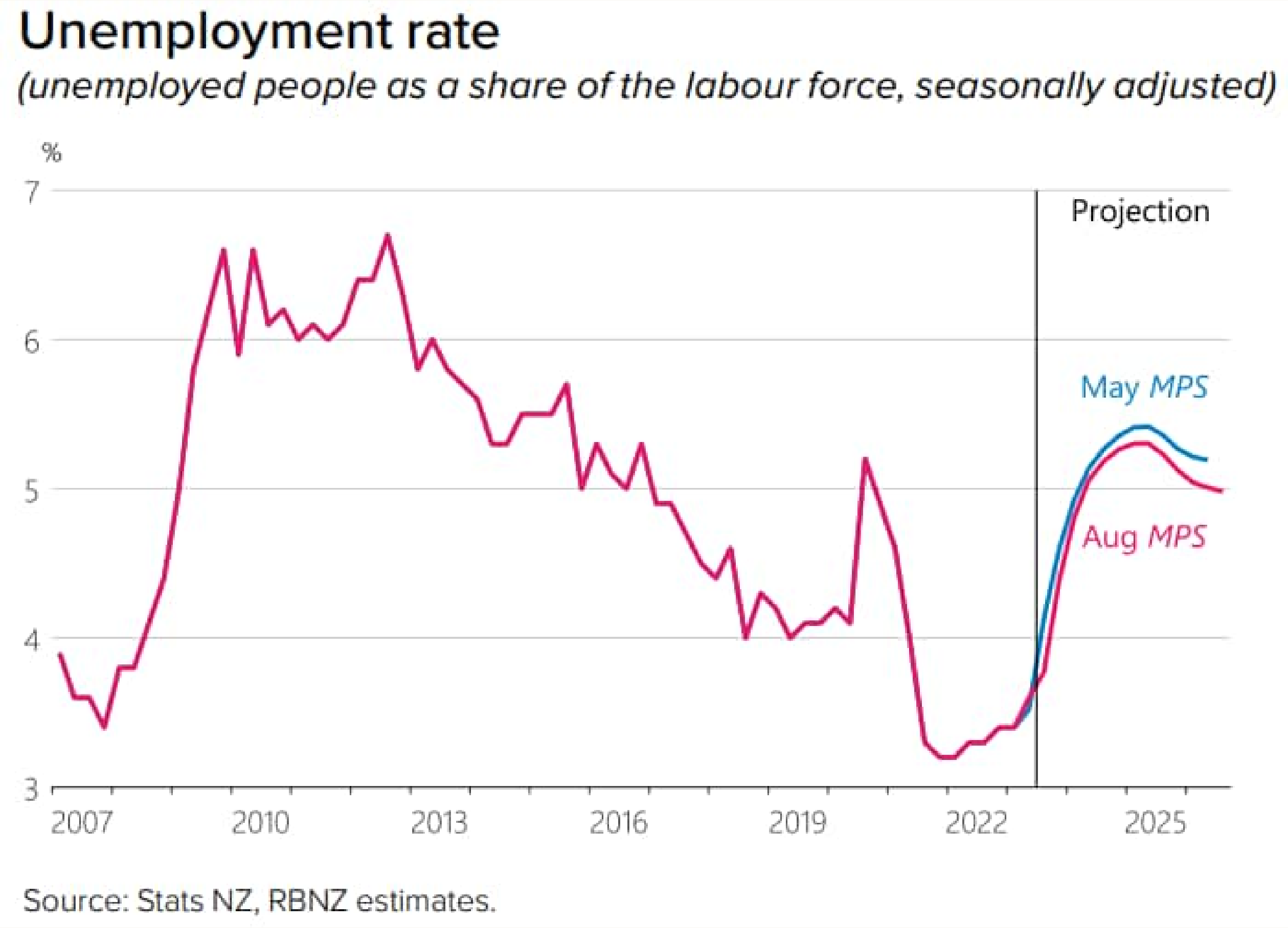


Source: Stats NZ, RBNZ estimates.

Note: The shaded area represents the MPC's 1 to 3 percent target range for annual CPI inflation over the medium term.

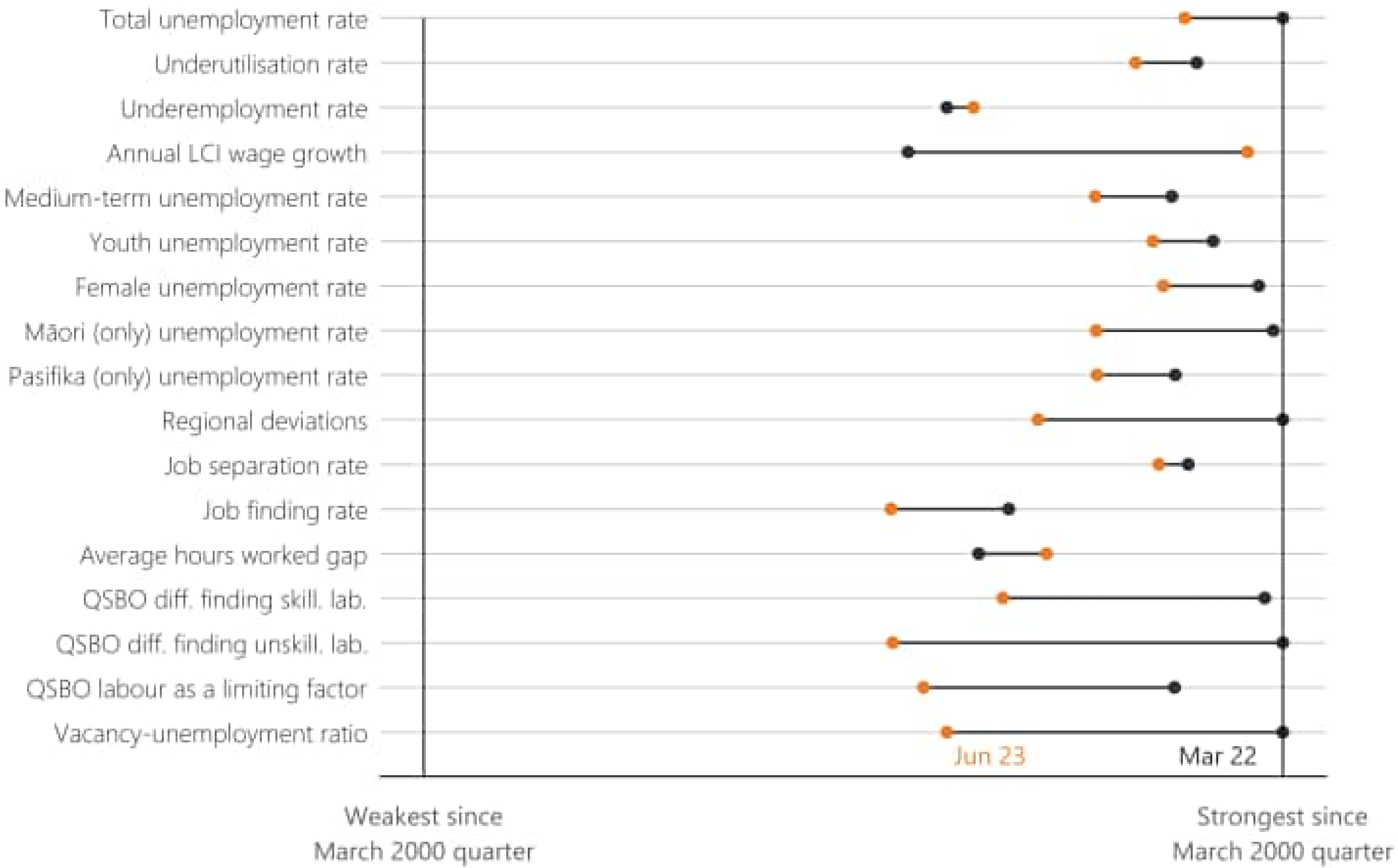
Unemployment forecast (August 2023 *MPS*)

187



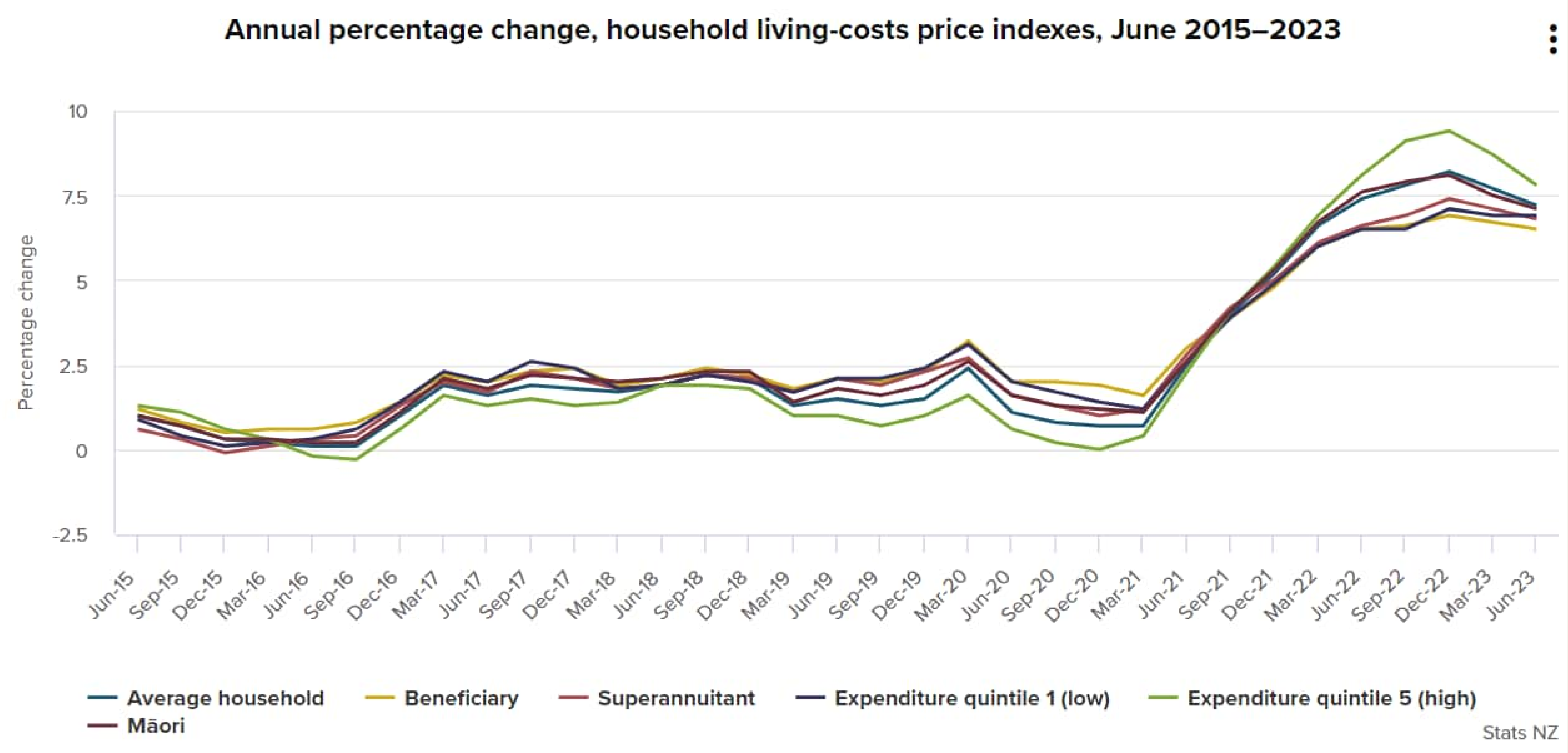
188

Maximum sustainable employment (MSE) indicator suite

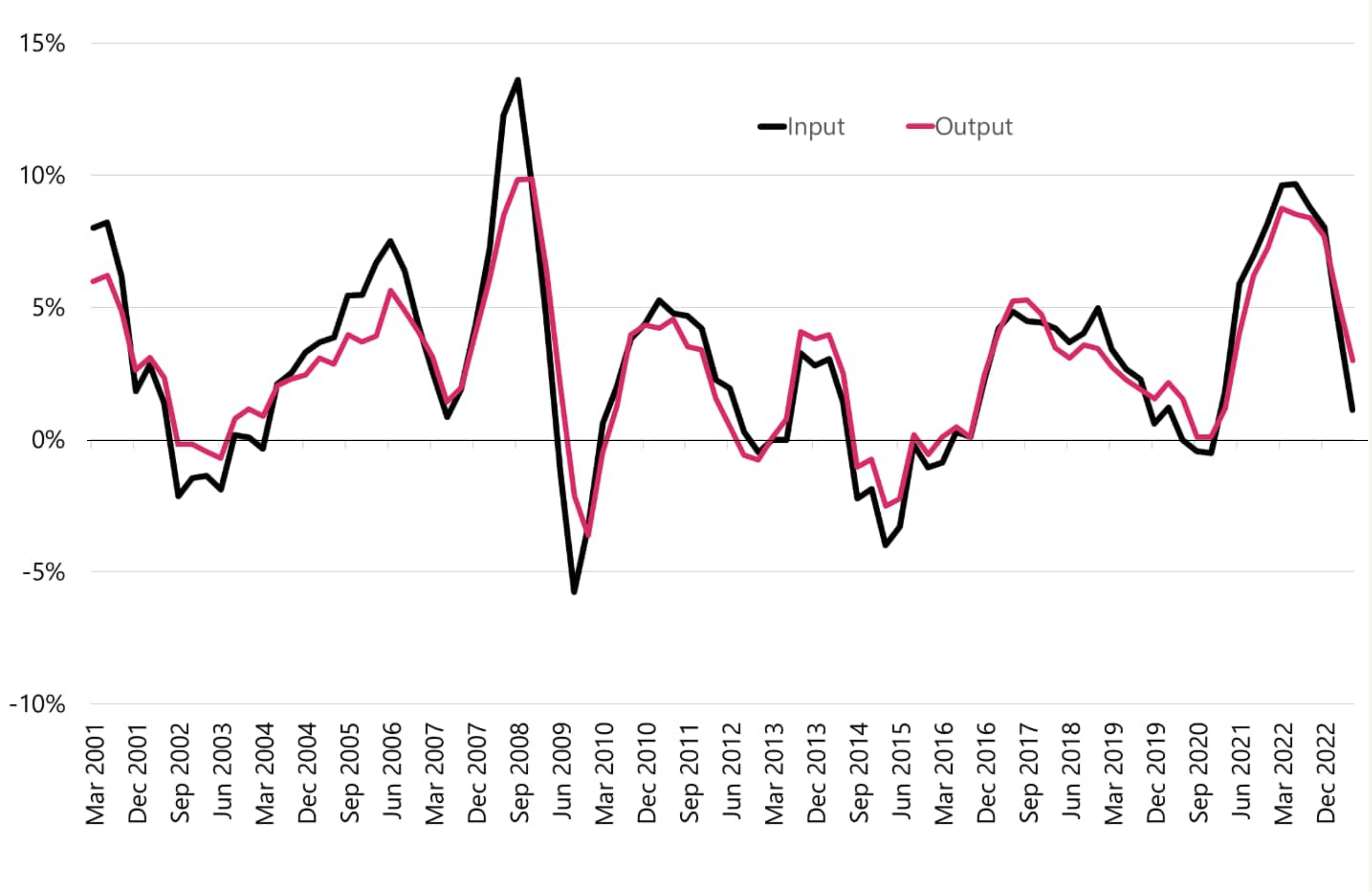


Household living-costs price index (HLPI) inflation

189

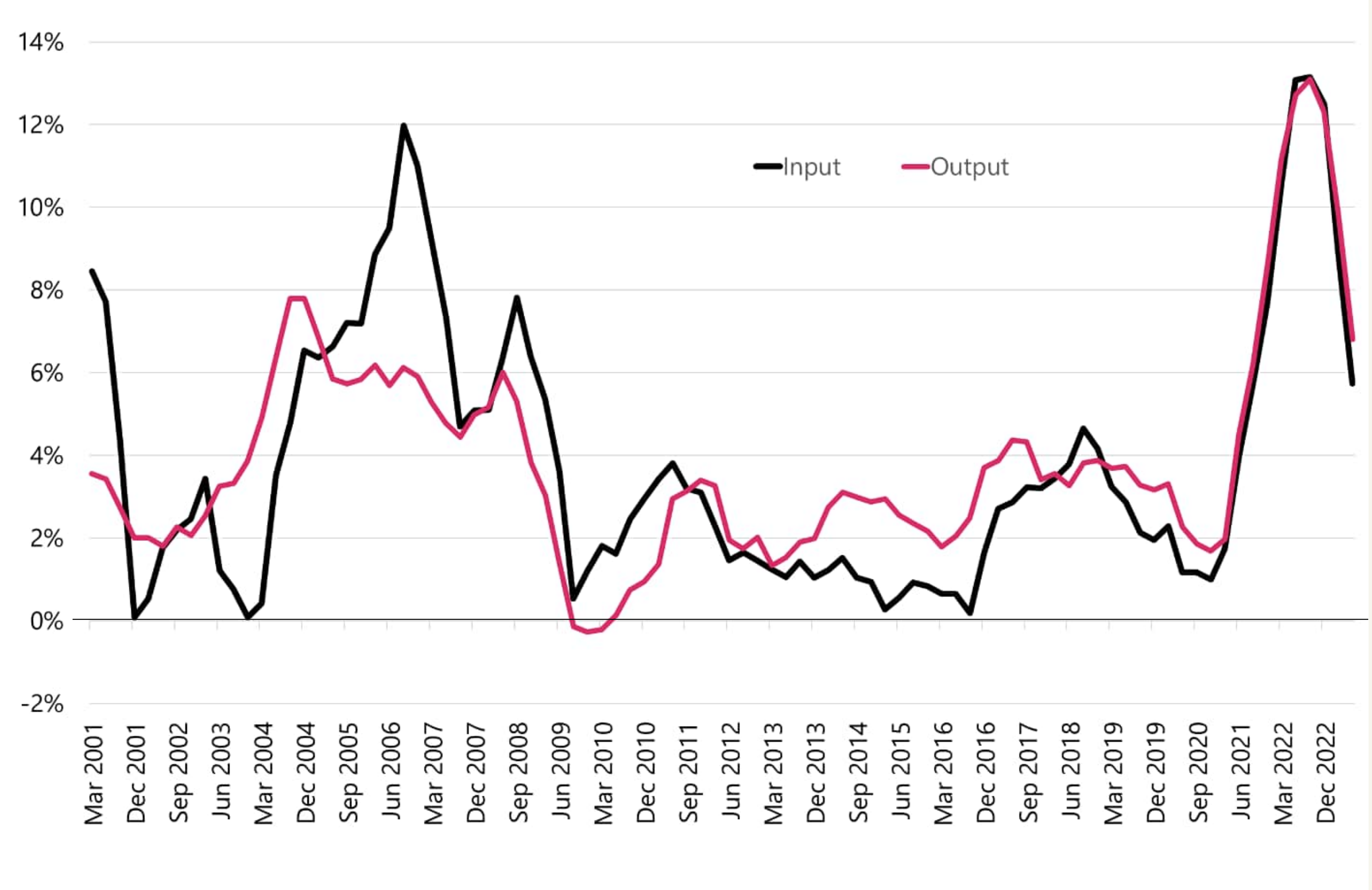


Producer price index inflation[190] (all industries)



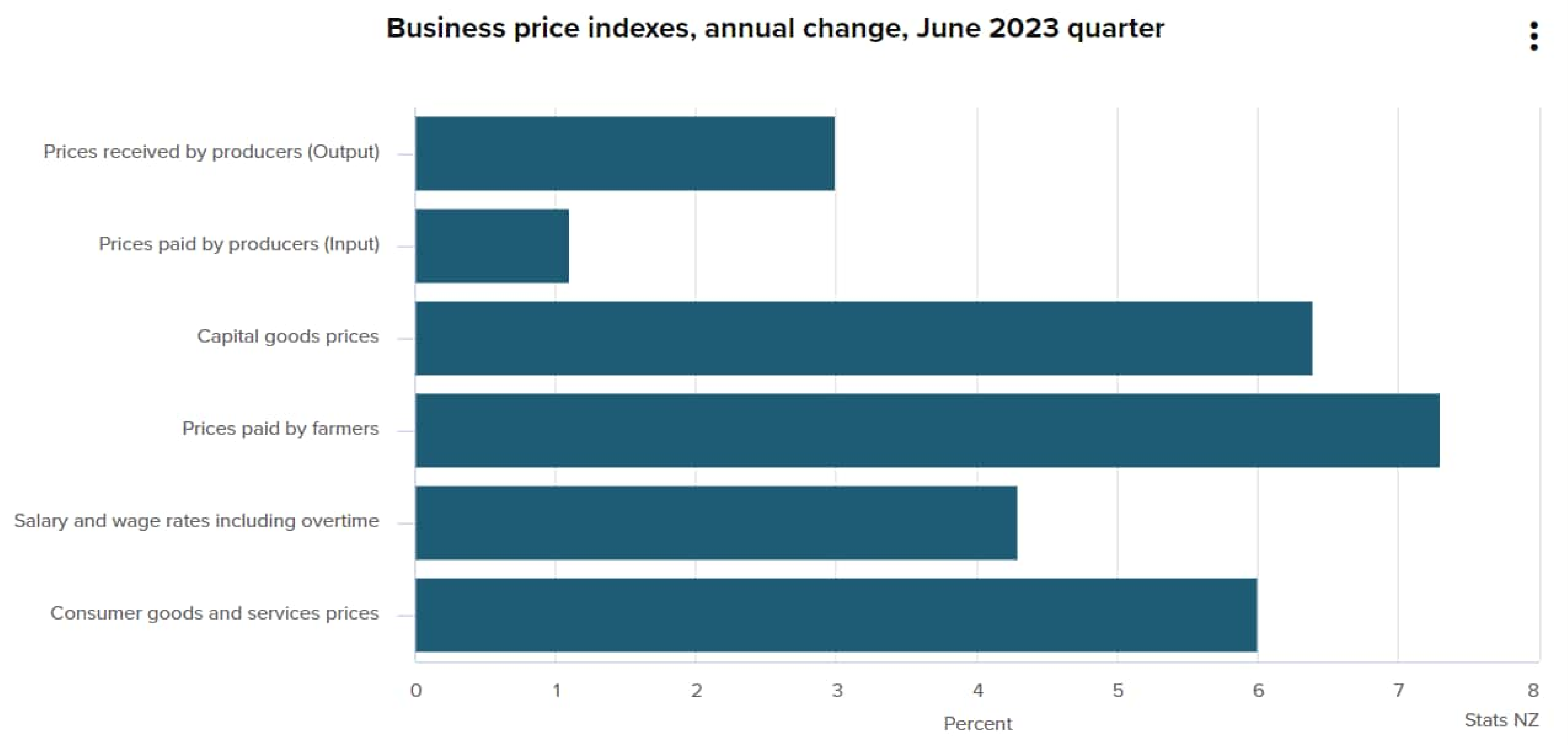
Producer price index inflation (Construction)

191



Business price indices inflation

192



193

CCHL Options Workshop

24 October 2023

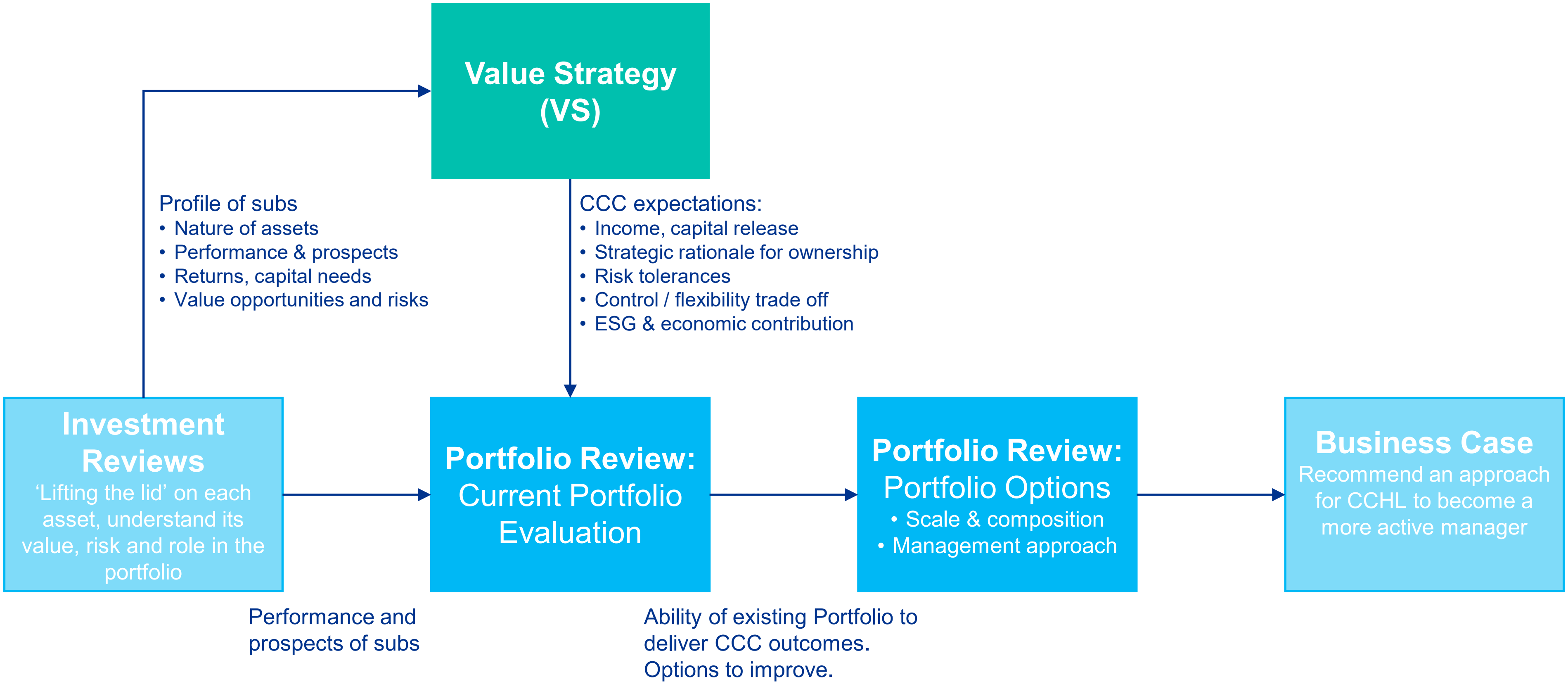
Christchurch City Holdings Limited

KPMG

mafic

194

Context of this workshop



CCC IR workshops

CCC Portfolio/Option workshops

Previously: CCC investment objectives for CCHL

Today: Portfolio Management Options to meet the investment objectives

Today's discussion

Context (Value Strategy)

Investment and portfolio reviews have identified a need for a more active CCHL approach

Previous workshop/s developed four **investment objectives** from CCC for CCHL:

1. For the benefit of current and future generations
2. Supporting growth and resilience in critical local infrastructure
3. Sustainable real growth in dividends
4. Balanced risk appetite

Further, initial LTP projections indicate a $80-100m annual **funding shortfall**

Purpose

- Present portfolio management options that could meet the investment objectives and contribute to bridging the funding shortfall
- Elicit feedback from Councillors on the relative effectiveness of these options, with a view to narrow down a selection for further analysis

Key content

1 **Overview of management options and implications of each**

2 **Assessment of each option against the investment objectives**

196

Spectrum of more active management options

1. Strengthen Current Portfolio	2. Secure Sustainable Growth	3. Renew the Portfolio	4. Maximise Returns
	Strengthen Current Portfolio plus	**Secure Sustainable Growth plus**	
Preserve and grow value with a focus on **strengthening the existing investments** through more active CCHL management.	Supporting **growth and sustainability objectives across Christchurch and Canterbury**. CCHL having more flexibility to **invest in or extract value out of the existing portfolio**.	A more **strategic approach to driving long-term value and impact**. CCHL having **more autonomy to transact and change the portfolio**.	Large scale **capital release to Council** to mitigate pressures through the LTP. Remaining value **invested in a diversified portfolio** focused on optimizing long-term intergenerational benefits.

197 197

Overview of evaluation (preliminary)

Fit with objectives

Poor ○ ◔ ◑ ◕ ● Good

	Strengthen Current Portfolio	Secure Sustainable Growth	Renew the Portfolio	Maximise Returns
For the benefit of current and future generations	◔ Low funding contribution to gap and growth	◑ Higher funding contribution and capital growth potential	◕ High funding contribution and capital growth potential	◕ High funding contribution and capital growth potential
Supporting growth and resilience in critical local infrastructure	◔ Low capital availability to invest in local infra	◑ More flexibility to invest in critical capital projects	● High flexibility for capital to flow to critical projects	○ Not focused on investment in local infrastructure
Sustainable real growth in dividends	◔ Funding contribution incrementally improves, dividends remain similar	◑ Higher funding contribution, dividends increase	◕ High funding contribution through transacting, better dividend profile	● High funding contribution, focus on returns
Balanced risk appetite	◔ Return volatility means some lower dividend years	◑ Return volatility reduced, helping to smooth dividends	◕ Lower return volatility, more reliable dividends	◑ Lower return volatility, but reduces influence on ESG

198

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1. Strengthen Current Portfolio

Strengthen Current Portfolio

Objective - preserve and grow the value of the portfolio, with a focus on strengthening existing businesses through CCHL taking a more active portfolio management approach

- No change to the strategic asset register and ownership of existing subs
- Provide incremental return over time, within existing capital constraints
- Council still faces income uncertainty as CCHL has limited funding capacity to bridge variations in subsidiary performance
- CCHL gets additional tools to influence returns, eg through capital allocation, investment governance and strategic leadership

Benefits

- **Retain majority control** of existing subsidiaries
- **Prioritise capital** across the portfolio.
- **Drive investment discipline** in subsidiaries, eg long term planning, governance, post investment reviews
- **Implement synergies** across the portfolio

Implementation

- Add **investment management resources**
- Develop **investment policy framework**
- **Streamline investment decisions**
- Update **corporate / governance arrangements**

Issues

- **Limited capacity to invest** in or extract value out of investments
- **Incremental, not substantive change to return profile**
- **Governance tension** between subs and CCHL
- High risk of **return volatility**
- Risk of **underperformance** compared with expectations

Safeguards

- Clear / formal **separation of roles, expectations, and accountability** between CCHL and subs boards
- Increased **information exchange/ reporting**

200 200

Scenario and funding contribution examples

Preliminary analysis, indicative

Scenario 1 – Lift distribution from existing assets

Ownership of the assets remains the same.

CCHL uses its levers to encourage higher commercial return – e.g. through more shared services and purchasing, margin improvements, pricing reviews, labour productivity efficiencies.

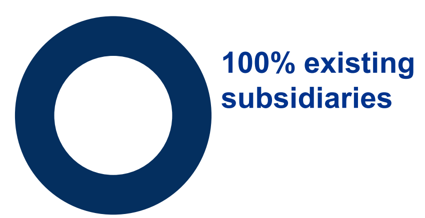
CCHL drives **greater capital discipline**, for example:

- If needed, **blocks CIAL capex on Tarras or LPC capex on Te Bay**
- Supports a **carefully managed Orion capex programme** through reduced dividend requirements

This enables incremental dividend to CCC overtime to reduce the need for rate increases or spending cuts

[redacted]

Portfolio Composition as at FY31



201

2. Secure Sustainable Growth

Secure Sustainable Growth

Objective – support growth and sustainability across Christchurch and Canterbury, and improved long-term value and earnings, with more flexibility in investing and extracting value, but retaining majority control of existing subsidiaries

- Partner to fund growth projects (e.g. Orion decarbonisation, CIAL and LPC expansion) and strengthen Christchurch's asset base
- Sell non-core assets ([redacted]) or borrow (when possible) to generate liquidity
- Have more flexibility to recycle capital in subsidiaries within guardrails specified by Council
- Some assets may be removed from the strategic asset register

Benefits

- **Retain majority control** of existing subsidiaries
- **Prioritise capital** across the portfolio
- **Secure external capital** (at sub level) to fund growth
- **Create liquidity** – eg to smooth dividend variability
- **More equitable inter-generational outcomes**
- **Co-investment and liquidity opportunities**

Implementation

- Add **investment management resources**
- Develop **investment policy framework**
- Amend **Strategic Asset policy**
- Update **corporate / governance arrangements**

Examples

- Quayside (targets 7%+ return)
- Ngai Tahu Holdings

Issues

- Co-investment: **dilution of control and ownership**
- Liquidity: change in portfolio profile – **potential increase in risks** or **foregone future benefits**
- **Governance tension** between subs and CCHL
- **Secure Sustainable Growth to manage volatility is still somewhat limited** by guardrails
- Risk of **underperformance** compared with expectations

Safeguards

- Clear / formal **separation of roles, expectations, and accountability**
- **Investment mandate**
- **Constraints that specify the limits of capital recycling**
- Appropriate CCHL **governance oversight** and resourcing
- Increased **information exchange/ reporting**

Scenarios and funding contribution examples

Preliminary analysis, indicative

Scenario 2A – Increase dividend certainty

For example, [redacted] portfolio with estimated **net proceeds to CCHL of $400m**.

Proceeds used to:

- **Reduce core CCHL debt by $250m** to provide more certainty of dividend payments / manage dividend fluctuations;
- **Reinvest $150m** to drive higher returns and diversify assets.
- No additional capital return to CCC

[redacted]

Portfolio Composition as at FY31

Scenarios and funding contribution examples

Preliminary analysis, indicative

Scenario 2B – Increase cash returns

For example, [redacted] generating estimated net proceeds to CCHL of **$550m**.

Proceeds assumed to be used to:

- **Reduce core CCHL debt by $50m** to maintain affordability of debt;
- **Reinvest $300m** to drive higher returns and diversify assets; and
- **Transfer remaining $200m to Council** (over time) to partially bridge the funding shortfall

[redacted]

Portfolio Composition as at FY31

205

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3. Renew the Portfolio

206

Renew the Portfolio

Objective – drive long-term value and impact by having more autonomy to shape the portfolio to fit with the future needs of the community

- Enter into transactions to reshape the portfolio, reinvesting proceeds for genuinely additive benefits of capital recycling
- Maintain direct investments with bias toward Christchurch to strengthen the City's infrastructure base, and diversify
- Co-invest with other managers, investors, if it is aligned with Council's investment objectives
- All assets removed from strategic asset register

Benefits

- **Full range of tools to shape the portfolio** to meet Council requirements
- **Diversify and increase income to Council**
- **Become more responsive** and transact at shorter notice
- **Create liquidity** – eg to smooth dividend variability
- **More equitable inter-generational outcomes**
- **Co-investment and liquidity opportunities**

Implementation

- Add **investment management resources**
- Amend **Strategic Asset policy**
- Update **corporate / governance arrangements**

Examples

- Infratil (targets 11%-15% return)

Issues

- Potential **divergence between investment outcomes and CCC goals**
- Liquidity: change in portfolio profile – **potential increase in risks** or **foregone future benefits**
- **Public or Councillor concern** about portfolio changes
- **Governance tension** between subs and CCHL
- Risk of **underperformance** compared with expectations

Safeguards

- Clear / formal **separation of roles, expectations, and accountability**
- Formal/contracted investment manager **targets, incentives and accountabilities**
- **Investment mandate**
- Appropriate CCHL **governance oversight** and resourcing
- Increased **information exchange/ reporting**

 207

Scenarios and funding contribution examples

Preliminary analysis, indicative

Scenario 3A – [redacted]

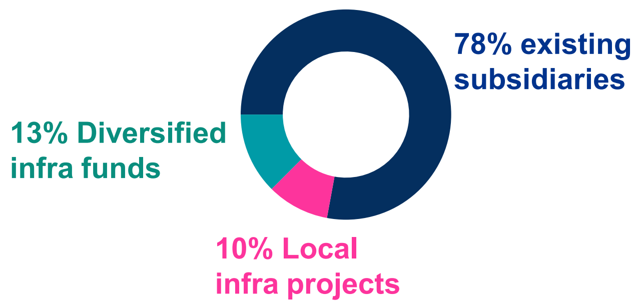
[redacted] generating estimated **net proceeds of $1.1bn**.

Proceeds assumed to be used to:

- **Reduce core CCHL debt by $100m** to maintain affordability of debt
- **Reinvest $700m** to drive higher returns and diversify assets
- **Transfer remaining $300m** to CCC (over time) to partially bridge the funding shortfall

[redacted]

Portfolio Composition as at FY31



208

Scenarios and funding contribution examples

Preliminary analysis, indicative

Scenario 3B – [redacted]

[redacted] **generating net proceeds of $1,800m.**

Proceeds assumed to be used to:

- **Reduce core CCHL debt by $200m** to maintain affordability of debt
- **Reinvest $1,000m** to drive higher returns and diversify assets
- **Transfer remaining $600m to CCC** (over time) to fully meet the funding shortfall through to FY31.

[redacted]

Portfolio Composition as at FY31

209

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4. Maximise Returns

210

Maximise Returns

Objective – capital release to Council to mitigate pressures through the LTP, maximise the portfolio's potential as a source of value and long-term intergenerational benefits

- Full review / reset – potentially selling all existing assets; with option to retain 1-2 subs with the highest long term benefit
- Return as much as needed to Council to bridge the funding gap for this LTP
- Invest the balance of proceeds in a diversified portfolio (no bias toward Christchurch infrastructure)
- Remaining diversified portfolio managed to build wealth for future generations by CCHL or an external fund manager

Benefits

- **Large capital release to Council**
- **Diversify and increase income**
- **Lower complexity** for ongoing portfolio management

Implementation

- **Execute transactions (existing assets)**
- **CCHL investment mandate or contract with investment manager**
- **Governance documents** (e.g. Statement of Investment Policy and Objectives)

Examples

- New Plymouth PIF Guardian (targets 7%+ p.a. return – more liquid assets to support regular distributions)

Issues

- Potential **divergence between investment outcomes and CCC goals**
- Liquidity: change in portfolio profile – **potential increase in risks** or **foregone future benefits**
- **Public or Councillor concern** about portfolio changes
- Risk of **underperformance** compared with expectations

Safeguards

- Either **CCHL investment mandate**, or if outsourced, formal/contracted investment manager **targets, incentives and accountabilities**

 211

Scenarios and funding contribution examples

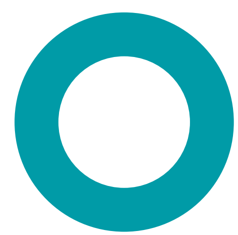
Preliminary analysis, indicative

Scenario 4

- Sell 100% of CCHL's stakes in substantially all assets in the current portfolio.
- Expected net proceeds of **$3.8bn** used to, e.g.:
  - Return **~$650m** to Council over time to meet the funding shortfall through to FY31.
  - Repay all CCHL core debt (**~$630m**),
  - Invest all remaining capital (**~$2.5bn**) in a diversified portfolio, with management function outsourced and CCHL disbanded.
- Specified distribution policy providing long-term guaranteed income stream to Council.
- Ringfenced fund requiring Council super-majority to release capital outside of distribution policy.
- The diversified portfolio could include holding on to an asset from the existing portfolio.

[redacted]

Portfolio Composition as at FY31



212

5. Detailed evaluation

213

Alignment with investment objectives

Investment objectives	Fit	Explanation (pros and cons)
For the benefit of current and future generations • Building value over time for future generations • Meeting the needs of the current generation		× Without ability to transact, growth will be slower than it could otherwise be, meaning lower portfolio value for future generations × Limited ability to offset rates to assist the current generation... ✓ ...although this means less value removed from the portfolio now, leaving that for future generations (albeit at a lower growth rate than could be achieved under other options)
Supporting growth and resilience in critical local infrastructure • Driving growth in Christchurch and Canterbury • Supporting resilience		× CCHL retaining assets without investing where capital is needed may negatively impact local growth
Sustainable real growth in dividends • Constant high returns on an annual basis • Managing volatility of portfolio returns		× Potential for only incremental improvement in returns × Limited ability to manage volatility – can only do so by capital rationing to subs
Balanced risk appetite • Understanding the risk-return trade-off • Ensuring ESG outcomes • Protecting public benefits		× Volatility in returns remains so limited certainty of dividends ✓ CCHL can require non-commercial public benefits (although CCHL should still be a buffer vs political requirements)

214

Alignment with investment objectives

Investment objectives	Fit	Explanation (pros and cons)
For the benefit of current and future generations • Building value over time for future generations • Meeting the needs of the current generation		✓ Higher growth potential, which is beneficial to future generations ✓ Enables some capital release, which could be used to increase contribution to Council funding and support current population… × …but amount released to Council is a trade-off against wealth retained for future generations
Supporting growth and resilience in critical local infrastructure • Driving growth in Christchurch and Canterbury • Supporting resilience		✓ Potential to drive local growth and strengthen the city's infrastructure through investing in new assets ✓ Frees up capital to invest in retained assets requiring capex, strengthening the infrastructure base × Restrictions remain on flexibility to recycle capital
Sustainable real growth in dividends • Constant high returns on an annual basis • Managing volatility of portfolio returns		✓ Extra flexibility allows capital release for funding contribution to Council/ special distributions, and inorganic growth × Some scenarios (e.g. sale of non-core assets) create greater volatility and reduce earning potential within the subs themselves
Balanced risk appetite • Understanding the risk-return trade-off • Ensuring ESG outcomes • Protecting public benefits		✓ By reinvesting proceeds in a diversified portfolio, return volatility and geographical concentration risk is partially reduced (subject to reinvestment mix) ✓ Ability to retain existing ESG approach with portfolio

215 215

Alignment with investment objectives

Investment objectives	Fit	Explanation (pros and cons)
For the benefit of current and future generations • Building value over time for future generations • Meeting the needs of the current generation		✓ High growth potential through reinvestment, which is supportive of the wealth of future generations ✓ Allows capital release, which could be used to increase contribution to Council funding, supporting current population… × ...but amount released to Council is a trade-off against wealth retained for future generations
Supporting growth and resilience in critical local infrastructure • Driving growth in Christchurch and Canterbury • Supporting resilience		✓ Uses asset sales as a tool to strengthen Christchurch infrastructure ✓ Highest potential to drive local growth and strengthen local infrastructure through investing in new assets ✓ Frees up significant capital to invest in assets requiring capex ✓ Some transaction options could be used as a lever to drive capex investment by the new owner or operator
Sustainable real growth in dividends • Constant high returns on an annual basis • Managing volatility of portfolio returns		✓ Highest level of flexibility allows capital release for funding contribution to Council/ special distributions, and inorganic growth ✓ Can manage volatility through transacting and greater ability to invest a portion of capital in low risk / highly liquid assets
Balanced risk appetite • Understanding the risk-return trade-off • Ensuring ESG outcomes • Protecting public benefits		✓ By investing higher proceeds in a diversified portfolio, return volatility and geographic concentration risk further reduced ✓ CCHL can make a more active choice about where its portfolio sits on the risk-return spectrum ✓ Ability to retain existing ESG approach with portfolio

 216

Alignment with investment objectives

Investment objectives	Fit	Explanation (pros and cons)
For the benefit of current and future generations • Building value over time for future generations • Meeting the needs of the current generation		✓ Has high growth potential, which is supportive of the wealth of future generations ✓ Allows capital release, which could be used to increase contribution to Council funding, supporting current population… × …but amount released to Council is a trade-off against wealth retained for future generations
Supporting growth and resilience in critical local infrastructure • Driving growth in Christchurch and Canterbury • Supporting resilience		× Largely removes CCHL's Christchurch/ Canterbury infrastructure focus
Sustainable real growth in dividends • Constant high returns on an annual basis • Managing volatility of portfolio returns		✓ Provides potential for sustained high returns and funding contribution to Council ✓ The most scope to reduce volatility in returns
Balanced risk appetite • Understanding the risk-return trade-off • Ensuring ESG outcomes • Protecting public benefits		✓ CCHL (via the manager) gains the ability to make a more active choice about where its portfolio sits on the risk-return spectrum × Limits CCHL/ Council influence on ESG outcomes/ public benefits of assets owned

 217

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Appendix

218 218
[redacted]

[redacted]

 220

DOCUMENT 11

CCHL - Council Discussion

29 November 2023

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221

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1. Background

222

Background and Council resolution

- In 2021 Council determined that after nearly 30 years in existence it was timely and appropriate to take a close look at CCHL to determine if its strategic objectives and purpose were still valid today. Northington Partners were appointed to undertake this review on behalf of Council.
- The Northington report was presented to the Council in late 2022.
- After receiving the Northington report on 7 December 2022, Council resolved to undertake further work including setting a value strategy for CCHL and undertaking scoping studies on CCHL's largest subsidiaries and a detailed business case in relation to CCHL's portfolio management.
- The Council resolution initiating this work is set out below.

2. In line with the recommendations from Northington Partners in relation to the scope of CCHL:

   a. The Council develop a clear Value Strategy in relation to building and utilising income or value from CCHL primarily informed by Council's long term requirements;

   b. Working closely with the Council, that CCHL be requested to scope and develop In line with the recommendations from Northington Partners in relation to the scope of CCHLdetailed business cases which fully considers the costs and benefits of adopting a hybrid approach to managing the portfolio, including rebalancing and returning capital to council. <u>Noting that this will include a spectrum of options including rebalancing the portfolio.</u>

   That these two pieces of work are prepared in time to inform and be considered as part of the Draft Long Term Plan 2024-2034.

- In May 2023, CCHL appointed a consortium of KPMG and Mafic to undertake the scoping studies and DBC.

223

Today's discussion

Context

Council requested CCHL develop a business case addressing concerns CCHL was an under-utilised asset

CCHL jointly developed Councils Value Strategy and undertook Investment and Portfolio Reviews to refine the problem definition

Previous workshop/s identified four options to be considered, and four investment objectives to evaluate those options

CCHL has now developed a preferred option – with three key features

- a more flexible mandate for CCHL;
- more certain distributions to Council; and
- Guardrails to protect the public's long-term interests

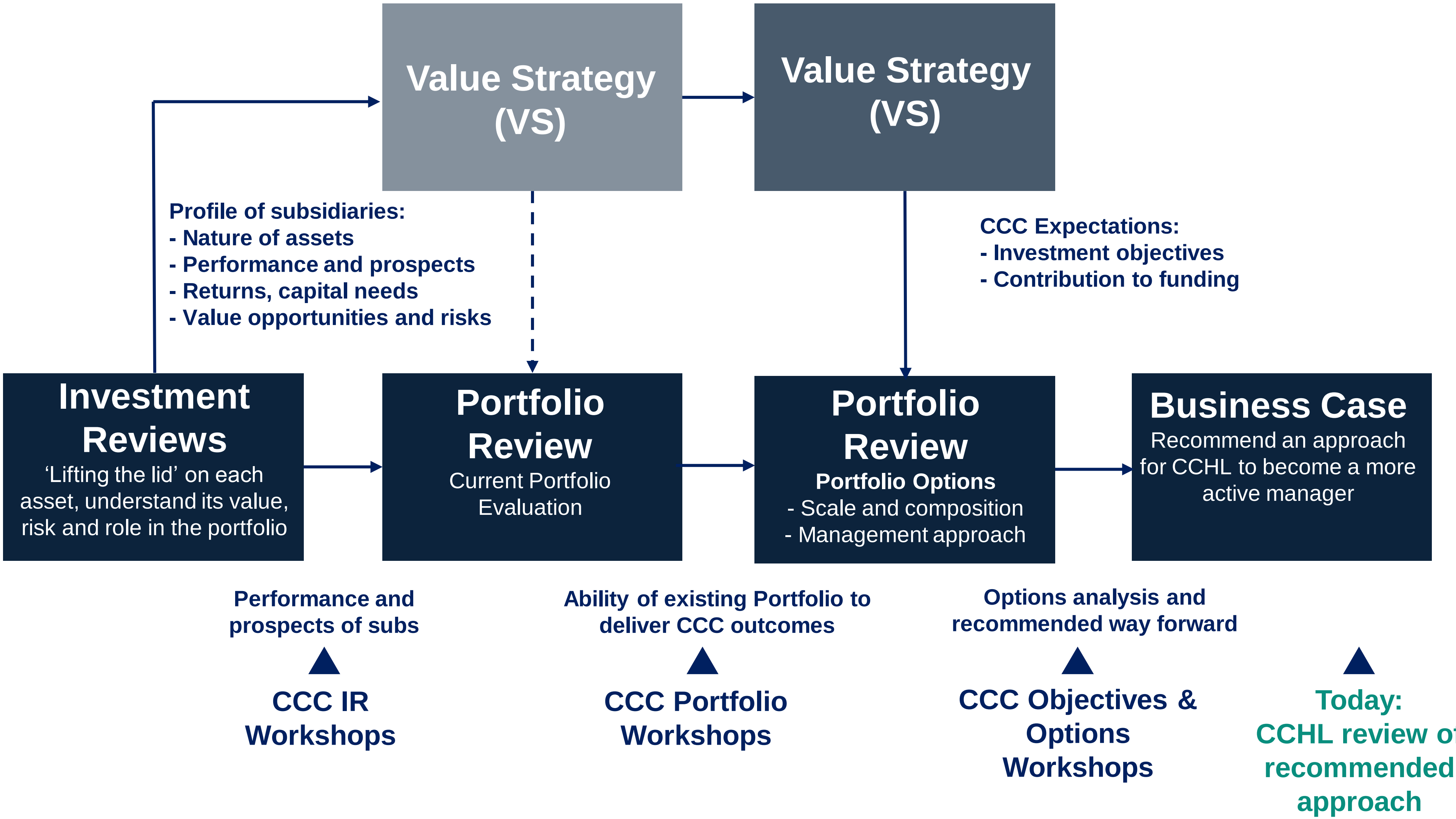
Purpose today

Matters for discussion include

- What is CCHL's preferred option?
- What decisions need to be made = now and over the next 6 months?
- How do we approach the LTP process?
- How do we implement?

224

Process to develop our recommendation



225

A spectrum of more active management options

1. Strengthen Current Portfolio	2. Secure Sustainable Growth	3. Renew the Portfolio	4. Maximise Returns
	Strengthen Current Portfolio plus	**Secure Sustainable Growth plus**	
Preserve and grow value with a focus on **strengthening the existing investments** through more active CCHL management.	Supporting **growth and sustainability objectives across Christchurch and Canterbury**. CCHL having more flexibility to **invest in or extract value out of the existing portfolio**.	A more **strategic approach to driving long-term value and impact**. CCHL having **more autonomy to transact and change the portfolio**.	Large scale **cash return to Council** to mitigate pressures through the LTP. Remaining value **invested in a diversified portfolio** focused on optimizing long-term intergenerational benefits.

- A required change, but
- Considered insufficient to meet Investment Objectives or contribute to Council's funding gap

Emerging recommendation:
"Option 2.5"

- Full privatisation
- Not our preferred option
- Inconsistent with Investment Objectives

226

What we heard – Investment objectives matter

- In order to evaluate options, clear investment objectives were required
- These objectives reflect the priorities we drew from value strategy workshops
- They are also consistent with CCHL's current competitive advantage as an asset owner in Canterbury

Council Investment Objectives

Council workshops refined a number of priorities into investment objective for CCHL's strategic review.

1. For the benefit of current and future generations
   - Building value over time for future generations
   - Meeting the needs of the current generation
2. Supporting growth and resilience in critical local infrastructure
   - Driving growth in Christchurch and Canterbury
   - Supporting resilience
3. Sustainable real growth in dividends
   - Constant returns on an annual basis
   - Managing volatility of portfolio returns to ensure certainty of return for Council
4. Balanced risk appetite
   - Understanding the risk-return trade-off
   - Ensuring ESG outcomes
   - Protecting public benefits

227

What we heard – Ownership and safeguards matter

- We tested the case for maintaining public ownership of existing assets – and found it was not compelling given other objectives and existing regulatory protections
- However, we acknowledge the desire to acknowledge and protect the public interest is a legitimate concern
- On this basis we believe Option 2.5 balances the benefits to Council of a more flexible mandate, with effective ‘guardrails’ which preserve the public interest.

What is the case for ownership ?

The case for public ownership of economic infrastructure assets normally includes

- Council wants access to assets the private sector is unlikely to deliver – at the time and/or scale the public sector wants
- Council is concerned wider public benefits (economic, social, environmental) will be diluted with private ownership
- Council controls the revenue streams that pays for the infrastructure
- Council holds the contingent liability for assets and services in a ‘force majeure’ event
- The asset has monopoly characteristics which incentivise profit motive in the absence of appropriate controls
- Council has an intention to receive income from assets that are otherwise managed in a commercial manner, for the benefit of future generations

What people typically worry about:

- The potential impact on prices, services and jobs from a shift to private ownership
- ‘Asset sales’ mean fewer assets for future generations
- A private owner may not be aligned to Council’s community objectives and strategic priorities

What we want them to understand

- It is entirely appropriate to maintain Council’s investment in CCHL as its “Strategic Asset” – the capital it has invested and the entity itself
- Recycling assets is not the same thing as asset sales – it adds to the city’s asset base, economic capacity, jobs and prosperity, not subtracts
- It can also take many forms – including a time-bound transfer of ownership through concessions or leases

228

How does it work? – Public Interest Considerations

	Commercial / Competitive safeguards	Regulatory safeguards	Overall strength of market safeguards
	Primarily protect customers in terms of service access, choice, quality, price – but also increasingly influence ESG outcomes/impact for employees, suppliers, local community		
Enable	**MEDIUM** • Growing competition from alternative technologies encourages service quality differentiation • Smaller, highly skilled workforce	**HIGH** • Service price and quality effectively pegged to Chorus • Rollout has been contracted/monitored by CIP (now complete)	**HIGH**
Orion	**MEDIUM** • Natural monopoly • Commercial interests aligned with decarbonisation goals • Increasing competition for skilled labour to support electrification	**HIGH** • Price - quality regulation	**HIGH**
CIAL	**MEDIUM** • Regional captive market • Commercial interest but limited practical levers to demonstrate environmental credentials • Relatively small workforce but significant supplier base	**MEDIUM** • Partly regulated (aeronautical services)	**MED**
LPC	**LOW-MEDIUM** • Partly competitive, with some ‘captive’ demand for local shippers; shipping lines has more bargaining power • Relatively large, low-skilled workforce	**LOW-MEDIUM** • Relevant health and safety and environmental protection regulations (have not always been effective)	**LOW/ MED**

229

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2. The preferred option

A flexible mandate

230

A flexible mandate: Key features

- Maintains Council's **control and influence** over CCHL through appropriate Governance mechanisms
- These include a new **Investment Policy Framework**, which covers:
  - Investment Objectives
  - Investment Policies
    - Strategic Asset Allocation (including restricted activities)
    - Role of Existing Assets
    - Responsible Investment Principles
    - Benchmarking
  - Distribution Policy
  - Risk Appetite
  - Delegated Investment Authorities
- CCHL develops an Investment Strategy which retains a **"Keep Invested"** focus
  - For benefit of current (income distribution) and future generations (capital growth)
  - Securing sustainable growth in **Christchurch** and Canterbury
  - While **renewing the portfolio** over time, to potentially include
    - infrastructure investment across wider asset classes – to leverage CCHL's competitive advantage in the local market, and benefit the region
    - Co-investment – to increase the funding and resources for the growth of existing portfolio companies
    - More liquid assets e.g. cash, bonds, listed equities, – to diversify risk, manage volatility, increase liquidity and provide more stable, predictable cash return to Council
- CCHL commits to a **distribution rule**, strengthening our intergenerational focus

231

How does it work? – Investment considerations

At a high-level an Investment Policy framework considers the following roles

	Criteria	Considerations
Council Role	**Sets Investment Objectives and policy parameters** **(The Why)**	• For benefit of current and future generations • Supporting the sustainable growth of Christchurch and Canterbury • Delivering sustainable real growth in dividends • Without taking undue risk
	Approves CCHL's Asset Allocation Model **(the What)**	• Legacy essential infrastructure portfolio – potentially with expanded definition • Ability to diversify assets for liquidity purposes • Guidelines on purpose-led asset allocation. • Clarifies the shareholders risk appetite

CCHL Role	**Develops an Investment Strategy**
	(the How)
		• A two-step investment process which reflects a 'Keep Invested' focus
		  • The capital decision (how we get the money) AND
		  • The investment decision (how we use the proceeds)
		• With Council approval required over an agreed threshold (say 10 % of portfolio equity)
		• Unless specifically requested by Council to release capital

	A Distribution Rule **(The Outcome)**	• Provide Council with greater certainty of income for the benefit of current generations, • While ensuring the remaining capital remains invested for the benefit of future generations

232

The benefits of the proposed approach

The benefits are:

- CCHL will have the flexibility to build a portfolio that can meet Council's investment objectives.
- Materially increase investment returns, reduce volatility and more certain funding contribution options, over time
- Maintain Council oversight and control of investment strategy and portfolio construction
- Preserve the public interest, represented by Council, through investment policies and safeguards
- Maintain investment focus in critical infrastructure supporting the sustainable growth of Christchurch and Canterbury

There are risks:

- Design Risk - IPF is not fit for purpose – too restrictive or subject to frequent change
- Reputation Risk – perceived as 'privatisation' not a strategic reset of CCHL, public interest not adequately protected at an asset level
- Implementation Risk – CCHL cannot attract right skills (governance/executive) and/or cannot find appropriate investment opportunities
- Investment Risk – portfolio does not deliver intended returns, incurs increased volatility, exposed to geographic concentration risk

What is needed:

- Mandate - through public consultation - for CCHL to transact in the portfolio
- Agreement on the Investment Policy Framework and Transaction Boundaries
- CCHL Implementation Plan to execute a more dynamic mandate

233

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3. Investment Governance

234

Investment governance considerations

- CCHL's current Acquisition and Divestment Policy requires that CCHL seek Council approval of any transaction that results in a significant change to the ownership interest held directly by CCHL, and consult with Council about any major transaction of CCHL subsidiaries.

- Under Option 2.5, CCHL proposes to move to a new Investment Policy Framework, which sets out how CCHL manages its investments but leaves flexibility for CCHL to invest within those policy parameters. The Framework will be approved by Council.

Investment Policy Framework – rules of engagement

- Sets out enduring investment objectives from Council to CCHL
- CCHL establishes and seeks approval for rules on how the assets will be managed.
  - Portfolio Level - permitted investments through an approved asset allocation model
  - Transaction Level – thresholds at which Council approval must be sought (financial and asset specific)
  - Financial Returns - targeted mix of returns identified and reported against
  - Distribution – the portfolio must pay its way via sustainable dividends
  - Governance – continue to adopt best practise principles
  - Impact – total shareholder return must include impact reporting

235

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4. The investment impact

236

The Income equation – Base Case vs Flexible Mandate

Preliminary analysis, indicative

Base case – Strengthen current portfolio

- Ownership of the assets remains the same.
- CCHL uses its levers to drive stronger commercial returns
- Provides some improvement in dividends, over time
- CCHL retains a focus on repaying core debt
- No upfront cash return for Council

[redacted]

A flexible mandate – secure increased returns and keep invested for future generations

- CCHL commits to a progressive lift in income through distributions
- CCHL uses increased flexibility to diversify the portfolio
- FY25-26 focus on managing group capital spending and improving access to liquid assets
- May also impact focus on repaying core CCHL debt
- No upfront cash return for Council

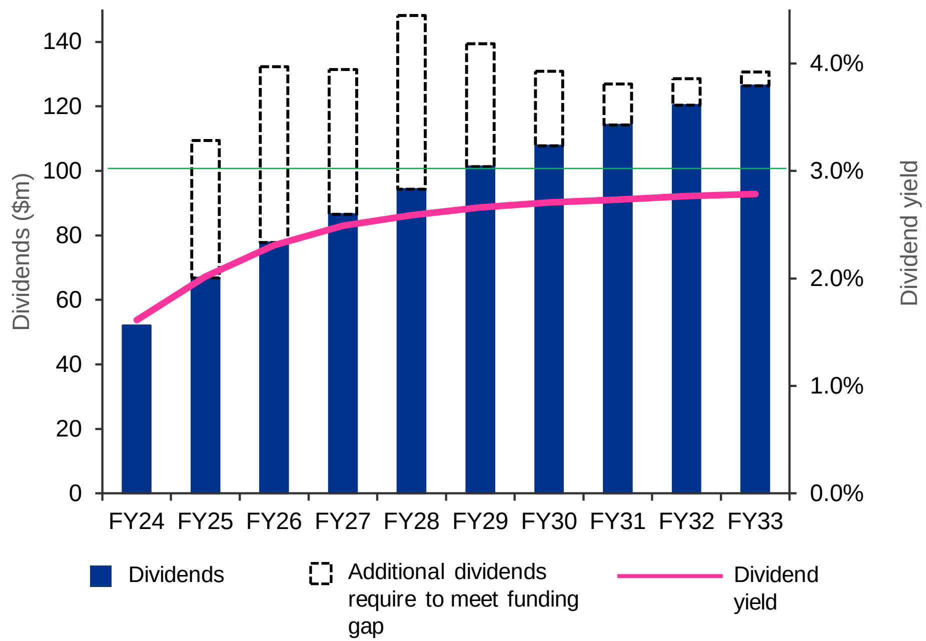
A sustainable lift in dividends is targeted, over time

 237

Implementing the distribution rule – banking the step change

- A Distribution policy would underpin an increased dividend flow to Council - aligned to both income generated by the portfolio and the asset growth of CCHL = it 'distributes' elements of both.
- Central to the Distribution Policy is the Distribution Rule – known as the 'Yale Rule'
  - ~70 % of annual distributions is based on historical distributions plus
  - - 30 % based on a target yield on CCC equity in CCHL.
- The following illustrates how a 3% distribution could apply to CCHL
- We call these the "3 by 30" objective

Target distribution of 3% of equity value
(weighted 70 historical / 30 target, 1 year look back)



- The distribution rule is phased to increase from 2 % to 3 % over 5 years
- The projected net dividend yield does not fully fund this commitment (the pink line)
- To make this commitment CCHL needs access to liquid assets, that deliver income and growth
- And time to rebalance the portfolio to meet this requirement
- A long-term infrastructure focus remains consistent with this level of commitment
- The material impact on the LTP is years 3 – 10.

Note: The above is a simplified illustration, assuming that CCHL net assets start at the current $3.2bn and increase in line with status quo assumptions.

 238

Council's requirements in Yr 1-3 can be solved, but

- requires asset divestment, and detracts from distribution in later years

Preliminary analysis, indicative

[redacted]

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239

Christchurch
City Holdings
Limited

5. Implementation

240

Implementing a more dynamic mandate - statutory requirements

What's needed / rationale

- Responding to CCC objectives requires that CCHL can make changes to the portfolio and engage the market at pace and with reasonable certainty that it can carry out transactions.
- To enable a more dynamic mandate, CCHL would need Council to provide authority for CCHL to manage the portfolio within safeguards, given up-front through LTP consultation, rather than case by case.

LTP process considerations (based on specialist legal advice to CCHL)

- Council can change the designation of strategic assets by amending its Significance and Engagement Policy (SEP), other than for CIAL and LPC, but this triggers consultation requirements under the LGA and the SEP.
- In any case, Council / CCHL not precluded from dealing with strategic assets – but special LTP consultation requirements apply under the LGA (in addition to the SEP).
- Any proposal to reduce Council / CCHL control in Orion below 51% is also subject to different special consultation requirements under the LGA (in addition to the SEP).
- These consultation obligations can be combined with LTP consultation processes (e.g. WCC and AC consultations around selling airport shares). The content of the consultation will be driven by the requirements of the LGA and Audit NZ expectations, but there are useful precedents in the market (those mentioned above, plus HBRC's consultation on Port of Napier).
- We think it is legally feasible to consult on CCHL's proposal in a way which should preclude the need for further specific consultations on specific transactions, but this requires CCC to consult now on that general basis.

241

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6. Reasonable Foresight - QIC 30 years on

242

Queensland Investment Corporation (QIC)

The art of the possible

- A publicly-owned investment manager, established in 1991 with ~A$7b assets on behalf of Queensland public
- Investment Mandate focused on ensuring the state government could meet long-term liabilities – now the only state that has fully funded superannuation liabilities
- The mandate included a flexible portfolio management approach – started with land assets and some cash
- Infrastructure was added as a specific asset class ~2006, with returns since inception ~13.5 % p.a.
- The State's investment is still a core part of QIC's portfolio, but it now includes funds managed for other public sector clients and externally managed funds.
- The portfolio is now worth ~A$100bn, including ~$60bn State assets (with ~A$17bn core infrastructure/real asset allocation) and ~$40bn external managed funds.
- Queensland's returns are two-fold: return on investment from funds the State has invested, plus dividend from QIC's Investment Management Operations.
- QIC has attracted global capacity/capability to Queensland in the form of co-investment
- In 2023 QIC delivered ~ $4bn in total returns to its public sector clients with a $225m cash return to its shareholder, including a $60m dividend from QIC's business operations as an investment manager

 243

CCHL Strategic Review Summary

12 December 2023

Christchurch City Holdings Limited | KPMG | mafic

244

Investment Review headlines

Investment Review headlines	Examples
High quality assets with regional/national significance	• Enable and Orion are critical network assets that underpin economic activity and connectivity • CIAL and LPC are key gateways into Christchurch
The subsidiaries have **supported CCC and CCHL objectives** by maintaining essential infrastructure and building capital, over time	• Avg. annual growth in equity value (FY18-23): 7.6% • Greater focus and investment in ESG performance
However, the portfolio is producing **low cash returns** vs capital invested	• FY23 dividend yield: ~2% (government bond: ~5%) • Avg. annual growth in cash returns (FY19-26): <1%

Looking forward, the subsidiaries **face greater risks** …	• Enable: technology change and competition • CIAL: climate change and impact on passenger demand • Orion: regulation, significant investment programme • LPC: international trade volatility, capacity constraints
…. and **need more investment**	• Orion: driven by electrification of the economy • LPC: driven by need for more capacity • CIAL: supporting regional growth

This change in risk / return profile means:

- More volatile returns
- Balance of risks on downside
- Delayed return: investment today with promise of return tomorrow
- Portfolio returns need to increase to be competitive vs alternative investments and compensate for increasing risk

245

CCHL's response is driven by Council's Value Strategy – to meet its investment objectives and contribute to a ~[redacted] funding gap

Investment Objectives (in priority order)

For the benefit of current and future generations

Supporting growth and resilience in critical local infrastructure

Sustainable real growth in dividends

Balanced risk appetite

[redacted]

Council is projecting [redacted] annual funding gap, assuming

- Rate increases are limited to inflation + 2%
- CCHL dividends per the current projection (~$40m pa)

Council would like a meaningful contribution from CCHL to close that gap.

- There is acknowledgement that this won't happen under the status quo

We identified and discussed with you a spectrum of options that could meet the investment objectives

1. Strengthen Current Portfolio

Preserve and grow value with a focus on **strengthening the existing investments** through more active CCHL management.

2. Secure Sustainable Growth

Strengthen Current Portfolio plus

Supporting **growth and sustainability objectives across Christchurch and Canterbury**.

CCHL having more flexibility to **invest in or extract value out of the existing portfolio**.

3. Renew the Portfolio

Secure Sustainable Growth plus

A more **strategic approach to driving long-term value and impact**.

CCHL having **more autonomy to transact and change the portfolio**.

4. Maximise Returns

Large scale **cash return to Council** to mitigate pressures through the LTP.

Remaining value **invested in a diversified portfolio** focused on optimizing long-term intergenerational benefits.

Considered insufficient to meet Investment Objectives or contribute to CCC funding

Recommended approach:
"Option 2.5: Secure and Renew"

Not preferred as inconsistent with Investment Objectives

247

Recommendation: Active Portfolio Management

Option 2.5 is our recommended approach, which involves:

- Repositioning Council's investment in CCHL as its **"Strategic Asset"**
- **CCC setting strategic objectives and policy parameters**, captured in a new Investment Policy Framework (IPF)
  - **The Why** - CCHL's Investment Objectives defined by Council
  - **The What** - CCHL's Asset Allocation model approved by Council
- **CCHL having flexibility to manage capital in the portfolio**, within boundaries
  - **The How** - guided by the What and Why, supplemented with transaction boundaries (safeguards) for core assets.
  - For benefit of current and future generations
  - Securing sustainable growth in Christchurch and Canterbury
  - With Council approval required over ~10% threshold of portfolio equity (currently $325m)
- **Renewing the portfolio** over time, to include
  - Local critical infrastructure across wider asset classes – to leverage CCHL's competitive advantage in the local market, and benefit the region
  - Co-investments – to increase the funding and resources for the growth of existing portfolio companies
  - More liquid assets e.g. equities, fixed income – to manage volatility, increase liquidity and provide more stable, predictable cash return to Council

Investment Policy Framework that sets out CCHL's ongoing objectives and portfolio management approach

Sets boundaries for CCHL's investment activity

Enables new investment in existing assets or new

248

Practical differences – Enhanced Status Quo and Active Portfolio Management

	Enhanced Status Quo	Active Portfolio Management
Investment mandate	active management of existing businesses, capital constraints a challenge	Core Infrastructure Investor. Additional flexibility to manage distributions and reallocate capital within terms agreed with Council.
Strategic assets	Ring-fenced by Council SEP and Strategic Asset Register. Access to capital requires public consultation	CCHL is the strategic asset and remains fully invested. Subsidiaries can be transacted with Council oversight and approval above CCHL's delegation authority (10% of equity)
CCHL resourcing	Additional resources required but limited to core role and purpose	Pivot from 'Hold-Co' to Infrastructure Investment Entity. A more pro-active role in seeking opportunities to grow the asset base in Christchurch.
Understanding of CCHL's role	Governed through SOI and CCHL Board appointments ('as is' arrangements)	CCHL's role and mandate set through the Investment Policy Framework (IPF)

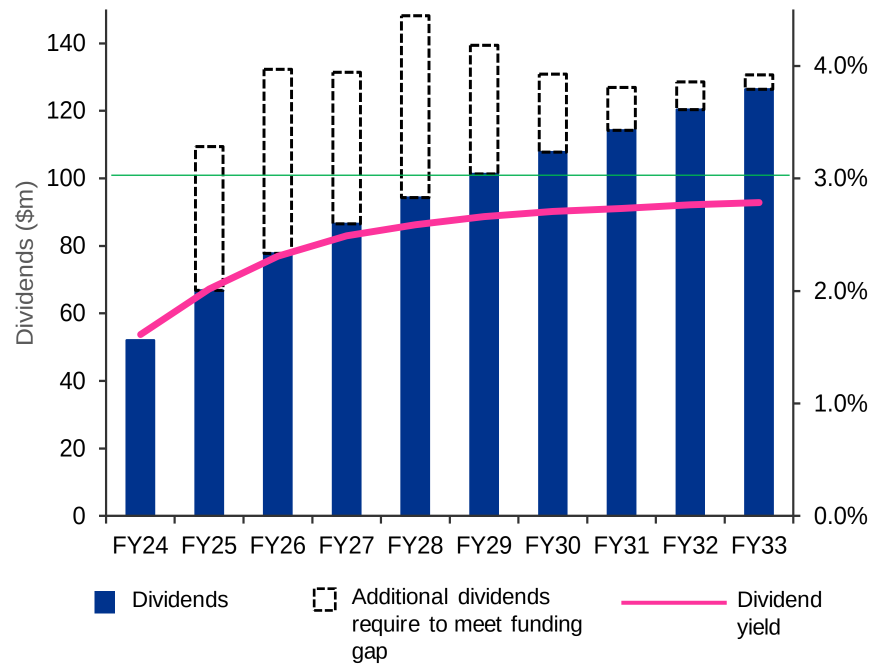
Flexibility to respond to CCC needs	**Low** CCHL cannot monetise capital growth Constraints on subsidiary capital needs inevitable	**Medium-High** Greater investment flexibility. Ability to divest and reinvest, within CCC approved 'guardrails'
Additional funding contribution	**Low** Illiquid portfolio, Highly geared. No capacity to fund special dividends	**High** Ability to monetise capital growth and market-based premiums provides capacity to consider special dividend requests
Sustainable dividend growth	**Medium-Low** Improving earnings but Council dividend subordinate to other requirements Limited capacity for new investment	**High** More diversified portfolio reduces volatility of returns. Rebalances toward higher income assets
Control	**High** ~ Majority or 100% ownership	**Medium-High** Council retains control and oversight through IPF at portfolio level and individual transactions through delegated authority

mafic

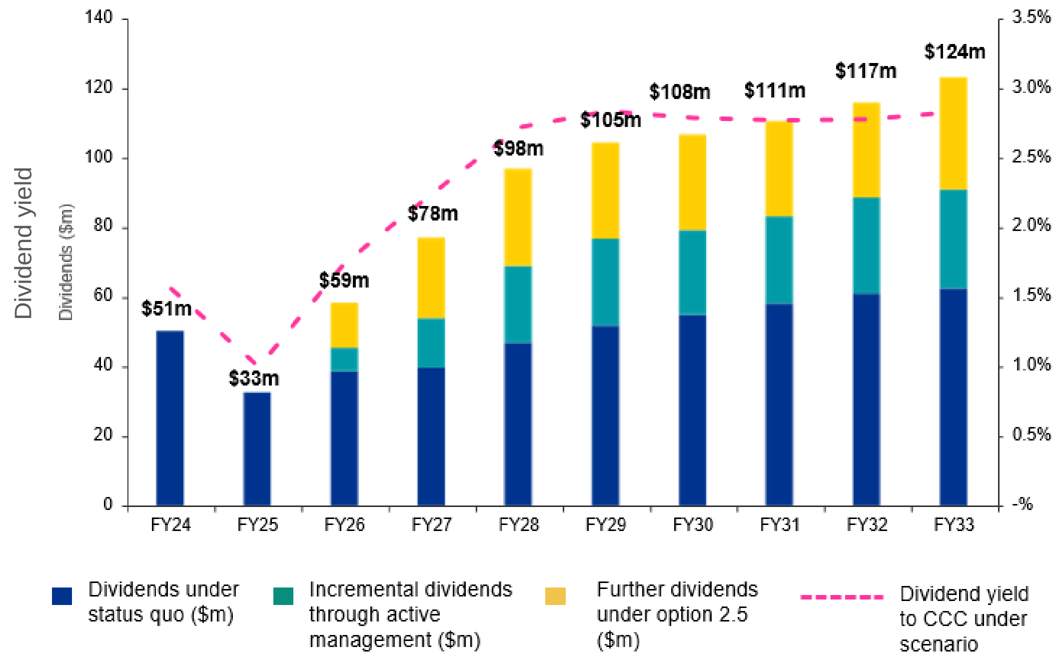
249 249

CCC values certainty of dividend. Enabled by a Distribution Policy targeting a set income return

Target distribution of 3% of market value



Dividend projections



Note: The above is a simplified illustration, assuming that CCHL net assets start at the current $3.2bn and increase in line with status quo assumptions.

250

13 September 2023

Draft Version 4.0_For Review by the CCHL Board

CCHL Stakeholder Engagement + Strategic Communications Plan

Supporting the CCHL Strategic Review Process

Christchurch City Holdings Limited

251

Contents

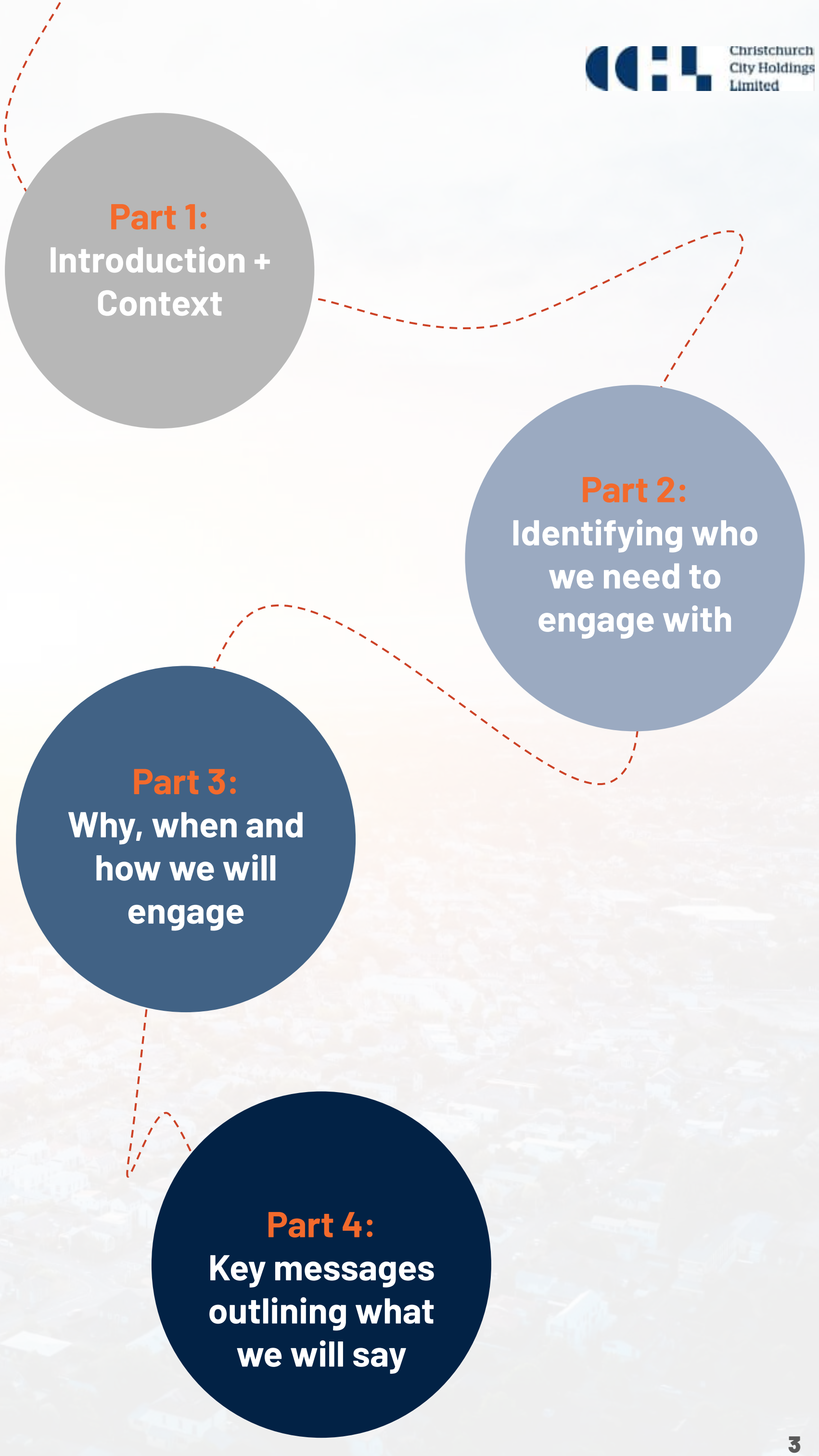
252

Executive Summary

The Stakeholder Engagement + Strategic Communications Plan steps through a four-part process to identify a who needs to be taken on the Strategic Review process journey, why, when and how they should be engaged and communicated with, and the key messages relevant to each group.

Key takeaways

- CCHL needs to have a clear plan for engagement and strategic communications.
- CCHL needs to identify and then build stronger relationships that enable two way communications with its stakeholders, including the media.
- CCHL needs to take a proactive and joined up approach, that considers the role of mana whenua separately to stakeholder groups.
- CCHL need to develop a core narrative, supported by a number of secondary messages, that will guide all of its communications.
- CCHL needs to generate regular, positive and proactive communications.
- CCHL needs to focus on reaching a supportive and influential group who can help to promote the opportunity and possible benefits of a change to the way CCHL operates.
- CCHL needs to make information available on its website in an easy to digest format, and regularly update it.



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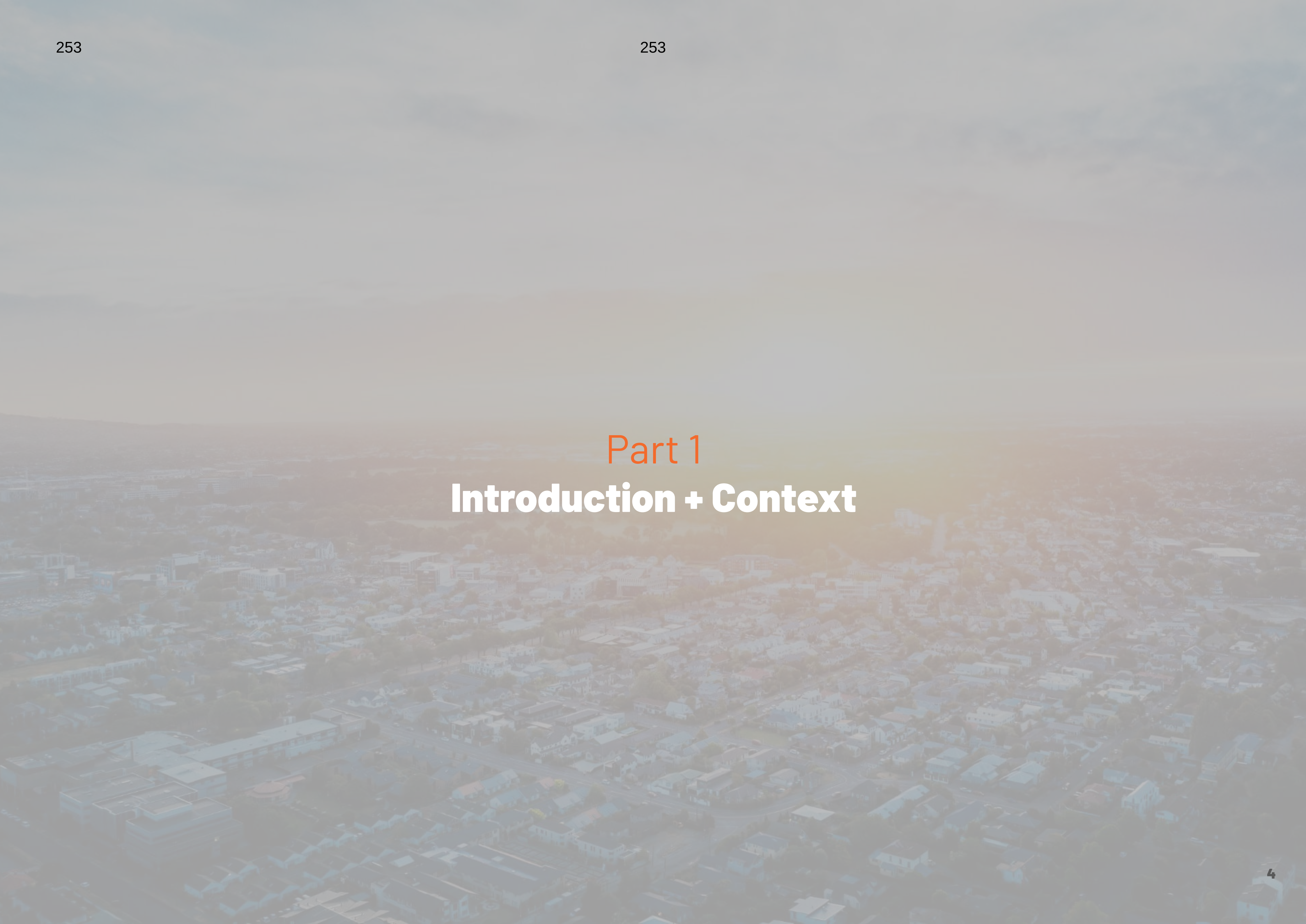


Part 1

Introduction + Context

254

1.0 Introduction

The future of CCHL is a complex and public facing issue.

It is CCHL's intent is to develop positive relationships with its stakeholders and engage with them to understand their views and what is important to them.

This document provides a plan for engaging and communicating with CCHL's stakeholders throughout the Strategic Review process.

The purpose of the plan is to:

a) Identify who are the stakeholders are and their level of influence.

b) Identify communication risks and develop objectives that help to mitigate the risks.

c) Provide guidance to CCHL about how to shift to a more proactive approach to communicating with its stakeholders.

d) Provide guidance on when to communicate with each stakeholder and how much information to provide.

e) Put the foundations in place to build positive relationships with stakeholders.

It is not intended to act as a plan beyond the Strategic Review process; however, it will help to inform broader stakeholder engagement planning.

Audience + Use

This plan is intended for CCHL's management team and board in the first instance. Elements of the plan also be provided to the subsidiary organisations. Alignment with Christchurch City Council communications is recommended.

Success Parameters

The CCHL board has several expectations for the Strategic Review process which are relevant to communications and engagement plan, these include:

- Enabling CCHL and Council to better understand the businesses they own and have an independent view of their performance and strategies.
- Showing that CCHL is alert for opportunities to work together with its stakeholders, understand their needs and respect their roles.
- Deliver a thorough and well-reasoned business case, with clear and audience-appropriate messaging that can be used to guide public consultation documents.
- Present the best view for the ultimate shareholders of CCHL – the ratepayers of Christchurch – which thoroughly considers the benefits for the region.
- Deliver recommendations that will demonstrate foresight when judged decades into the future.

255

1.1 Wider CCHL context

When developing the plan, consideration has been given to the changing context that CCHL is operation in.

Current mission
Supporting the future growth of Christchurch by investing in key infrastructure assets that are commercially viable and environmentally and socially sustainable

Changing Context
CCHL is undertaking a strategic review, intended to reflect on the legacy of the past 30 years while demonstrating foresight in ensuring the investments continue to meet the city's needs for the next 30 years.

Proactive Planning
In preparation for potential change, CCHL is taking a proactive approach to planning stakeholder engagement and communications.

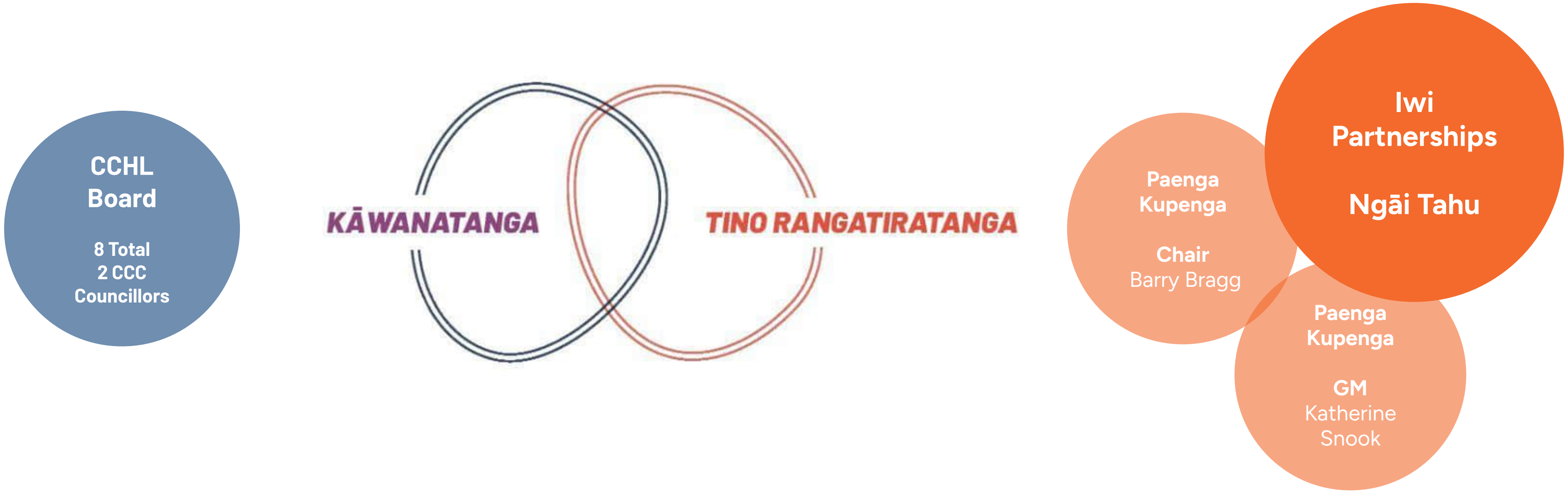
 256

Part 2

Identifying who we need to engage with

257

2.0 Mana whenua partnership



- Partnership with Mana whenua needs to be considered differently to stakeholder engagement, to recognise the Rangatiratanga of Ngāi Tahu.
- Although Council and mana whenua are partners in their broader work, CCHL will need to develop their own relationship.
- A separate, principle based approach to engaging with the various entities who represent mana whenua needs is required.
- A principle based approach will help to demonstrate CCHL's commitment to engaging with mana whenua in a process that considers more deeply what type of relationship CCHL could have with mana whenua and its representative organisations in the future.

Iwi Partners
Potential supporters with wide network in business / Iwi community.

Key Risk
Non existent relationship; this is a critical path issue. Partnership journey difficult without support or investment.

Collaborate / Consult
Pathway to partnership to be developed.
Early and principle based engagement.

258

3.0 Strategic Review Engagement + Communications Overview

Desktop analysis of our individual stakeholders was undertaken and a matrix was developed for CCHL. Identifying voices who could be a positive (or negative) influence will need to be an ongoing process.

In summary, this analysis revealed a strong grouping and prioritisation method which is shown below:

Primary Groups: Councillors, Steering Committee, CCHL Board

Secondary Groups: Media, Subsidiary Management + Board, Christchurch Community & ratepayers

Wider Groups: Infrastructure Partners, Investor Partners, Iwi partners, Alt Media

259

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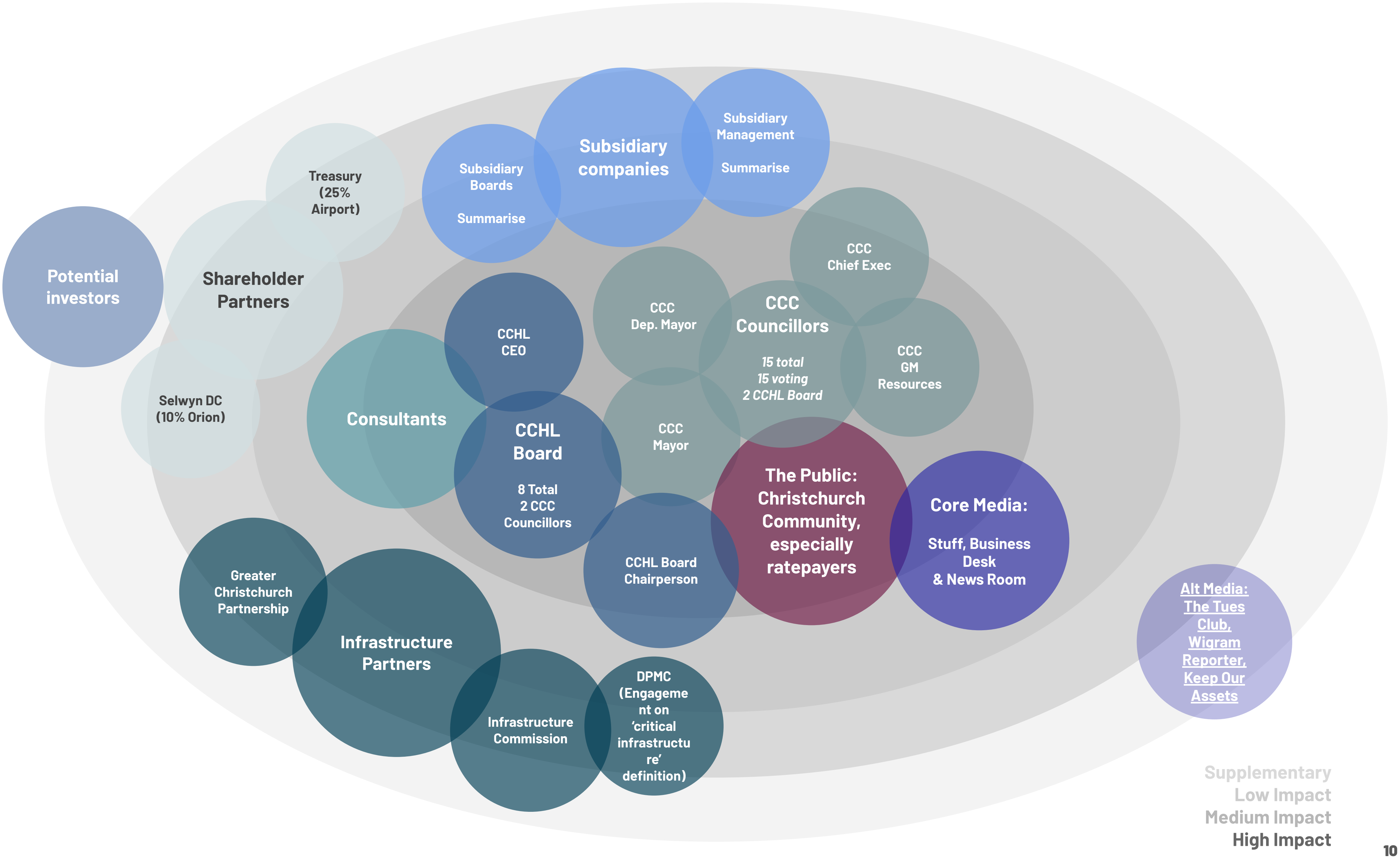
3.1 Mapping stakeholder categories



260

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3.2 Specific stakeholder identification and prioritisation

[redacted]

261

4.0 Stakeholder groups, risks and objectives

A high level summary of the key risks and objectives for our **Primary Groups** aims to understand how groups see issues and what they want answered.

	Primary Groups	Potential Risks	Two-way Communications Objectives
High Impact	**Councillors** Delivering against Council vision, community objectives and strategic priorities.	**Preconceptions** Lack of consensus on the problem definition. Perception of a predetermined outcome and the implications of the Review process. Some technical knowledge gaps.	**Inform / Empower** Build trust in the process by presenting evidence, and demonstrating alignment to the Council vision, objectives & priorities.
Medium Impact	**Steering Committee** Three perspectives providing crucial insight.	**Restricted Direction** Suboptimal process that does not provide the right information. Perspectives have a potential to clash, restricting the chance to establish clear direction.	**Collaborate / Consult** Achieve unification within the committee about the purpose of the process. Open discussion that results in clear direction to the working group
Medium Impact	**CCHL Board** Supporters with a wide reaching network and key insights into process.	**Key Risk** Insufficient information and context to provide guidance and make decisions, as appropriate	**Inform / Collaborate** Provide regular updates, opportunity for participation and distill insights among wider project teams.

262

A high level summary of the key risks and objectives for our **Secondary Groups** aims to understand how groups see issues and what they want answered.

	Secondary Groups	Risks	Two-way Communications Objectives
Medium Impact	**Media** Media seek stories that are divisive and limited public awareness.	**Uninformed / Misinformed** Public is by in large uninformed, their limited knowledge leaves them open to being swayed by media views. Potential of LGOIMA.	**Engage / Inform** Proactively engage with media to ensure a balanced view is provided to the public. CCHL controls portion of narrative.
Medium Impact	**Subs Management + Board** Supporters with a wide reaching network who are fully invested in the outcome.	**Key Risk** Concern about unknown eventualities. Media requests for information. Access to timely information to support staff updates on the strategic review process.	**Inform** Issue live media pack and provide up to date information.
High Impact	**Christchurch Community** Have a desire to be informed and have their say.	**Key Risk** Very limited knowledge, On which to provide informed feedback through LTP.	**Inform** Being informed in a way that resonates with core values.

263

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A high level summary of the key risks and objectives for our **Wider Groups** aims to understand how groups see issues and what they want answered.

	Wider Groups	Risk	Communications Objectives
Low Impact	**Infrastructure Partners** Potential supporters with wide network in business community	**Key Risk** Limited awareness and review lacks alignment with national hierarchy of strategies and priorities. Failure to obtain support.	**Inform / Collaborate** Issue media statements and develop relationship.
Low Impact	**Shareholder Partners** Stake in assets. Potential supporters with wide network in business community.	**Key Risk** Lack understanding of process and opportunity to participate before any transaction phase. Media requests for statements.	**Inform / Collaborate** Issue live media pack to align narrative and develop relationship.
Supplementary	**Potential Investors** Potential supporters with wide network in business / Iwi community.	**Key Risk** They do not have the relevant up to date information that enables them to plan for future opportunities.	**Collaborate / Consult** Ensure they understand the opportunity. Early engagement.
Supplementary	**Alt Media** Political activists and provocateurs.	**Key Risk** Agitates or misinforms the public.	**Counteract** Counteract misinformation with proactive media statements.

264

5.0 Defining high level communications requirements

Communications requirements have been shaped through client conversations and by analysis conducted in the stakeholder engagement section of this plan.

The Public Community Ratepayer
Increase awareness **through media to increase understanding and build support for the process.**

CCHL
On the back foot around public comms. No share of voice. **Monitor press with alerts, map out milestones, send media statements out proactively.**

Could improve how media enquiries are handled. Create media pack, **define media spokesperson(s), create media contact matrix**

Iwi Partners
The commitment to partnership needs to be fulfilled.

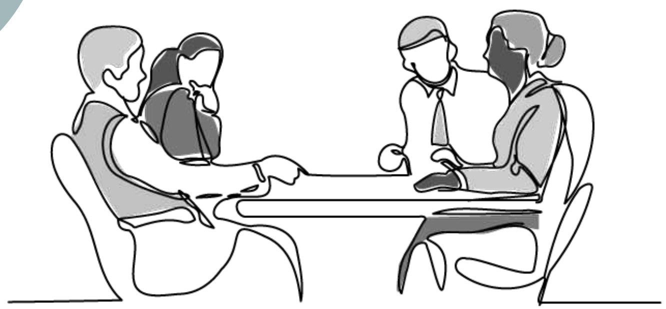
Potential Investors

Subsidiaries
Concern about unknown eventualities. Up to date information to communicate with staff required.
Media requests coming through, aligned and informative **media pack needed.**

Infrastructure Partners
Build relationships and keep informed. **Provide copy of proactive media statements.**

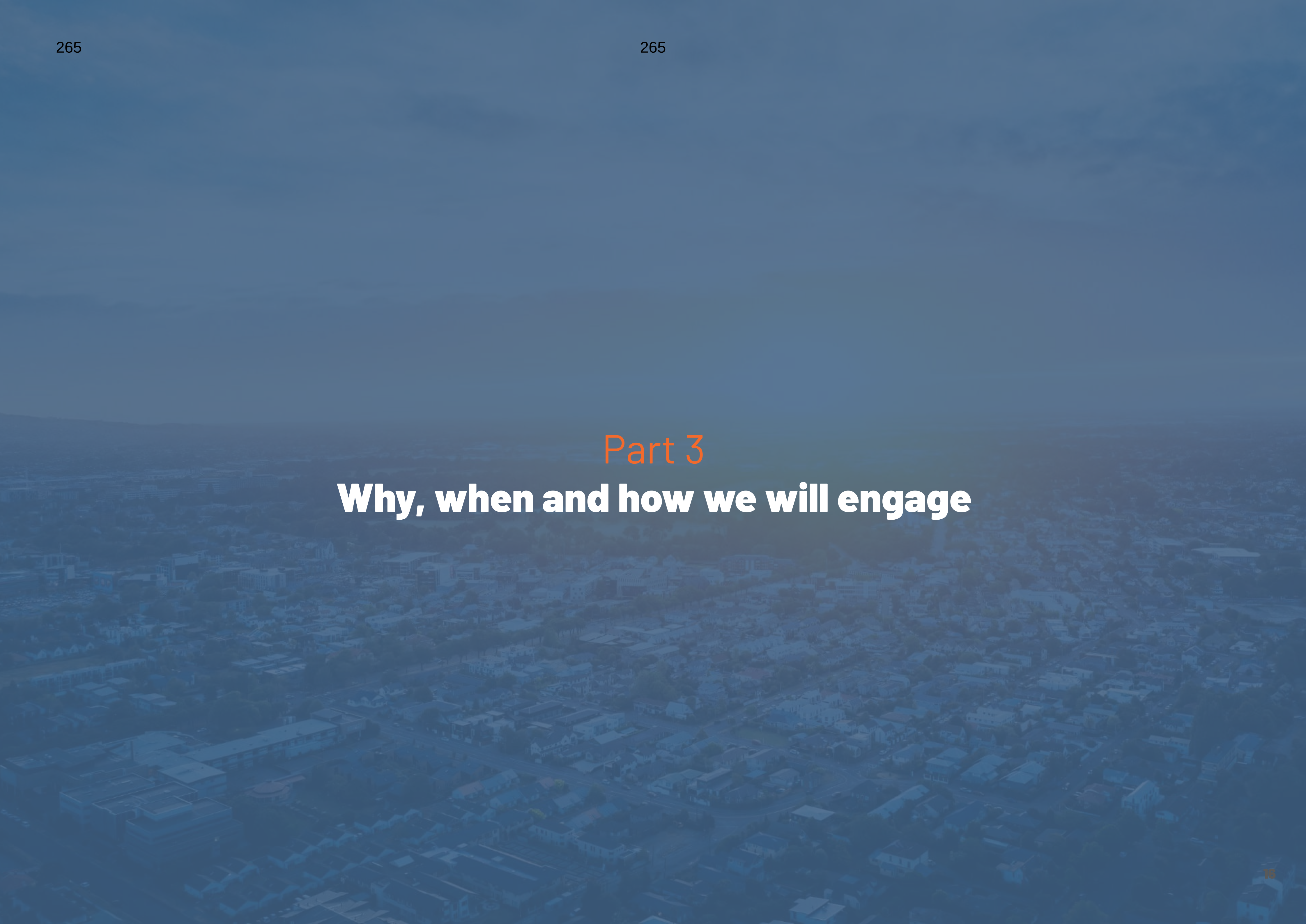
Council
Improve and grow relationships by aligning with Council priorities and using the **comms protocol** in place.

Core Media
Improve and grow core media relationships. Improve availability of CCHL spokesperson. **Provide statements proactively.**



Shareholder Partners
Inform. Provide **aligned media pack** and access to information via website.

265



Part 3

Why, when and how we will engage

266

6.0 Strategic communications approach

The approach has been shaped through client conversations and giving consideration to analysis conducted in the stakeholder engagement section of this plan.

A Proactive + Joint Up Approach

Our objective is to enhance awareness and achieve support for CCHL and the Strategic Review process by establishing a strong core narrative that connects with Councillors and the ultimate shareholders of CCHL – the ratepayers of Christchurch.

Ensuring a balanced view is provided to the public and stakeholder groups through a **proactive approach** to maintaining media relationships and provision of simple and up-to-date information.

The majority of the communications issues we face with our stakeholder groups are caused by a single problem: they are uninformed about the process. To assist them to support the process, and understand how and when to engage, they need to be informed. This is best addressed through a **joint up approach** with Council, where CCHL provide a single, core narrative and clear information about the Strategic Review process to all relevant stakeholders.

267

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7.0 An outline of the communications timeline

The proposed communication and engagement approach to support the Strategic Review process has multiple steps.

Growth in understanding for Christchurch Community and Stakeholders as each milestone progresses

Step 1

Plan

Understand your stakeholder groups and their needs.

Develop a plan to communicate with them.

Step 2

Prepare

Focus on educating the primary stakeholder group, the Councillors.

Develop core narrative & key messages.

Understand the public narrative & develop FAQ's to respond.

Undertake media training.

Step 3

Positive & public facing communications

Issue Two Live Media Packs

1: Subs/Investor Partners/ Infrastructure Partners

2: CCHL Live Media Pack (more detailed)

- CCHL media statement
- Add to Live Media Packs

Determine what role social media can play.

Step 4

Proactive Updates

Following the Options Assessment workshops, update:

- CCHL media statement
- Add to Live Media Packs
- Update website information portal

Step 5

Public Input

- CCHL media statement on LTP decision being consulted on
- Visual documentation to support LTP consultation
- Add to Live Media Packs
- Update website information pack

Assets required:
Live media pack x 2
Media contact framework
Media monitoring + alerts
Media analysis + summary
Media Spokesperson training
Website updates
Brand Pack

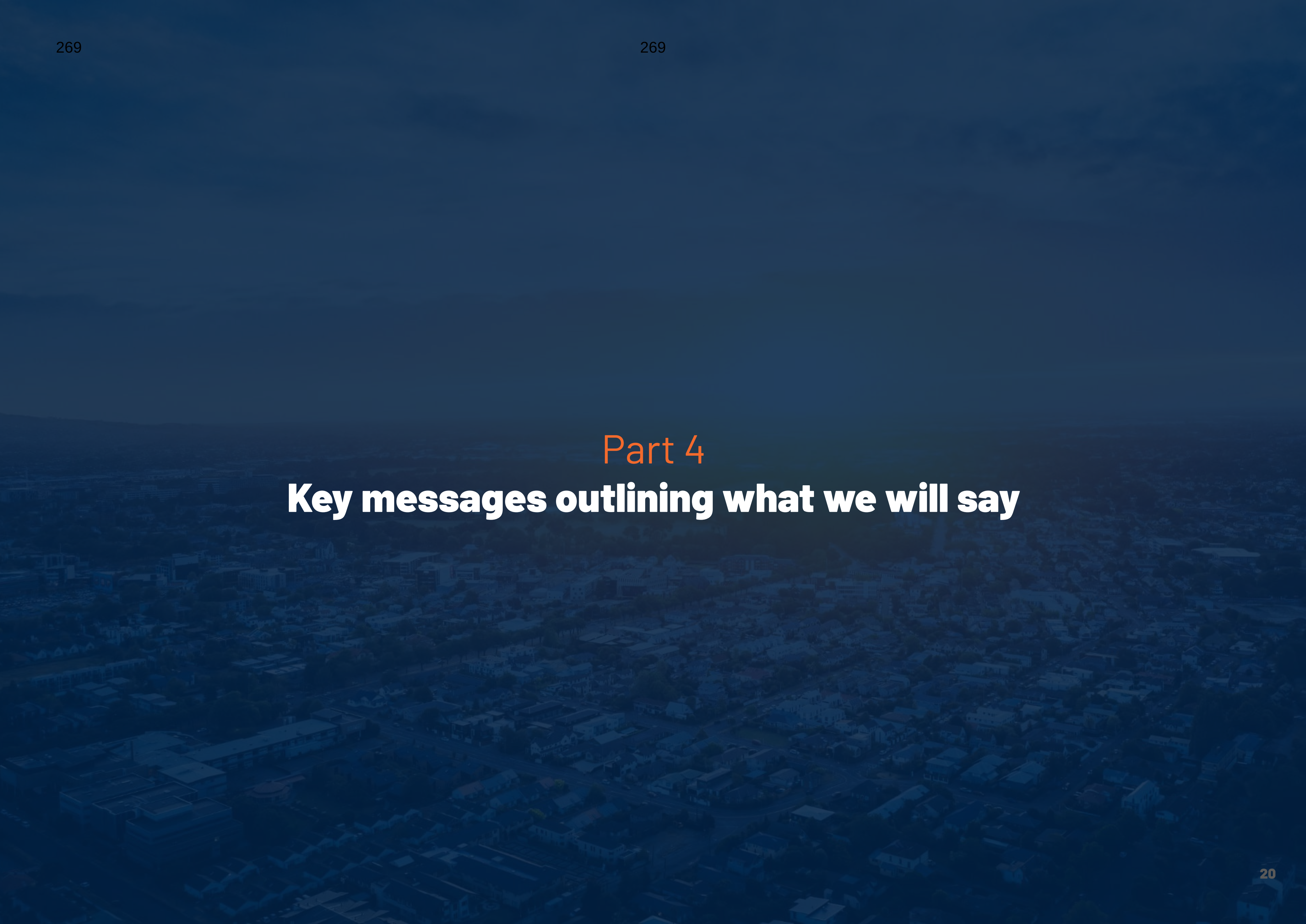
(Media pack(s) could include; CCHL Strategic Review media statement, visual introduction to Strategic Review Process, CCHL SOI, supporting images, press point of contact, glossary of terms, and brand pack)

268

8.0 Detailed communications plan

Activity	Objective + Approach	Key details	Aug	Sep	Oct	Ongoing	Stakeholder Groups
Councillor Engagement	O; Inform and empower councillors through Strategic Review process. A: All materials presented must provide trust in the process + evidence, and demonstrate alignment to the Council vision, objectives & priorities and how its responds to the agreed problem definition.	Review and advise on structure for materials provided to Councillors.	●	●	●		Produce: KPMG/Mafic/ CCHL/ TUA Review: TUA
Media Contact Framework	O:Develop relationships with core media through regular contact. A: Using CCHL media contact list, create a strategic and targeted approach.	Media contact list provided. Utilise and optimise ongoing.		●	●	●	Collab: TUA / CCHL
Media Statements	O: Generate share of voice + educate Christchurch community. A: Release proactive media statements at key Strategic Review milestones.	Statements in line with key project milestones, to be agreed with Council.		●	●	●	Pre-circulation: CCHL Board/Council/Subsidiaries / Infrastructure Partners / Investor Partners Circulation: Core media / Christchurch Community
Live Media Pack	O: Grow stakeholder and media relationships by proactively providing key information. A: Compile live media pack and update at key milestones.	Generate pack(s), cloud hosting, update pack(s) in time with above.		●	●	●	Pre-circulation: CCHL Board/Council/Subsidiaries / Investor Partners Circulation: Core media / Christchurch Community
Media monitoring	O. Gain awareness of media presence and proactively respond. A: Set up Google Alerts to instantly monitor.	Identify terms and provide CCHL with set up guidance.		●	●	●	Collab: TUA / CCHL
Media Summary	O. Understand ongoing position in media and likely view of Christchurch community. A: Analysis and summarise media representation to date and ongoing.	TUA analyst to provide insights.	●	●	●	●	Develop: TUA Utilise: CCHL
Media Training	O: Equip key spokespersons. A: Provide training to Abby and Paul.	Discuss best pathway.		●			TBC
Website updates	O: Generate share of voice + educate Christchurch community + be proactive. A: Publish media statements to website + provide media pack/portal.	Media pack portal provide. Publish statements as above		●	●	●	Develop: CCHL

269



Part 4

Key messages outlining what we will say

9.0 Developing the core narrative

270

The core narrative operates as our our singular overarching message, from which all other messaging ladders up to. Depending on the context and audience, the tone and style can adapt, while the central narrative remains the same.

To develop the core narrative we have looked at what has previously been said, and considered how to improve alignment between messaging and strengthen the key messages that we want in the public arena, so that they can respond to the misconceptions that exist.

Council needs more certainty over ability to use CCHL to support a sustainable financial strategy. While CCHL has limited capacity to respond within existing portfolio given 2016 capital release to Council. A more flexible mandate likely to be required to support Council objectives in an equitable, intergenerational manner.

(Ref: CCHL Paul Silk)

9.1 Understanding what has already been said

How to get ***more value for the communities*** of Christchurch now and in the future; now is the ***right time*** to reflect on the last 30 years and plan for the next 30.

(Ref: Steering Group)

"significantly under-utilised asset of the Council and city ratepayers" and that ***"significant value could be added by taking a more active approach to asset management."***

(Ref: Northington Report)

CCHL requested to scope and develop detailed business cases which ***fully consider the costs and benefits of adopting a more active approach*** to managing the portfolio, including rebalancing and returning capital to Council.

(Ref: CCHL SOI)

"What we are looking at is ***making sure that CCHL is set up to generate the best possible return for our city as it was intended to do***. We will work through this ***at next year's LTP and the public will be able to have their say***."

(Ref:Mayor Phil Mauger)

271

9.2 Learnings from analysing what has been said to date

We have identified the positive and negative impacts of current communications, and its public impact which help to guide the core narrative.

Example	Themes	Negative public impact	Positive public impact
"significantly under-utilised asset of the Council and city ratepayers" and that ***"significant value could be added by taking a more active approach to asset management."*** *(Ref: Northington Report)*	Specialised language Economic focus Rates pathway Active approach	Barrier to public connection Focus on economic value Uncertainty around outcome	
CCHL requested to scope and develop detailed business cases which ***fully consider the costs and benefits of adopting a more active approach*** to managing the portfolio, including rebalancing and returning capital to Council. *(Ref: CCHL SOI)*	Specialised language Economic focus Active approach Outcomes focused	Barrier to public connection Focus on economic value Uncertainty around outcome	
Council needs more certainty over ability to use CCHL to support a sustainable financial strategy. While CCHL has limited capacity to respond within existing portfolio given 2016 capital release to Council. A more flexible mandate likely to be required to support Council objectives in an equitable, intergenerational manner. *(Ref: CCHL Paul Silk)*	Outcomes focused Economic focus Flexible mandate	Barrier to public connection Focus on economic value Uncertainty around outcome	
"What we are looking at is ***making sure that CCHL is set up to generate the best possible return for our city as it was intended to do***. We will work through this ***at next year's LTP and the public will be able to have their say***." *(Ref:Mayor Phil Mauger)*	Process + outcomes focused CCHL set up Best return for the city Public consultation		Connects with the public Community value Emphasis on public consultation Suggestive of change for good
How to get ***more value for the communities*** of Christchurch now and in the future; now is the ***right time*** to reflect on the last 30 years and plan for the next 30. *(Ref: Steering Group)*	Accessible language Community value Right timing Future fit		Connects with the public Emphasis on good timing Considers current + future

272

9.3 Understanding 'Why' we are doing this process guides the core narrative

Why?

To maximise the impact of CCHL for the benefit of Christchurch's communities, now and in the future.

Be an inclusive and equitable city

Manage ratepayers' money wisely

Champion Ōtautahi-Christchurch

Reduce emissions as a Council and as a city

Build trust and confidence in the Council

Actively balance the needs of today's residents with the needs of future generations

273

9.4 Alignment of strategic priorities, outcomes, and investment objectives

The core narrative also needs to draw on and connect to the outcomes that Council care about and their strategic priorities.

Alignment to Council's Strategic Priorities	Outcomes sought for the City Corresponding with Council strategic priorities	Investment Objectives DRAFT _ TO BE FINALISED
	• Affordable Rates • Financial Stability	**Sustainable real growth in dividends (> 2% growth)**
	• Manage ratepayer's money wisely • Broaden and strengthen infrastructure assets and support sustainable growth	**Supports growth and resilience in critical local infrastructure (in Christchurch and Canterbury)**
	• Balance the needs of today's residents with those of future generations • Safeguards that preserve legitimate public interest	**For the benefit of current and future generations**
CO_2	• Protect and grow intergenerational capital • A four capitals approach	**Without undue risk**

274

9.5 The 'What' and 'How' underpin the core narrative

What

For the first time in 30 years a Strategic Review of CCHL's purpose, activities and results is taking place at the request of the Council. After an independent report by Northington Partners confirmed to Councillors CCHL could be better utilised for the Christchurch community.

How

CCHL Board has appointed KPMG and Mafic to provide independent advice and expertise to support the Strategic Review. A Detailed Business Case will be presented to Councillors to consider towards the end of the review process. This is guided by Council requirements and objectives for the city.

In December Councillors will deliberate and vote on how CCHL can best serve the Christchurch community, now and in the future.

The Council's recommendation will be included in the 2024 LTP for the public to provide their feedback.

275

10.0 Developing messaging

10.1 The Core Narrative

For the first time in 30 years a Strategic Review of CCHL's purpose, activities and results is taking place at the request of the Council.

After an independent report by Northington Partners confirmed to Councillors CCHL could be better utilised for the Christchurch community.

CCHL Board has appointed KPMG and Mafic to provide independent advice and expertise to support the Strategic Review. A Detailed Business Case will be presented by CCHL to Councillors. It will draw from the independent advice and be guided by Council requirements and objectives for the city.

Councillors will deliberate on how CCHL can best serve the Christchurch community, now and in the future. Any decision will be consulted on in the 2024 LTP so the public can have their say.

For the first time in 30 years, we have an opportunity to ensure CCHL, as an investment manager, is equipped to provide the best possible community outcomes, as it was intended to do.

Emphasis on good timing

Connects with the public

Suggestive of change for good

Informed non-partisan experts

Considers current + future

Emphasis on public consultation

Supplementary information to support the core narrative

The process will help CCHL to understand what its purpose needs to be now, and in the future.

Options will be presented to ensure that CCHL's investment portfolio can provide for Council's long term requirements and balances the current and future financial, economic, environmental and social outcomes that help to deliver on its aspirations.

This may mean changing the way it invests in the context of an evolving financial, social and environmental needs.

276

10.2 Secondary messages

The core narrative can then be used to develop Secondary messages. The secondary messages can only be developed once the core narrative is signed off. See Appendix 2 as an example.

Secondary message should cover

- Narrative about CCHL's current and future purpose.
- Narrative about Council's funding requirements and the need for a sustainable rates path and certainty.
- Narrative about subsidiary's requirements.
- Narrative about why Council originally owned the assets, what's changed and what will be needed in the future.
- Narrative about what Council's current and future non-financial requirements.
- Narrative about why CCHL needs the ability to be more flexible.
- Narrative about the importance of balancing decision making for the short and long term.
- Narrative about a purpose-led approach.
- Narrative about 'value'.

Examples

- CCHL is able to provide more for the Christchurch community.
- Council can retain majority community ownership, if it chooses.
- CCHL is considering different ways to secure the investment the businesses require.
- There is an opportunity to protect ratepayers from the costs of funding the assets in the future.
- There is an opportunity to diversify and de-risk the Council's investments to better protect current and future ratepayers.

277

11.0 Applying the core narrative

The core narrative, supported by the secondary messages will be used to create positive and proactive messaging for a range of audiences.

The form of the content will be different for different groups and purposes but the underlying message will need to remain the same.

Persona one as an example

Councillor X supports public ownership of strategic assets, because it enables certainty for the residents of Christchurch, but Councillor X also suggests that if retaining ownership they could make the asset more efficient by cutting operational costs.

Key message to achieve communication objectives

The strategic review process will enable CCHL and Council to understand the assets they own, how well they are performing, and if there are areas for improvement.

How Council makes the most out of its assets in the future is the subject of the Business Case.

Persona two as an example

Key public figure commits to retaining ownership of assets in 2022.... And when questioned by the media provides a response which suggests their position has changed.

Key message to achieve communications objectives

The Strategic Review process will provide a balanced view of the benefits and limitations of both public and private ownership.

We need to understand if there is the opportunity to take the financial burden off the rate payer, and to get more out of our investments.

 278

THE URBAN ADVISORY
RETHINKING OUR CITIES

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DOCUMENT 14

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4 December 2023

Mayor Phil Mauger
Christchurch City Council

Mary Richardson
Acting Chief Executive
Christchurch City Council

Via email

Tēnā korua Phil and Mary

CCHL Strategic Review – Recommendation

Following the resolutions passed by Council in December 2022, CCHL has been working closely with Council to prepare a detailed business case containing CCHL's recommendation for more active management of the CCHL portfolio for consideration as part of the Draft Long Term Plan 2024-2034 (LTP).

The CCHL Board has considered the options in developing the business case and makes the following recommendations:

1. Council provide CCHL with a more flexible investment mandate in the form of Option 2.5 (an Active Portfolio Manager) discussed with the Council in our last workshop; and
2. CCHL recommends that this mandate is consulted on as part of the LTP.

We are making these recommendations today in the interest of providing updated dividend forecasts to Council for inclusion in the LTP.

Further detail on the Active Portfolio Manager option is provided below. In making this recommendation we also note that over the course of the 10-year period covered by the LTP, the more flexible mandate could deliver nearly $450m of additional dividends to Council over CCHL's existing forecasts, and over $220m above what is possible under an enhanced status quo discussed below.

Long-Term Plan dividend forecasts

Further to our discussion on Wednesday 29 November 2023, we agreed to provide you with two sets of dividend forecasts to consider for inclusion in the LTP. These being the forecast that accompanies our recommended approach and a forecast based on no change to CCHL's mandate.

We now attach the following:

1. CCHL Dividend forecasts for the LTP 10-year period to 2034 based on **no change** to CCHL's mandate (Enhanced Status Quo) (Appendix 1); and
2. CCHL Dividend forecasts for the LTP 10-year period to 2034 based on a more flexible investment mandate - **Active Portfolio Manager** (Option 2.5) (Appendix 2).

Both these dividend forecasts have been approved by the CCHL Board at its meeting today and are supported by work undertaken by the KPMG/Mafic consortium engaged to assist with the Strategic Review.

Council Value Strategy

CCHL notes that over the course of this year we have worked closely with Council to develop the Value Strategy which informs Council's long-term requirements from our investment portfolio.

The Value Strategy workshops identified the following investment objectives (in priority order):

- For the benefit of current and future generations
- Supporting growth of Christchurch and Canterbury through resilient infrastructure
- Sustainable real growth in dividends
- Balanced risk appetite.

In addition to this Council identified a funding gap of approximately $80m to 100m per year over the LTP period (assuming rate increases were limited to the Local Government Cost Index (LGCI) plus 2%). CCHL were asked to consider how best to contribute to reducing this funding gap, over and above the existing dividend forecasts provided to Council.

Our recommended option responds to both the Investment Objectives and the request to help close the funding gap over the course of the LTP.

RECOMMENDATION - Option 2.5 Active Portfolio Manager

As discussed with Council at recent workshops CCHL has identified the key features of the Active Portfolio Manager (Option 2.5) as follows (and summarised in Appendix 3):

1. CCHL is acknowledged as the key Strategic Asset owned by Council, with capital remaining fully invested in meeting Council's long-term investment objectives, unless otherwise requested by Council.
2. Current Governance arrangements between Council and CCHL are modified to add an Investment Governance framework, through the adoption of an Investment Policy Framework (IPF). The IPF will have four main features:
   i. Council approves CCHL's Investment Objectives;
   ii. Council approves CCHL's permitted investment activities (Asset Allocation);
   iii. CCHL is granted greater flexibility to invest within the approved asset allocation; and
   iv. CCHL delivers greater certainty to Council in respect of future income through the adoption of a distribution policy.
3. The IPF will include "guardrails" which seek to preserve the public interest in accessing sustainable, inclusive and affordable economic infrastructure assets.
4. Existing Council governance processes relating to strategic and operational expectations, such as the Statement of Intent, would remain in place.
5. In exercising investment flexibility, CCHL would be required to establish a liquidity portfolio as part of a more prudent, long-term approach to managing Council's invested capital.
6. To deliver the dividend commitments identified in transitioning to a distribution policy the liquidity portfolio will need at least $350m invested in suitable assets.

Enhanced Status Quo (not recommended)

As noted above, and in responding to a request made on 29 November, CCHL has also prepared dividend forecasts which reflect an enhanced approach to the status quo. This option would see CCHL continue to operate within the existing mandate and existing assets, while seeking to lift returns over time through stronger oversight of capital management and operational improvements. While CCHL believes a lift in performance is possible, as reflected in the revised dividend forecasts, we do not believe this mandate delivers on Council's Value Strategy.

Our concerns were reflected at our public annual stakeholder meeting, noting the status quo does not resolve the inevitable and material tension in addressing:

- Council's desire for stronger dividends, including the ability to ask for special dividends;
- CCHL's requirement to repay debt attached to the post-quake special dividend;
- Subsidiaries' capital requirements to invest in growth and resilience that supports Christchurch and Canterbury; and
- The flexibility required to successfully adapt to the mega-trends of climate change, digital transformation and changing consumer preferences.

It is CCHL's view that, under the enhanced status quo, we will ultimately see a dilution of long-term ownership in existing assets given the constraints on access to new capital. It is our firm belief that the Active Portfolio Manager option provides Council with more effective levers to shape the circumstances under which that might happen and plan for this in a way that ensures the growth of the region is not restricted.

Business Case timetable

CCHL is in the process of finalising the business case requested by Council. The timing of this has been impacted by the longer time spent on developing Council's Value Strategy and the recent departures of key senior executives from Council.

Our current timetable provides for the draft Indicative Business Case (IBC) to be approved by the CCHL Board at its meeting on 23 January in preparation for the final version of the LTP to be ratified by Council on 14 February 2024. This IBC would underpin Council's public consultation on the LTP, including the need to satisfy Audit NZ sign-off requirements.

CCHL has also received legal advice which confirms the consultation requirements for a change in CCHL's mandate and we believe that these requirements can be satisfied. A summary of the legal advice we have received is attached as Appendix 4. We also note that until 2 weeks ago, there has never been any suggestion from Council that CCHL's recommendations would not be included in the LTP.

Special Dividend

As noted, CCHL's recommendation is premised on the basis that there is no reduction to the amount of capital invested by ratepayers in the CCHL group.

However, we note that Council Management have previously asked CCHL to consider how we could support a higher payout in years 1 to 3 of the LTP. Requests of this nature can be accommodated within the scope of an Active Portfolio Manager (Option 2.5) but are not a planned feature of it at this time.

Instead, Council can make a specific request of CCHL for a special dividend if accompanied by approval to transact in assets to deliver that. If Council wishes to reflect an option for a special dividend in the LTP, CCHL expects we will be able to develop this option before the LTP is ratified in February 2024.

Next Steps

CCHL remains committed to the process set out in Council's resolutions of December 2022 and is of the view that this recommendation is able to be addressed and consulted on in accordance with the LTP. We believe there is sufficient time for further engagement between Council and CCHL on certain aspects of this recommendation (such as confirming the Investment Policy Framework and any special dividend requests) before the LTP is ratified next year. We have a draft Investment Policy Framework which will be finalised this week for discussion with Council.

We request that this recommendation be distributed to all Councillors to inform their LTP decision. If Council is no longer willing to deal with CCHL's recommendation within the LTP 2024-2034, CCHL requests that Council provide immediate notification of this together with clarification on the required deliverables and timeframe/s for the proposed alternative approach.

Please do not hesitate to contact either myself or Paul Silk should you require further clarification on CCHL's recommendation or the financial forecasts. We look forward to hearing from you in the near future to understand Council's intentions in relation to our recommendation.

Ngā mihi nui
CHRISTCHURCH CITY HOLDINGS LIMITED

Abby Foote
Chair

Paul Silk
Acting Chief Executive Officer

Appendix 1

Enhanced Status Quo forecast - no change to CCHL's mandate

CCHL													
Enhanced status quo		Start date	01-Jul-23	01-Jul-24	01-Jul-25	01-Jul-26	01-Jul-27	01-Jul-28	01-Jul-29	01-Jul-30	01-Jul-31	01-Jul-32	01-Jul-33
		End date	30-Jun-24	30-Jun-25	30-Jun-26	30-Jun-27	30-Jun-28	30-Jun-29	30-Jun-30	30-Jun-31	30-Jun-32	30-Jun-33	30-Jun-34
		Period	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Ordinary dividends paid to CCC	$m		(51)	(33)	(46)	(54)	(69)	(80)	(82)	(86)	(92)	(94)	(96)

- Higher dividend forecasts over the full LTP period a function of stronger oversight of capital allocation at a group level and operational improvements at a subsidiary level
- Limited improvement in first half of LTP primarily due to CCHL commencing debt repayment
- Limited capacity to support new investment in existing subsidiaries (especially Te-Bay and Tarras) and no capacity for material new investment in other opportunities
- Co-investment likely to be required to ensure CCHL does not impose constraints on regional growth/decarbonisation objectives from ~2028 = dilution to Council ownership of existing assets
- Does not meet all Investment Objectives

Appendix 2

Active Portfolio Manager (Option 2.5) – a more flexible investment mandate

CCHL *Active Portfolio Manager (Option 2.5)*		Start date	01-Jul-23	01-Jul-24	01-Jul-25	01-Jul-26	01-Jul-27	01-Jul-28	01-Jul-29	01-Jul-30	01-Jul-31	01-Jul-32	01-Jul-33
		End date	30-Jun-24	30-Jun-25	30-Jun-26	30-Jun-27	30-Jun-28	30-Jun-29	30-Jun-30	30-Jun-31	30-Jun-32	30-Jun-33	30-Jun-34
		Period	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33	FY34
Ordinary dividends paid to CCC	$m		(51)	(33)	(59)	(78)	(98)	(105)	(108)	(111)	(117)	(124)	(126)

- Commitment to a distribution rule provides more income certainty to Council and more equitable outcomes over time
- Reflected in stronger dividend profile which lifts dividends earlier and 'closes the gap' over the LTP period
- Portfolio to remain heavily invested in infrastructure assets supporting regional growth – anchors annual distributions but enough to fully fund
- Liquidity portfolio required to provide additional returns, diversify risk and smooth distributions
- CCHL flexibility to transact within the portfolio provides for consideration of new opportunities – should the risk-adjusted returns warrant that
- Public interest in access to sustainable, inclusive and affordable infrastructure preserved through guardrails within IPF (asset allocation approvals) and safeguards at a transactional level (delegated authorities)

Appendix 3

Active Portfolio Manager Summary

Christchurch City Holdings Limited

Active Portfolio Manager
(Option 2.5 recommendation)

- **CCHL provided with greater flexibility to manage the capital invested in the Group**
  - Council maintains control and influence over CCHL through a new Investment Policy Framework (includes "guardrails", objectives and controls what asset classes CCHL invests in)
  - Keeps CCHL fully invested, unless specifically requested by Council
  - Provides greater certainty of income to Council, delivering a sustainable real dividend that grows overtime
  - Requires establishment of a liquidity portfolio, Council approves eligible assets
  - CCHL given ability to transact within the current portfolio
  - Including co-investment to increase the funding and resources for the growth of existing portfolio

- **For CCHL to deliver the dividend commitments**
  - Council's investment in CCHL is the "Strategic Asset"
  - Council's control of CCHL's strategic asset allocation provides safeguard to remove subsidiaries from Strategic Asset Register, subject to statutory requirements
  - Delegated authorities provided to CCHL provide Council with decision rights on material divestment/investment decisions
  - The group portfolio will need at least $350m invested in a liquid portfolio
  - Still provides for CCHL to get back into the business of repaying debt

- **Public Benefit**
  - Intergenerationally equitable
  - Portfolio 'pays its way' in making fair contribution to rates
  - Acknowledging and preserving the public interest in the portfolio
  - Provides Council with more flexibility in prioritising own spending/investment plans

Consultation requirements for CCHL Mandate

Statutory obligations and documentation required

Statutory obligation to consult on Mandate

1 The Local Government Act 2002 (*LGA*), Energy Companies Act 1992 (*ECA*) and CCC's significance and engagement plan (*SEP*) include a number of disclosure and consultation requirements for CCC in respect of the proposed investment mandate for CCHL (the *Mandate*). Deciding to grant the Mandate involves CCC:

1.1 consulting under section 82 of the LGA on amending CCC's SEP to remove CCHL's shareholdings in its subsidiaries from the list of strategic assets; and

1.2 consulting on CCHL being granted, subject to the terms of the proposed investment policy framework setting out the parameters of the Mandate (the *IPF*), the right to deal with the ownership and/or control of:

(a) energy company shares (i.e. CCHL's shares in Orion) as required by section 88 of the ECA and 83 of the LGA; and

(b) strategic assets (i.e. CCHL's shares in LPC and CIAL which are deemed 'strategic' under the LGA whether or not they are listed in CCC's SEP) under sections 83, 93 and 93E of the LGA.

Statutory obligation to consult on LTP

2 Separate to the above, the LGA requires CCC to prepare a consultation document for the adoption of a new LTP under sections 83 and 93 of the LGA (the *Consultation Document*).

Consultations can be consolidated

3 The LGA permits all the above consultation to be undertaken at the same time, and we envisage such consultation being consolidated into the Consultation Document for the adoption of CCC's 2024-2034 LTP.

4 Note the remainder of this advice sets out the information required in the Consultation Document for the Mandate, not all of CCC's consultation obligations for its new LTP.

CCC is required to consult on CCHL's objectives whether or not it consults on the Mandate

5 Whether or not CCC wishes to consult on the Mandate, CCC must identify in its LTP:

5.1 CCC's significant policies and objectives in relation to ownership and control of CCHL (which would generally be set out in the IPF if the Mandate is consulted on);

5.2 the nature and scope of the activities to be provided by CCHL; and

5.3 the key performance targets and other measures by which performance is to be judged (e.g. the distributions committed to and any benchmarking for CCHL's returns under the IPF).

6 For the 2021-2031 LTP, CCC identified the above matters in an underlying document which related to but did not form part of the Consultation Document. As such, preparing the information required to consult on the Mandate may not be a significant additional requirement for CCC over and above the normal LTP consultation process.

Underlying documents to provide further detail

7 As noted above, in addition to the Consultation Document, CCC is required to prepare a number of underlying documents which provide further detail on the proposed new LTP (e.g. the draft LTP itself, CCC's proposed SEP for the new LTP, and its financial overview and funding impact statements that inform the Consultation Document).

8 We consider the detail of the Mandate (i.e. the IPF) would fall within this category of 'underlying documents' rather than being set out in full in the Consultation Document. In addition, we consider the IPF must be available for the public as part of the consultation process and referenced/linked to in the Consultation Document.

9 This was the approach taken in CCC's consultation for its proposal to dispose of certain council-owned properties (including properties which were 'strategic assets') in its 2021-2031 LTP, with this proposal both:

9.1 included in the 2021-2031 Consultation Document; and

9.2 set out in more detail in a separate underlying document available on CCC's website and referenced in the Consultation Document.

Information required in Consultation Document for Mandate

Details of the Mandate

10 The specific information to be included in the Consultation Document regarding the Mandate is as follows.

Overview of proposed Mandate	CCC's consultation on the Mandate should set out the statutory requirements it is intended to cover (as set out above in paragraph 1), and should start with a high level overview of the proposed Mandate, why it is being proposed, what it will entail, and its intended impact.
Purpose of consulting on the Mandate	The Consultation Document should also highlight why CCC is consulting on the proposed Mandate (e.g. to explain the proposed Mandate, to seek the public's view on the proposed Mandate and to detail the effect the proposed Mandate will have on the remainder of the LTP).

Key terms of the Mandate	The Consultation Document should then set out the key terms of the Mandate. For example: • that CCHL's purpose will be amended to prioritise maximising sustainable investment return rather than retaining ownership of particular assets; • that CCHL will have the power to deal with any of the assets within its portfolio and to acquire new portfolio assets, in each case within the parameters of the IPF without seeking further CCC consent; • that CCHL will not carry out further consultation for decisions being made in accordance with the IPF (on the basis this approach is being consulted on now); and • the timing of and process to review the IPF. This section of the Consultation Document should also note (and link to) the draft IPF on CCC's website, stating that the IPF sets out all of the proposed parameters of the Mandate in detail, and will be adopted as the core document governing the Mandate if it is granted.
Reason for the Mandate (what issue is it trying to solve)	The Consultation Document should detail the reason for the Mandate - i.e. the issue it is intended to solve. We understand this is to maximise sustainable returns to CCC and provide more certainty of returns, to address the increasing financial burden on rate-payers.
Analysis of reasonably practicable options	The Consultation Document must set out each reasonably practicable option CCC has considered before deciding on its proposed approach, providing, for each of these options: • an overview of the option; • the pros and cons of the relevant option (including the financial implications of each option); and • CCC's preferred option. If CCC agrees with CCHL's proposal for the Mandate, the bulk of the above analysis can be taken from the options analysed during the recent workshops between CCC and CCHL on the Mandate.
Intended outcomes	The Consultation Document must also set out: • the outcome CCC expects from granting the Mandate (including in relation to CCC's rates, debt and levels of service); • the projected financial impact of the Mandate; and • the assumptions underlying these projections. KPMG is currently preparing advice on the financial outcomes (which could form the basis of the outcomes CCC is expecting from the Mandate).

Strategic assessment

11 Whether or not the shares in CCHL's subsidiaries are removed from CCC's list of 'strategic' assets, as part of the consultation on the Mandate, the Consultation document should include CCC's view (and the reasons for its view) on the strategic value of CCHL retaining ownership of its shares in its current subsidiaries.

12 We understand CCHL's view is CCC's shareholding in CCHL is of strategic importance, but that no one particular investment/asset held by CCHL needs to be retained by CCHL for CCC to maintain its capacity to achieve or promote the outcomes CCC considers important to the current or future well-being of the community. This view is based on the outcome CCC is seeking from holding CCHL shares is a stable and sustainable dividend stream.

13 Note even where the assets are deemed strategic (e.g. the shares in CIAL and LPC), CCC can still state its view on whether or not it considers it needs to hold the relevant assets to meet specific outcomes important to the current or future wellbeing of the community to explain why the Mandate permits CCHL to deal with the assets (subject to the parameters in the IPF). For example, Auckland Council noted it did not consider there to be a strategic objective for holding its shares in Auckland International Airport Limited, notwithstanding this shareholding is deemed strategic by the LGA.

How the Mandate will be implemented

14 Following the detail of the proposed Mandate, the Consultation Document should set out how the Mandate will be implemented, e.g.:

14.1 the changes required to CCC's SEP (that the shares in CCHL's subsidiaries will be removed from the strategic asset register), CCC's updated objectives for CCHL and the adoption of the IPF itself;

14.2 the intended timing to grant CCHL the Mandate (i.e. on adoption of the LTP); and

14.3 the timeframe for CCHL to make decisions about its assets under the Mandate (e.g. that CCHL may not deal with all or any of its assets for a number of years after the Mandate is in place).

Further 'strategic asset' requirements for Consultation

15 In addition to the requirements discussed above, the Consultation Document must include the following to comply with the requirements in the LGA for dealing with strategic assets.

15.1 any accountability/monitoring arrangements for assessing the performance of the owner/controller of the relevant asset and any other person in regard to the asset. This requirement is targeted at the new owner/controller of the relevant asset (which won't be known), so the IPF will need to specify that CCHL will determine these arrangements on a case by case basis.

15.2 an assessment of whether there are conflicts of interest arising from the proposed transfer of the relevant asset, and, if so, what they are and how they will be managed. As above, this can only be addressed in general terms given the nature of the Mandate, so the IPF can specify that CCHL will carry out this assessment on a case by case basis (and any general parameters that will apply to this assessment).

16 These additional strategic asset requirements have been covered relatively briefly in other consultation where the relevant council has considered the requirements not overly applicable (e.g. Auckland Council for the sale of its airport shares, and CCC for the disposal of its 'strategic buildings').

Audit New Zealand's role

Auditor-General must sign-off Consultation Document (and LTP itself)

17 Finally, the Consultation Document must include a sign-off from the Auditor-General on:

17.1 whether the consultation document gives effect to its purpose (to explain significant choices being made as part of the LTP and the consequences of these choices to assist public participation in the decision-making process); and

17.2 the quality of the information and assumptions underlying the information provided in the consultation document.

18 A separate sign-off is also required from the Auditor-General on whether the LTP itself gives effect to its purpose and the quality of the information and assumptions underlying the information in the LTP.

19 The above audits are not specific to the proposed Mandate, but will consider the proposed Mandate as part of the Consultation Document and LTP.

13 December 2023

Abby Foote
Chair
Christchurch City Holdings Ltd.
By email: abby@foote.co.nz

Dear Abby

Further to my letter dated 6 December 2023, I write to advise you and your Board that Council has voted to cease the business case for an active portfolio model at its Finance & Performance Committee meeting on 13 December 2023.

Going forward, can you please cease development of the business case for the active portfolio management option and the associated investment policy framework. This work is not proceeding and will not be brought to Council. There will also be no consultation on this proposal in our 2024-2034 Long Term Plan.

I do want to note that Council voted unanimously to express its thanks to you, Paul and the whole team at CCHL for your work engaging with us. While there were disagreements, everyone has appreciated the time invested in informing Council on how CCHL operates and what challenges sit in front of you.

Council is now keen to see how the enhanced status quo model progresses and looks forward to hearing progress as part of your quarterly performance reporting.

Thank you again for all your hard work on this – I know this is not the outcome you recommended, but your work has certainly lifted understanding and engagement between Council and CCHL.

I want to wish you a very Merry Christmas and all the best for 2024. I hope you get some time off with family and friends this summer.

Yours sincerely

Phil Mauger
Mayor of Christchurch