

# NZSIF



New Zealand  
Social Infrastructure  
Fund Limited

## Annual Report

For the year ended 31 March 2020



Melbourne Convention & Exhibition Centre



Hobsonville Schools



Wakatipu High School



University of Wollongong Student Accommodation



Auckland Prison



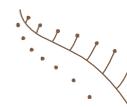
Bendigo Healthcare Accommodation



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## Report to shareholders

29 July 2020

Dear Shareholder

Your Directors are pleased to present New Zealand Social Infrastructure Fund Limited's (NZSIF) annual report for the year ended 31 March 2020. The report includes our audited financial statements for that period.

### Investment Summary

All portfolio investments are fully operational and generating cash flows for the PIP Fund.

As the Investment Period is complete, the Investment Manager may now only work on "follow-on" investments if and when such opportunities arise.

- *Follow-on Investments*  
There are currently three school expansion opportunities where initial stage follow-on investments have been made, namely Hobsonville Primary, Wakatipu High School and Rolleston College.
- *Covid-19 Impact*  
The Covid-19 risk has been well contained across the majority of assets. Cash flows from all investments, with the exception of the University of Wollongong (UoW), have been maintained. However, as the UoW underwrite a minimum occupancy of 85% PIP's cash-flows (and valuation) are largely insulated from the high vacancy rates caused by Covid-19 issues.  
  
Further comments are provided for each portfolio asset with regard to the Covid impact under Investment Portfolio.
- *Portfolio Revaluation*  
Following re-valuations of the PIP Fund investment portfolio, NZSIF's valuation of its share in the PIP Fund rose by \$5.9 million.
- *Net Asset Value*  
NZSIF's Net Asset Value increased to \$1.53 per share at 31 March 2020 (2019: \$1.39).
- *Distributions*  
NZSIF paid gross distributions of 9 cps to NZSIF shareholders during the 2020 financial period. NZSIF received distributions

from the PIP Fund of \$3.8 million and distributed \$3.7 million. There were no distributions received from the PIP Fund for the quarter ended 31 March 2020 as the PIP Fund retained cash to fund the follow-on investment opportunities.

- *PIP Fund Sales Process*

In previous reports Directors noted that the manager of the PIP Fund has been undertaking a sale process for the underlying assets. Good progress has been made in recent months and we are hopeful that an announcement of the outcome of the sales process will be made soon, enabling us to bring this investment to a very successful conclusion.

### Background

#### *Limited Partnership and Capital*

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

The final close for the PIP Fund was 31 December 2010. The PIP Fund has nine limited partners with capital commitments of \$176.5 million. NZSIF has a 23% interest in the PIP Fund and is the second largest investor, behind the New Zealand Superannuation Fund.

As at 31 March 2020 the limited partners had contributed 99.6% of their committed capital to the PIP Fund. If the PIP Fund should call the final 0.4%, NZSIF intends to meet that call from working capital.

### Investment Portfolio

#### *Melbourne Convention and Exhibition Centre*

MCEC was the PIP Fund's first investment, with NZ\$40 million invested in 2010 for an ownership interest of 49.9%. NZSIF's net investment was NZ\$9 million. The contract counterparty is the State of Victoria with the

concession due to expire in January 2034. The MCEC investment represents ~22% of the PIP Fund's committed capital.

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

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

#### **Melbourne Convention and Exhibition Centre Expansion Project**

The State of Victoria entered into a contract with a PIP Fund consortium to develop a 20,000m<sup>2</sup> expansion, including a 9,000m<sup>2</sup> extension of the exhibition centre. The expansion opened 9 July 2018. This was a A\$15 million follow-on investment with NZSIF's share being NZ\$3.7 million.

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

#### **Covid-19**

MCEC cancelled all events from 15th March. Basic services (maintenance & security) continue to be delivered. The recent six-week lock-down in effect due to a resurgence of cases will likely mean the Centre will



MCEC Arena

not re-open until late August. There is no impact from the shut-down on the availability-based payment stream.

#### **Hobsonville Schools**

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

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

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

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

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

#### **Expansion**

Due to the roll growth at the primary school, the Ministry of Education is looking to proceed with an expansion of this facility from 690 student capacity to 860 students.

Initial concept design and construction estimates are complete and the primary design is progressing. A contractor has been engaged to provide temporary modular teaching spaces to accommodate the



Hobsonville Schools

additional students until construction completion. Construction is to commence Q2 2021.

#### *Covid-19*

There was no significant impact on the facilities during the lockdown period. Programmed Facilities Maintenance remobilised quickly and relevant relief from their service requirements and additional costs due to the lockdown have been agreed with the Ministry.

#### ***Bendigo Key Worker Village***

*(Bendigo, Victoria, Australia)*



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

Investment factors:

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



*Bendigo Health Key Worker Village*

The Bendigo Healthcare Group employs 3,000 staff and has a A\$300 million annual budget. The Bendigo Hospital Project oversaw the completion of a new A\$630 million hospital, which is now fully operational.

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

The completed development continues to operate well for both the tenant and the PIP Fund.

#### *Covid-19*

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

#### ***University of Wollongong Student Accommodation Facility***

*(Wollongong, NSW, Australia)*



The Wollongong investment was made in December 2014.

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

The existing 1,900 bed accommodation units are Marketview and Kooloobong.

Stage 1 known as "Bangalay" was completed in February 2017, which is targeted towards graduate students and their families.

Stage 2 known as "Kooloobong" was completed in December 2017. Kooloobong provides for an 800 bed

accommodation facility and opened to students in February 2018.

The NSW Government introduced the Building Products (Safety) Act which restricted the use of Aluminium Composite Paneling (ACP) and set the groundwork to require building owners to survey the materials in their buildings and carry out independent risk assessments if ACP was found. Remediation works to remove or mitigate the impact of ACP will be required on the existing Marketview and Kooloobong accommodation units, but this is not likely to be a significant remediation project, and its cost will be met by the University.

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

#### *Covid-19*

Covid-19 has had a material impact on the university accommodation sector, with 2020 occupancy declining to 41%, although there is limited impact on the PIP Fund's investment due to the 85% occupancy underwrite by the University.



*University of Wollongong Student Accommodation  
- Kooloobong*

#### **New Zealand Schools 2**

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

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

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

In May 2018, the builder of NZ Schools 2 (and the Hobsonville Schools), a Hawkins Construction related entity, was placed in liquidation. While all the schools were completed some time ago a bank bond was still held for NZ Schools 2. This bank bond was "called" and the PPP company is currently holding a significant cash deposit. In terms of any construction defects, the bond monies are called for rectification costs as required. The balance of the bond money will be released when all the builder's residual obligations have been verified as completed.

The project continues to operate well with all planned and reactive maintenance tasks generally being completed within the required timeframes.

#### *Expansion*

Due to the roll growth at Rolleston College and Wakatipu High School, the Ministry of Education is looking to proceed with an expansion of those schools.



*Rolleston College*



*Wakatipu High School*

Wakatipu will be expanded from 1,200 to 1,800 student capacity. Currently the parties are undertaking detailed design & contract negotiations. Construction expected to commence Q4 2020.

The Rolleston expansion is from 1,100 to 1,800 student capacity. Preliminary design is underway, and a contractor has been engaged to provide temporary modular teaching spaces to accommodate the expanded school roll during construction. Construction is expected to commence Q2 2021.

#### *Covid-19*

There was no significant impact on the facilities during the lockdown period. Programmed Facilities Maintenance remobilised quickly and relevant relief from their service requirements and additional costs due to the lockdown have been agreed with the Ministry.

#### **Auckland Prison**

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

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

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

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

#### *The Facility*

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



*Auckland Prison*

The new facility has been functioning as an operational prison since October 2018. Planned and reactive maintenance activities are being undertaken as required.

The provision of AM/FM Services has been running smoothly and has received positive feedback from Corrections.

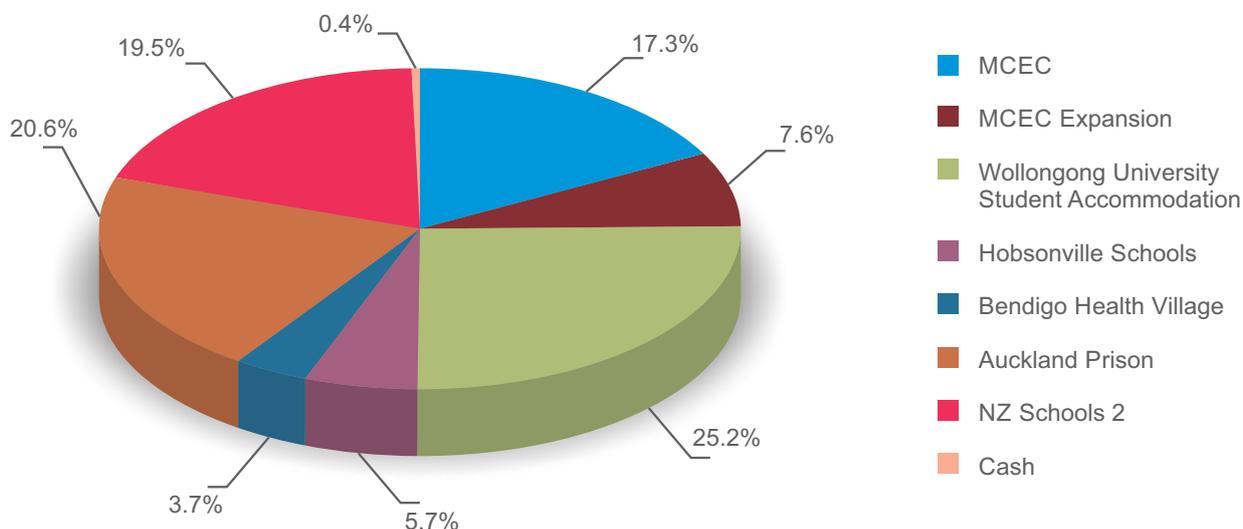
The refurbishment of the West Facility recommenced in September 2018. This workstream is currently on programme, albeit delayed by one month due to Covid-19, and the refurbishment of the last unit of five units is due to be completed in August 2020.

#### *Covid-19*

Covid-19 has had a minimal impact on Auckland Prison, as an essential service. The Department provided very positive feedback of NSP's and its AM/FM contractors planning and response. The West Facility refurbishment was delayed by mutual agreement of the Department and NSP by one month with no cost impact.

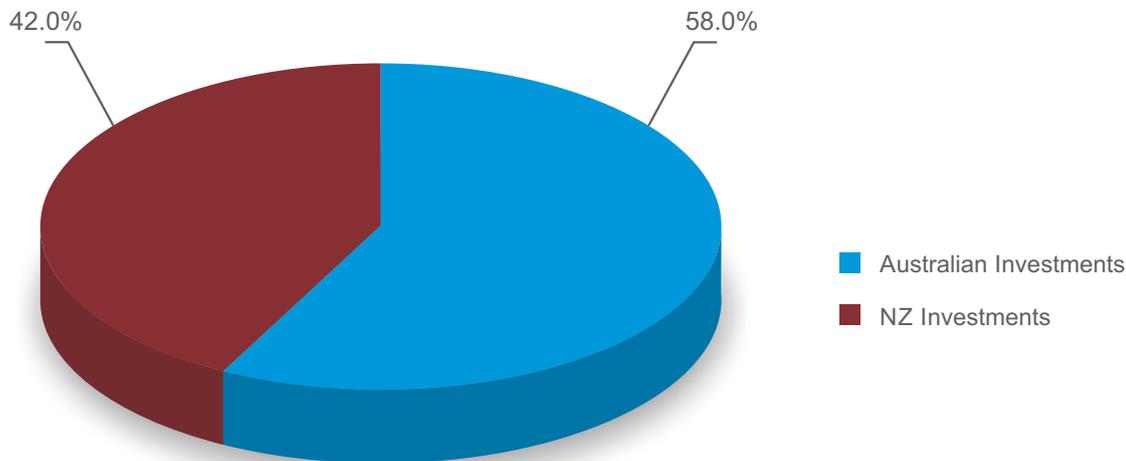
With the investment period complete and all calls now made, the portfolio composition is represented on page 7.

**Chart 1 - NZSIF Investment Mix 31 March 2020**



Investment values based on PIP Fund 31 March 2020 valuations

**Chart 2 - Investment Concentration by Country**

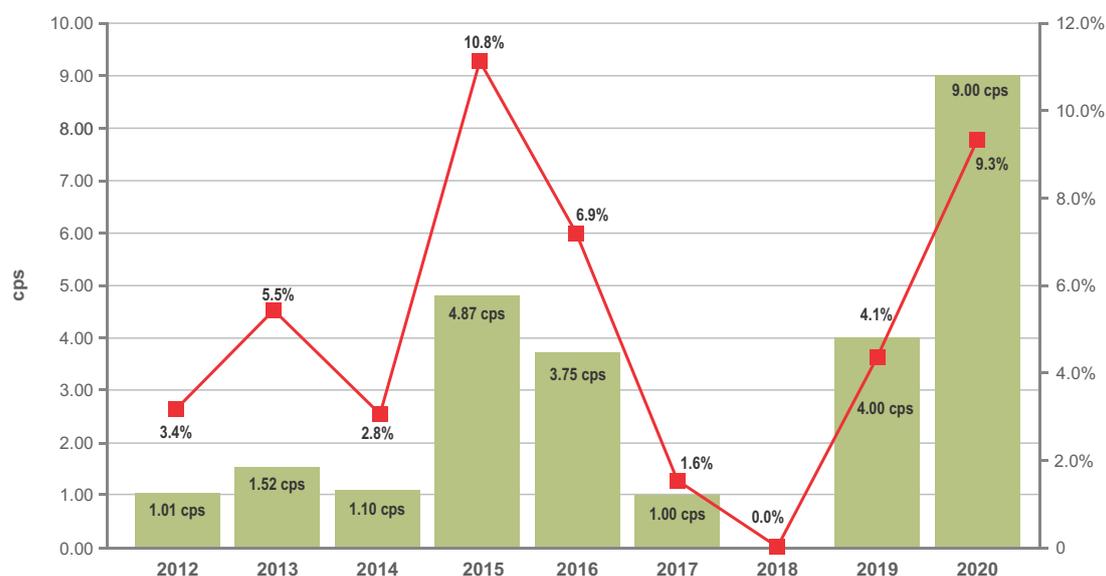


**Distributions**

NZSIF has paid total distributions of 29.8cps (including capital returns of 3.6cps) to 31 March 2020. The directors had expected to pay consistent quarterly distributions as it received its share of the PIP Fund income. However, the manager of the PIP Fund made the decision to suspend distributions and apply those cashflows to the initial costs involved in the design and planning stages for the expansion of the three NZ

Schools projects, which will be value accretive to investors, and to pay their 2020 incentive fee.

The follow-on investments in the design and planning stages of the school expansion projects will be value enhancing for investors, but we are disappointed that cashflows have not been available to provide dividends for NZSIF investors. Dividend payments should recommence in Q1-Q2 2021.

**Chart 3 – NZSIF Dividend Payments and Yields to 31 March 2020**

Note: Gross dividend yield based on average capital

### NZSIF Capital Position and Net Asset Value

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

NZSIF's net asset value (NAV) based on the audited financial statements at 31 March 2020 was \$1.53 per share (2019: \$1.39).

### PIP Fund Investment Valuation

The valuation method used by the PIP Fund to value its project investments is the discounted cash flow method, which is appropriate for valuing PPP projects. The PIP Fund engages a third-party expert to value the Fund's assets (excluding Bendigo), at the end of each financial year (31 March). In the case of Bendigo a property valuer determines fair value. At interim accounting periods the PIP Fund assets are valued at

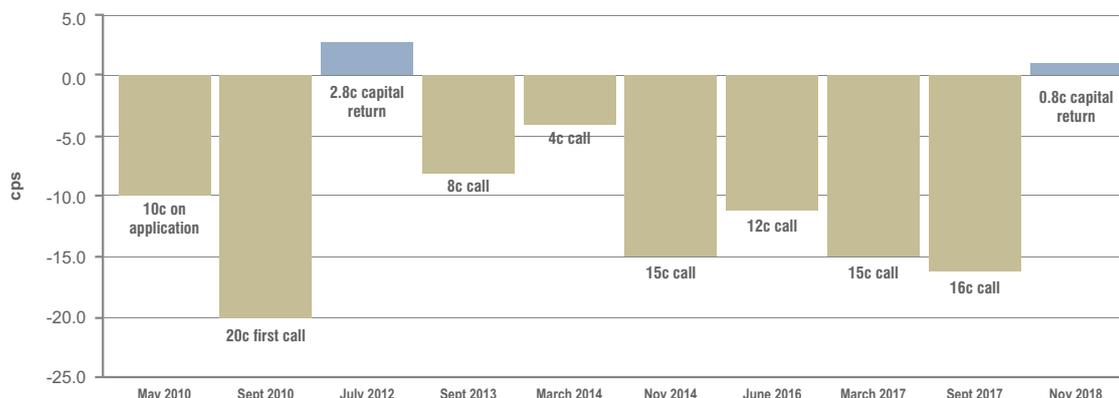
fair value based on the valuation at the end of the previous 31 March financial year end, with adjustments for any income earned less any distributions received in the period, and any exchange rate movement on Australian investment assets.

### NZSIF Investment Valuation & Returns

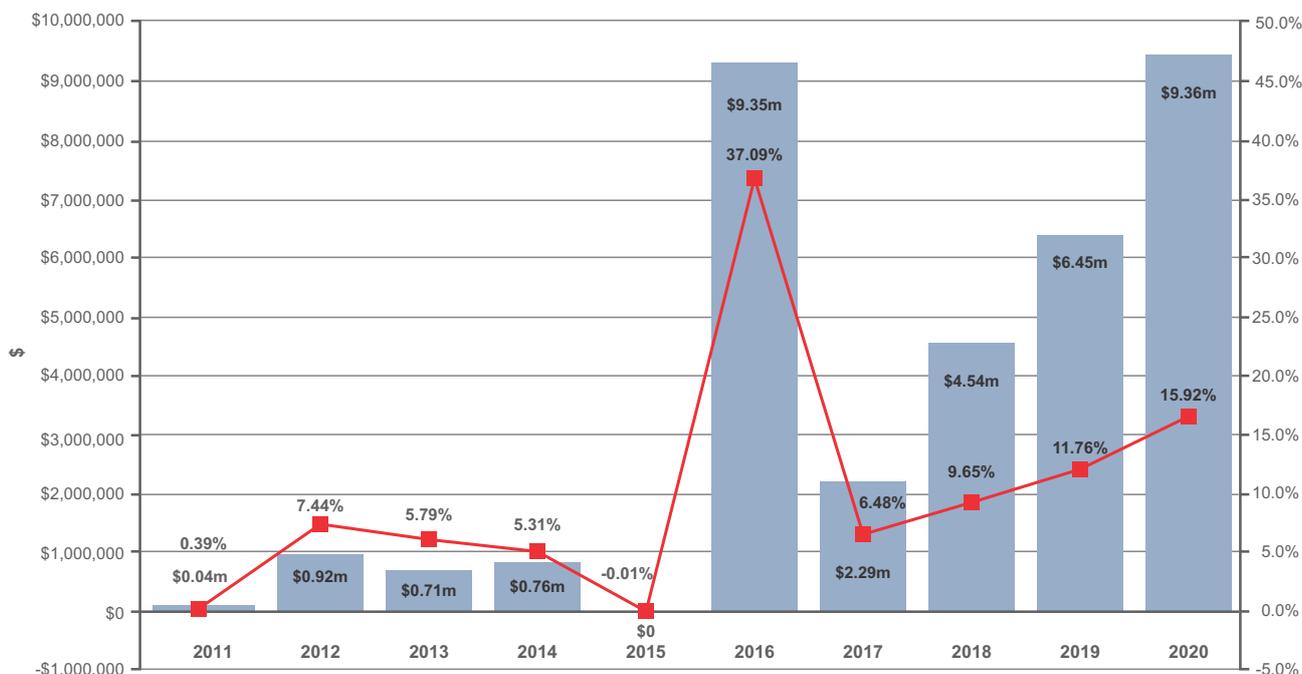
NZSIF's policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss.

NZSIF's investment in the PIP Fund at 31 March 2020 was valued at \$62.7 million (March 2019: \$56.8 million) a \$5.9 million increase in the fair value of its investment. The contributing factors were a fair value adjustment in PIP Fund investments of \$6.4 million and a negative foreign exchange movement of \$0.5 million.

**Chart 4 - NZSIF Calls & Capital Returns to 31 March 2020**



**Chart 5 - NZSIF Profit and Return on Average Equity to 31 March 2020**



**Annual Financial Statements**

The audited annual financial statements covering the 12-month period to 31 March 2020 are provided in this annual report for your information.

NZSIF’s reported earnings were \$9,364,015 (2019: \$6,452,313) benefitting from positive fair value movements of \$6,422,515 less foreign exchange movement adjustments of \$529,748. This reflects the movement in fair value of investment in the PIP Fund in the statement of comprehensive income.

NZSIF received distributions from the PIP Fund of \$3,796,776 (2019: \$2,459,054). There was interest income of \$6,376. Operating expenses were \$331,904 (2019: \$326,391).

The value of the NZSIF investment in the PIP Fund was \$62,689,951 at 31 March 2020 (2019: \$56,797,184). Liabilities totalled \$68,539 (2019: \$51,664).

NZSIF held cash of \$137,347.

*Capital and Net Asset Value*

As at 31 March 2020 share capital was \$39,103,795 and combined with retained earnings of \$23,684,880 total shareholders' equity stood at \$62,788,675, a 9.9% increase over 2019, and representing NAV of \$1.53 per share.

**Outlook***Distributions*

No further distributions are envisaged in the near term while the PIP Fund is applying distributions it receives to the costs involved with the school expansion projects. Subject to any sale conclusion mentioned below, dividends should recommence in Q1-Q2 2021.

*PIP Fund Sales Progress*

The PIP Fund has been assessing final bids for the PIP Fund assets and anticipates signing a Sale & Purchase Agreement (SPA) in the near future. The SPA will be subject to a regulatory consent process (OIO and FIRB) along with co-investor pre-emptive rights and other conditions which is expected to take between 6 and 12 months.

Your Directors expect, subject to all SPA conditions being satisfied and the transaction completing, that the value realisable by investors will be in the range NZ\$1.75 - \$1.85 and we continue to recommend that you **do not sell**.

If completed, proceeds may be available progressively or at a single later point in time depending upon the most effective method to return funds to investors. We will keep you informed as the sale by the PIP Fund progresses, and NZSIF's plans to return capital are finalised.

**NZSIF Annual Shareholders Meeting**

Details for the Annual Shareholders Meeting are:

Date: Friday, 28 August 2020

Time: 10.30 a.m.

Place: Craigs Investment Partners Limited  
Level 32, Vero Centre  
48 Shortland Street  
Auckland

RSVP: Contact Peter Lalor on 07 927 7927 or email enquiries@nzsif.co.nz by 21 August 2020.

We extend an invitation to attend this meeting and look forward to seeing you there.

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

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

Thank you for your continuing support of NZSIF.

Yours sincerely

**NEW ZEALAND SOCIAL INFRASTRUCTURE  
FUND LIMITED**



Kim Ellis  
Chairman

## Directors' report

For the 12 month period ended 31 March 2020

Directors holding office during the year and their remuneration.

	Director Fees \$	Date of appointment
K Ellis*	40,000	26-Jan-10
I Fraser	30,000	26-Jan-10
M Caird**	nil	26-Jan-10
D McCallum**	nil	16-May-14

\* Plus GST

\*\* Craigs Investment Partners Limited appointed directors waived their NZSIF directors' fees for the financial period. Mike Caird resigned as a Craigs Investment Partners director effective 7 May 2020

### Entries recorded in the interests register

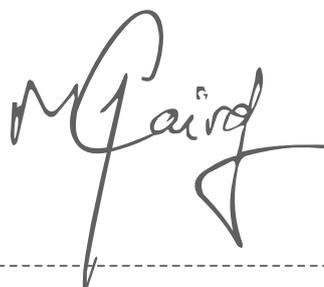
The entries shown in the table below were recorded in the interest register of the Company during the year.

*Directors' shareholdings (including relevant interests) and dealings in NZSIF for the period to 31 March 2020.*

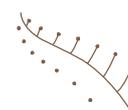
	NZSIF shares held	Change in holdings for the period
K Ellis	150,000	nil
I Fraser	100,000	nil
M Caird	100,000	nil
D McCallum	35,000	nil



Director  
9 July 2020



Director  
9 July 2020



## Statement of comprehensive income

For the year ended 31 March 2020

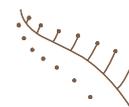
	<i>Note</i>	2020	2019
		\$	\$
Distribution income		3,796,776	2,459,054
Interest income		6,376	5,500
Movement in fair value of investment in PIP Fund	5	5,892,767	4,314,757
<b>Total investment income</b>		<u>9,695,919</u>	<u>6,779,311</u>
Administrative expenses		(331,904)	(326,391)
Interest expense		-	(683)
<b>Profit before tax</b>		<u>9,364,015</u>	<u>6,452,237</u>
Income tax benefit	4	-	76
<b>Profit for the year</b>		<u>9,364,015</u>	<u>6,452,313</u>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<u>9,364,015</u>	<u>6,452,313</u>

## Statement of changes in equity

For the year ended 31 March 2020

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

	Share capital	Retained earnings	Total equity
Balance at 31 March 2018	39,429,239	13,198,566	52,627,805
Profit for the year	-	6,452,313	6,452,313
Other comprehensive income	-	-	-
<b>Total comprehensive income for the year</b>	<u>-</u>	<u>6,452,313</u>	<u>6,452,313</u>
Capital issued	-	-	-
Dividends paid/payable	-	(1,965,458)	(1,965,458)
Balance at 31 March 2019	<u>39,429,239</u>	<u>17,685,421</u>	<u>57,114,660</u>



## Statement of financial position

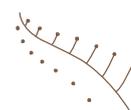
As at 31 March 2020

	<i>Note</i>	2020 \$	2019 \$
<b>Assets</b>			
Property, plant and equipment	9	65	129
Investment in PIP fund	5	62,689,951	56,797,184
<b>Total non current assets</b>		<u>62,690,016</u>	<u>56,797,313</u>
Cash and cash equivalents	8	137,347	339,355
Prepayments		28,071	-
Taxation receivable	4	1,780	29,656
<b>Total current assets</b>		<u>167,198</u>	<u>369,011</u>
<b>Total assets</b>		<u>62,857,214</u>	<u>57,166,324</u>
<b>Equity</b>			
Share capital		39,103,795	39,429,239
Retained earnings		23,684,880	17,685,421
<b>Total equity attributable to equity holders</b>		<u>62,788,675</u>	<u>57,114,660</u>
<b>Liabilities</b>			
Trade and other payables	7	68,539	51,664
<b>Total current liabilities</b>		<u>68,539</u>	<u>51,664</u>
<b>Total liabilities</b>		<u>68,539</u>	<u>51,664</u>
<b>Total equity and liabilities</b>		<u>62,857,214</u>	<u>57,166,324</u>

For and on behalf of the Board

Director  
9 July 2020

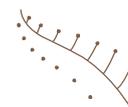
Director  
9 July 2020



## Statement of cash flows

For the year ended 31 March 2020

	<i>Note</i>	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Distributions received		3,796,776	2,459,054
Interest received		6,376	5,500
Interest paid		-	(683)
Income taxes refunded		29,656	-
Income taxes paid		(1,780)	(1,537)
Cash paid to suppliers		(343,036)	(311,999)
<b>Net cash from operating activities</b>	<i>11</i>	<u>3,487,992</u>	<u>2,150,335</u>
<b>Cash flows from financing activities</b>			
Distributions paid		(3,690,000)	(1,965,458)
<b>Net cash from financing activities</b>		<u>(3,690,000)</u>	<u>(1,965,458)</u>
<b>Cash flows from investing activities</b>			
Investment in PIP fund	<i>5</i>	-	-
<b>Net cash from investing activities</b>		<u>-</u>	<u>-</u>
Net movement in cash and cash equivalents		(202,008)	184,877
Opening cash and cash equivalents		339,355	154,478
<b>Closing cash and cash equivalents</b>	<i>8</i>	<u>137,347</u>	<u>339,355</u>



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## Notes to the financial statements

### 1. General Information

#### **(a) Reporting entity**

New Zealand Social Infrastructure Fund Limited (the “Company”) is a company incorporated and domiciled in New Zealand and is registered under the Companies Act 1993. The registered office for the Company is 158 Cameron Road, Tauranga. The Company is an FMC Reporting Entity in terms of the Financial Markets Conduct Act 2013. The financial statements have been prepared in accordance with the requirements of that Act and the Financial Reporting Act 2013.

The financial statements of the Company are for the year ended 31 March 2020.

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

The financial statements were approved by the Directors on 9 July 2020.

#### **(b) Statement of compliance**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (“NZ GAAP”). They comply with New Zealand Equivalents to International Financial Reporting Standards (“NZ IFRS”), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. They also comply with International Financial Reporting Standards (“IFRS”).

#### **(c) Basis of measurement**

The financial statements are prepared on the historical cost basis except that the investment in the PIP Fund is stated at fair value (See Note 2(a)).

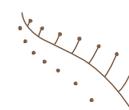
#### **(d) Functional and presentation currency**

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

#### **(e) Use of estimates and judgements**

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key area involving the use of estimates and judgements is the investment in the PIP Fund (see Note 5).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.



## Notes to the financial statements

### 2. Significant accounting policies

The accounting policies set out below have been applied consistently through all periods presented in these financial statements.

#### **(a) Investment in the PIP Fund**

The PIP Fund is a limited liability partnership, established under the Limited Partnerships Act 2008. The primary purpose of the PIP Fund is to make investments in social infrastructure assets through Public Private Partnerships ("PPPs").

New Zealand Social Infrastructure Fund Limited invests in the PIP Fund as a limited partner.

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

#### **(b) Classification and initial measurement of financial assets**

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets are classified into the following categories:

- amortised cost;
- fair value through profit or loss ("FVTPL"); or
- fair value through other comprehensive income ("FVTOCI").

In the years presented the Company did not have any financial assets categorised as FVTOCI.

The classification is determined by both:

- the Partnership's business model for managing the financial asset; and
- the contractual cash flow characteristics of the financial asset.

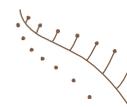
#### **(c) Subsequent measurement of financial assets**

##### *Financial assets at amortised cost*

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents and trade & other receivables fall into this category.



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## Notes to the financial statements

### 2. Significant accounting policies (continued)

#### (c) Subsequent measurement of financial assets (continued)

##### *Financial assets at fair value through profit or loss*

Financial assets that are held within a different business model are categorised at FVTPL. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by using valuation techniques. The Company's investment falls into this category.

#### (d) Classification and measurement of financial liabilities

The Company's financial liabilities include trade & other payables. Financial liabilities are initially measured at their fair value and adjusted for transaction costs. Subsequently, financial liabilities are measured at amortised cost using the effective interest method.

#### (e) Distribution income

Distribution income is recognised in profit or loss on the date the Company's right to receive payments is established.

#### (f) Finance income and expense

Interest income is recognised as it accrues, using the effective interest rate method.

All finance expenses are recognised in the profit or loss using the effective interest method.

#### (g) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of 3 months or less and bank overdrafts.

#### (h) Property, Plant and Equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation. Subsequent costs are recognised in the carrying amount of the item if it is probable that the future economic benefits will flow to the Company and its costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a diminishing value basis over the estimated useful lives of each part of an item of property, plant and equipment. The applied rates for the current period are as follows:

- Computer and office equipment 50.0%

#### (i) Impairment of financial assets

Instruments within the scope of assessment for impairment include financial assets measured at amortised cost.

The Company makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.



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## Notes to the financial statements

### 2. Significant accounting policies *(continued)*

#### **(j) Share capital**

Share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option.

#### **(k) Other financial assets and liabilities**

Other financial assets and liabilities, including receivables and payables are carried at their amortised cost using the effective interest rate method. Their carrying value closely approximates their fair value.

#### **(l) Income tax**

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### **(m) Goods and services tax ("GST")**

All amounts are shown inclusive of GST, as the Company is not registered for GST.



## Notes to the financial statements

### 3. Auditor's remuneration

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Auditor's remuneration to KPMG comprises:			
Review of interim financial statements		9,056	9,056
Audit of year end financial statements – current year		19,924	19,320
Audit of year end financial statements – previous year		-	(1,495)
Total audit costs		<u>28,980</u>	<u>26,881</u>

### 4. Income tax expense/(benefit)

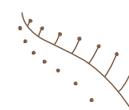
	<b>2020</b>	<b>2019</b>
Income tax expense/(benefit) in statement of comprehensive income	<u>-</u>	<u>(76)</u>

### Reconciliation of effective tax rate

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Profit before tax		9,364,015	6,452,237
Income tax expense at 28% tax rate		<u>2,621,924</u>	<u>1,806,626</u>
Adjusted for tax effect on the following:			
Tax exempt income		(2,713,071)	(1,896,667)
Share of income/(loss) from underlying partnerships		-	(8,259)
Share of tax credits from underlying partnerships		-	(76)
Tax losses not recognised	6	91,147	98,300
Utilisation of unrecognised tax losses	6	-	-
Total income tax expense/(benefit)		<u>-</u>	<u>(76)</u>

### Taxation receivable

	<b>2020</b>	<b>2019</b>
RWT receivable	<u>1,780</u>	<u>29,656</u>
	1,780	29,656



## Notes to the financial statements

### 5. Investment in PIP Fund

The Company currently has one investment, which is in the Public Infrastructure Partners LP (“PIP Fund”). The Company’s fair valuation of its share of the PIP Fund as at 31 March 2020 is \$62,689,951 (2019: \$56,797,184) which is recorded in the statement of financial position. The movement against the previous valuation is shown as a fair value movement through profit or loss increase of \$5,892,767 (2019: increase of \$4,314,757).

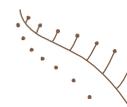
The following table is a reconciliation of the opening balance to the closing balance for fair value measurement of the Investment in the PIP Fund:

<b>Investments</b>	<b>2020</b>	<b>2019</b>
Opening balance	56,797,184	52,482,427
Total gains/(losses) recognised in profit or loss:		
- Fair value adjustments	6,422,515	4,838,370
- Foreign exchange movement	(529,748)	(523,613)
	<u>5,892,767</u>	<u>4,314,757</u>
Purchase of investments	-	-
Closing balance	<u>62,689,951</u>	<u>56,797,184</u>

There were no investment purchases during the year (2019: \$Nil).

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

<b>Investments</b>	<b>2020</b>	<b>2019</b>
Total gains included in profit or loss for the year	5,892,767	4,314,757
Total gains for the year included in profit or loss for assets held at the end of the reporting period	5,892,767	4,314,757



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## Notes to the financial statements

### 5. Investment in PIP Fund *(continued)*

#### ***Key estimates and judgements***

Company policy is to carry investments at fair value with subsequent movements in fair value recognised through profit or loss. As there is no quoted market price for the PIP Fund, the Company has adopted as fair value its proportional share of the net assets attributable to partners of the PIP Fund from the PIP Fund audited financial statements as at 31 March 2020 together with adjustments to reflect the Company's estimate of fair value of the investments. The PIP Fund itself has made seven investments as at 31 March 2020. Valuation techniques have been utilised by the PIP Fund in its audited financial statements to determine the fair value of the PIP Fund project investments. The valuation techniques utilised can include 'market based earnings multiples' or 'discounted cash flows'. The General Partner of the PIP Fund arranges valuations of the project investments as at the end of the reporting period by independent valuation experts.

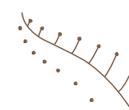
As at 31 March 2020 the valuation method used by the PIP Fund to value Melbourne Convention & Exhibition Centre (including the expansion), Hobsonville Schools projects, Wollongong University Accommodation, New Zealand Schools 2 and Auckland Prisons was the discounted cash flow method, which is appropriate for valuing a series of future cash flows to equity.

Bendigo Accommodation Facility was valued using a combination of both the discounted cash flow method and a capitalisation approach.

The other assets of the PIP Fund are primarily cash and cash equivalents. Their carrying value is considered to be fair value and the Company has taken up its share of the carrying value of these other assets.

The PIP Fund is subject to a performance fee which is payable to the manager if certain conditions are met. The PIP Fund has accrued for the amount payable for performance up to 31 March 2020 and NZSIF's share of the estimated amount payable is \$1,282,688 (2019: \$651,724).

The PIP Fund financial statements note that the independent valuations prepared by the valuers of the underlying investments are subject to significant valuation uncertainty as a result of COVID-19.



## Notes to the financial statements

### 6. Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Opening balance		1,328,127	1,229,827
Utilisation of unrecognised tax losses	4		
Prior period adjustment for unrecognised tax losses			
Tax loss not recognised	4	91,148	98,300
Closing balance		<u>1,419,275</u>	<u>1,328,127</u>

Tax losses in New Zealand do not expire, subject to shareholder continuity rules being met. Deferred tax assets have not been recognised in respect of these items because it is uncertain when and to what extent future taxable profit will be available against which the Company can utilise the benefit. The gross amount of tax losses not recognised at 31 March 2020 is \$5,068,839 (2019: \$4,743,309).

### 7. Trade and other payables

		<b>2020</b>	<b>2019</b>
Accruals		19,924	19,322
Directors fees payable	13(c)	19,000	19,000
Trade payables		29,615	13,342
		<u>68,539</u>	<u>51,664</u>

### 8. Cash and cash equivalents

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Call deposits:			
Westpac Short Term Loan Facility		65	87
ANZ Bank New Zealand Limited via CIP Cash Management			
Nominees Limited	13(b)	137,282	339,268
Cash and cash equivalents in current assets		<u>137,347</u>	<u>339,355</u>

The weighted average interest rate on call deposits was 1.80% (2019: 2.20%) and on the bank overdraft was not applicable (2019: 5.49%).



## Notes to the financial statements

### 9. Property, Plant and Equipment

	<b>2020</b>	<b>2019</b>
Cost	1,307	1,307
Accumulated depreciation	(1,242)	(1,178)
Carrying value	<u>65</u>	<u>129</u>
Current year depreciation	64	129

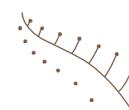
### 10. Share capital

	<b>Number of preference shares 2020</b>	<b>Number of ordinary shares 2020</b>
On issue at 31 March 2019	3,985,054,296	41,000,000
Redeemed during the year	(32,544,400)	-
Issued during the year	-	-
On issue at 31 March 2020	<u>3,952,509,896</u>	<u>41,000,000</u>
	<b>Number of preference shares 2019</b>	<b>Number of ordinary shares 2019</b>
On issue at 31 March 2018	3,985,054,296	41,000,000
Issued during the year	-	-
On issue at 31 March 2019	<u>3,985,054,296</u>	<u>41,000,000</u>

Each \$1.00 share originally comprised one ordinary voting share with a nil issue price, and 100 non-voting redeemable preference shares in New Zealand Social Infrastructure Fund Limited at \$0.01 each (a stapled security). No calls were made during the year (2019: none). As at 31 March 2020 the ordinary shares are fully paid to \$1.00 per share. During the year three dividends were declared to shareholders totalling \$3,690,000 or 9.0 cents per share (2019: two dividends totalling \$1,965,458 or 4.79 cents per share).

During the year 32,544,400 preference shares were redeemed for \$0.01 each resulting in total redemption of \$325,444.

The holders of the ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.



## Notes to the financial statements

### 11. Reconciliation of profit after taxation to the net cash flow from operating activities

	2020	2019
Profit for the year	9,364,015	6,452,313
Depreciation	64	129
Movement in fair value of PIP Fund Investment	(5,892,767)	(4,314,757)
	<u>3,471,312</u>	<u>2,137,685</u>
<b>Movement in Working Capital</b>		
Change in receivables and prepayments	(28,071)	-
Change in income tax receivable/payable	27,876	(1,613)
Change in trade payables and accruals	16,875	14,263
	<u>16,680</u>	<u>12,650</u>
Net cash flow from operating activities	<u>3,487,992</u>	<u>2,150,335</u>

### 12. Financial risk management

#### Introduction and overview

The Company has exposure to the following risks from its use of financial instruments:

- equity price risk
- credit risk
- interest rate risk
- liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The risk disclosures have been prepared on the basis of the Company's direct investment in the PIP Fund and not on a look through basis for investments held by the PIP Fund. Consequently the disclosure of risk in the notes does not fully represent the true risk profile of the Company.

#### Equity price risk

Through the Limited Partnership Agreement, the Company has policies in place to mitigate equity price risk, particularly in the investments made by the PIP Fund. This includes detailed analysis by the PIP Fund of all prospective Public Private Partnership (PPP) investments. These types of minority investment holdings are, by their nature, less liquid and subject to greater price risk than listed securities.

The Company's exposure to price risk is affected by the PIP Fund's exposure to foreign exchange and valuation of its underlying investments.



## Notes to the financial statements

### 12. Financial risk management (continued)

#### Credit risk

Exposure to credit risk arises in the normal course of the Company's business from its loans and receivables and bank balances. The Company does not require collateral in respect of financial assets. At reporting date there were no significant concentrations of credit risk.

The Company invests its surplus funds in call and short-term deposits with ANZ Bank New Zealand Limited via a related party, CIP Cash Management Nominees Limited, and also directly with Westpac Banking Corporation. The credit rating of both ANZ Bank New Zealand Limited and Westpac Banking Corporation is AA- (Negative Outlook). The maximum exposure to credit risk is represented by the carrying amount of each financial asset, in the statement of financial position (see Note 8).

#### Interest rate risk

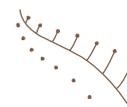
Exposure to interest rate risk arises in the normal course of the Company's business from bank accounts and short-term deposits. The Company earns interest on bank accounts and short-term deposits. Management invest excess funds in short-term deposits to maximise interest revenue whilst ensuring funds are available if required.

#### Effective interest rates and repricing

The only interest bearing financial assets in the Company are bank balances (refer Note 8). At the end of the reporting period the effective interest rate for bank balances was 1.80% (2019: 2.20%) and for overdrafts not applicable (2019: 5.49%). Bank balances reprice daily.

#### Interest rate risk – repricing analysis

	<i>Note</i>	Total	Non interest bearing	6 months or less
<b>2020</b>				
Cash and cash equivalents	8	137,347	-	137,347
Bank overdraft	8	-	-	-
Total		137,347	-	137,347
	<i>Note</i>	Total	Non interest bearing	6 months or less
<b>2019</b>				
Cash and cash equivalents	8	339,355	-	339,355
Bank overdraft	8	-	-	-
Total		339,355	-	339,355



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## Notes to the financial statements

### 12. Financial risk management *(continued)*

#### Sensitivity analysis

In managing interest rate risk the Company aims to reduce the impact of short-term fluctuations on the Company's earnings. Changes in interest rates will have an impact on profit. At 31 March 2020 it is estimated that a general increase of 1.00% in interest rates on its cash and cash equivalents would increase the Company's profit before income tax by approximately \$2,277 (2019: \$1,719) over a one-year period.

#### Liquidity risk

Liquidity risk represents the Company's ability to meet its contractual obligations. The Company evaluates its liquidity requirements on an ongoing basis, and maintains sufficient cash to meet all obligations. Investments in unlisted equity securities are, by their nature, less liquid. The Company has an overdraft facility of \$500,000 in place to better manage liquidity risk.

#### Capital management

The Company's capital includes share capital and retained earnings.

The Company's policy is to maintain its capital structure as stated in the Prospectus and repay capital as investments are realised.

The Company has the power to borrow, with the prior approval of the Board.

The Company is not subject to any externally imposed capital requirements.

The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

There have been no material changes in the Company's management of capital during the period.



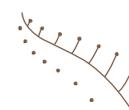
## Notes to the financial statements

### 12. Financial risk management (continued)

#### Classification and fair values

	<i>Note</i>	Designated at fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
<b>2020</b>						
<b>Assets</b>						
Investment in PIP Fund	5	62,689,951	-	-	62,689,951	62,689,951
Cash and cash equivalents	8	-	137,347	-	137,347	137,347
Total assets		62,689,951	137,347	-	62,827,298	62,827,297
<b>Liabilities</b>						
Trade and other payables	7	-	48,615	-	48,615	48,615
Total liabilities		-	48,615	-	48,615	48,615

	<i>Note</i>	Designated at fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total carrying amount	Fair value
<b>2019</b>						
<b>Assets</b>						
Investment in PIP Fund	5	56,797,184	-	-	56,797,184	56,797,184
Cash and cash equivalents	8	-	339,355	-	339,355	339,355
Total assets		56,797,184	339,355	-	57,136,539	57,136,539
<b>Liabilities</b>						
Bank Overdraft	8	-	-	-	-	-
Trade and other payables	7	-	32,342	-	32,342	32,342
Total liabilities		-	32,342	-	32,342	32,342



## Notes to the financial statements

### 12. Financial risk management (continued)

#### Fair value hierarchy

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

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

31 March 2020	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	62,689,951	62,689,951

31 March 2019	Level 1	Level 2	Level 3	Total
Investment in PIP Fund	-	-	56,797,184	56,797,184

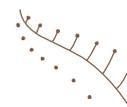
### 13. Related parties

#### (a) Identity of related parties

The Company has a related party relationship with Craigs Investment Partners Limited, which owns 100% of NZSIF Management Limited, the Manager of New Zealand Social Infrastructure Fund Limited, and CIP Cash Management Nominees Limited.

During the year the following director of the Company was also a director of Craigs Investment Partners Limited:

- Michael John Caird (resigned 7 May 2020)



## Notes to the financial statements

### 13. Related parties (continued)

#### (b) Transactions with related parties

During the period, New Zealand Social Infrastructure Fund Limited entered into the following transactions with related parties:

- Management fees paid to NZSIF Management Limited totalled \$164,205 (2019: \$151,305).
- Craigs Investment Partners Limited paid certain expenses and received certain receipts of New Zealand Social Infrastructure Fund Limited. As at 31 March 2020, no amount remained owing to Craigs Investment Partners Limited (2019: NIL).
- An on-call bank account is held with ANZ Bank New Zealand Limited via CIP Cash Management Nominees Limited, which is a 100% subsidiary of Craigs Investment Partners Limited. CIP Cash Management Nominees Limited acts as an agent. The credit rating of ANZ Bank New Zealand Limited is AA- (Negative Outlook) according to Standard & Poor's. At 31 March 2020 the balance held was \$137,282 (2019: \$339,268) (see Note 8).

#### (c) Transactions with key management personnel

	2020	2019
Directors' fees (total remuneration)	76,000	76,000

The balance of directors' fees and other amounts owing at 31 March 2020 was \$19,000 (2019: \$19,000).

#### Director's interests

The following directors or their associated entities held shares in New Zealand Social Infrastructure Fund Limited at 31 March 2020:

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

### 14. Commitments

The Company has commitments of \$144,856 to the PIP fund for further investments as at 31 March 2020 (2019 \$144,856), which would be met from cash reserves. The PIP Fund investment period ran to 29 October 2015 and only follow-on investments are now permitted.

### 15. Subsequent events

#### Covid-19

The company has monitored the evolution of the COVID-19 situation via interaction with the management of the PIP partnership and do not believe that there have been any significant developments that would result in a material change to the reported value nor the potential cashflows expected from the investment. Refer to Note 5 for discussion of impact on investment valuations.

During the year the PIP Fund invited offers for the purchase of the PIP Fund's investments. Since the balance date, the Fund has received several binding bids, which are currently being assessed. Should a bid progress to the completion of a successful sale, there is a possibility that following the distribution of sales proceeds to the Limited Partners, the Fund and this company will be wound up.



# Independent Auditor's Report

To the shareholders of New Zealand Social Infrastructure Fund Limited  
**Report on the financial statements**

## Opinion

In our opinion, the accompanying financial statements of New Zealand Social Infrastructure Fund Limited (the 'Company') on pages 12 to 29:

- i. Present fairly in all material respects the Company's financial position as at 31 March 2020 and its financial performance and cash flows for the year ended on that date; and
- ii. Comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting

Standards. We have audited the accompanying financial statements which comprise:

- The statement of financial position as at 31 March 2020;
- The statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- Notes, including a summary of significant accounting policies and other explanatory information.



## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Company in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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



## Material uncertainty related to going concern

We draw attention to note 15 in the financial statements, which states should a bid progress to the completion of a successful sale, there is a possibility that following receipt of sales proceeds from the PIP Fund, the Company will be wound up. This indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the Shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

### Key changes in the assessment of audit risks

#### COVID-19

The COVID-19 pandemic has created significant additional risks across a number of areas of the business, particularly the assessment of the fair value of the investment in the PIP Fund. All forward looking assumptions are inherently more uncertain during these unprecedented times. While the key audit matter “Investment in the PIP Fund and related fair value recognised”, detailed below, is unchanged from last year, the underlying audit risk has increased which impacted the extent and nature of audit evidence that we had to gather.

#### The key audit matter

#### How the matter was addressed in our audit

#### Investment in the PIP Fund and related fair value recognised.

Refer to Note 5 to the Annual Report.

The primary activity of the Company is maintaining an investment in the PIP Fund, the carrying value of which is \$63 million. The investment is classified as a financial instrument fair valued through profit or loss.

This is a key audit matter due to the following:

- The size of the investment in relation to the total assets of the Company.
- The subjectivity of the fair value of the underlying PIP Fund net assets attributable to partners.
- As at the 31 March 2020 valuation date, the valuer of the investments within the PIP Fund has included a material valuation uncertainty clause in their report as a result of the COVID-19 pandemic. This clause highlights less certainty and a higher degree of caution, should be attached to the investment in the PIP Fund.

Our audit procedures included:

- Assessment of classification of investment as fair value through profit or loss.
- Roll forward of investment balance, including agreeing material movements such as drawdowns to supporting documentation and recalculating the movement in fair value in investment of the PIP Fund.
- Recalculation of NZSIF’s share of the PIP Fund’s net assets attributable to partners based on the reported results in the investee’s audited financial statements.
- Review of PIP Fund’s financial statements including the alignment of the adopted accounting policies and fair value methodologies to the Company’s accounting policies and audit report.
- Review of audit work performed by the PIP Fund auditors to support their opinion including work performed in respect of the impact of COVID-19.

As a result of the procedures above, no material matters were noted.



## Other Information

The Directors, on behalf of the Company, are responsible for the other information included in the entity’s Annual Report. Other information may include the Chairman’s report, Directors’ report, disclosures relating to corporate governance and statutory information. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor’s Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.



## Use of this independent auditor's report

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



## Responsibilities of the Directors for the consolidated financial statements

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

- The preparation and fair presentation of the financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- Implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- Assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.



## Auditor's responsibilities for the audit of the financial statements

Our objective is:

- To obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- To issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the External Reporting Board (XRB) website at:

<http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is Trevor Newland.

For and on behalf of

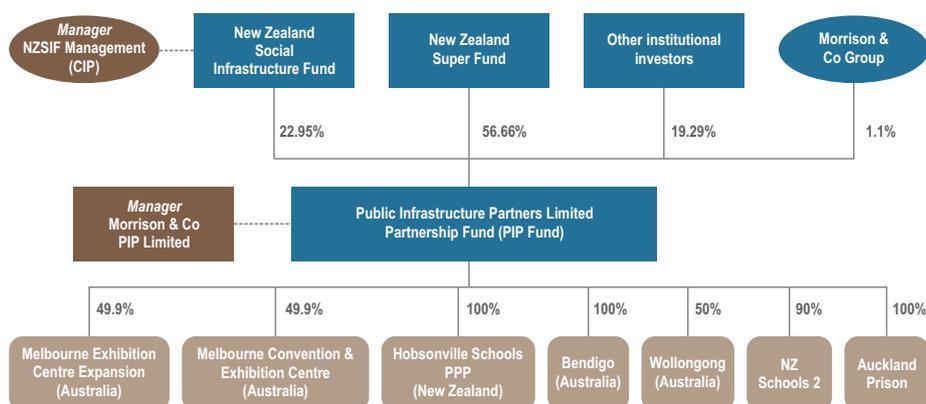
KPMG  
Tauranga  
9 JULY 2020

## Corporate governance & structure

### Structure

NZSIF was established to provide the New Zealand public with an opportunity to invest in the PIP Fund and thereby gain an exposure to New Zealand and Australian Social Infrastructure PPP Assets.

NZSIF is a limited partner in the PIP Fund, as shown below:



Each share held by investors of NZSIF is a stapled security and originally consisted of 1 ordinary voting share (nil issue price) and 100 non-voting redeemable preference shares of one cent each. NZSIF has 41 million shares on issue at an issue price of \$1.00 per share. Ordinary shares held by investors in NZSIF confer normal voting rights. The redeemable preference shares confer no voting rights.

NZSIF will receive a pro-rata share of the income and capital returns from investments made by the PIP Fund.

- Where Investments by the PIP Fund are structured through a limited partnership, NZSIF will receive distributions comprising gross income and also returns of capital from the underlying investments. Tax will be paid by NZSIF and income distributed to investors through imputed dividends (where imputation credits are available) and capital will be returned via redemption of the redeemable preference shares.
- Where Investments by the PIP Fund are structured through a company, NZSIF will receive distributions in the form of dividends and returns of capital from the underlying social infrastructure assets. Dividends

will be paid to holders of shares (with imputation credits, where available) and capital will be returned via redemption of the redeemable preference shares.

### Governance

NZSIF will retain a separate Board to ensure best practice corporate governance and that the interests of shareholders are represented. Directors can be appointed by shareholder ordinary resolution or by the Board to fill a vacancy. Any NZSIF director can be removed by ordinary shareholder resolution. Craigs Investment Partners Limited while it continues to hold all of the issued shares in the Manager, is entitled to appoint up to one-half of the directors of the Company.

Directors are provided with regular reporting including detailed reports ahead of each quarterly board meeting. The Investment Manager presents to the Board each quarter.

The Board will report on the performance of NZSIF's PIP Fund investment to shareholders semi-annually. In addition, the Board will review the capital adequacy of NZSIF, be responsible for shareholder reporting and set annual shareholder meetings for NZSIF.

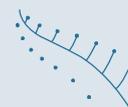
### Investment Management

The investment management services for the PIP Fund are undertaken by the Investment Manager, Morrison & Co PIP Limited. Accordingly, other than rights provided to Limited Partners through representation on the Advisory Committee, neither NZSIF nor the NZSIF Management will have control over the investment management decisions associated with the PIP Fund.

### Administration

NZSIF has engaged NZSIF Management Limited as the Administration Manager, to provide day-to-day administrative and management services, such as investment of unallocated or surplus cash, investor relations, the preparation of interim and annual reports and other shareholder services that may be required from time to time.

The Administration Manager is a wholly owned subsidiary of Craigs Investment Partners Limited.



## NZSIF Board

The Board comprises four directors, including three independent directors, one of whom is Chairman, and one from Craigs Investment Partners. The Board is responsible for monitoring NZSIF's investment in the PIP Fund, the reporting obligations of NZSIF, and monitoring the Administration Manager's performance.



### Chairman and Independent Director

#### **Kimmitt Rowland Ellis**

*BCA (Hons), BE (Hons)*

Kim is a widely experienced Chief Executive best known for his 13 years at the helm of Waste Management NZ Ltd, culminating in the company's sale in 2006. His earlier CEO appointments, dating back to 1978, covered a number of market sectors including health, manufacturing, distribution, transport, property, agriculture and fashion. Kim is currently Chairman of New Zealand Social Infrastructure Fund Ltd and Metlifecare Ltd and a Director of FSF Management Company, Freightways, Port of Tauranga, Ballance Agri-Nutrients and Green Cross Health Ltd.



### Independent Director

#### **Ian Alexander Nicholson Fraser**

*BE (Hons), Dist FIPENZ.*

Ian is a Distinguished Fellow of Engineering New Zealand. He is a former Executive Director of Beca Group Ltd, and a former Managing Director of Beca Carter Hollings and Ferner Limited. He has a broad engineering background across the industrial, electricity, civil infrastructure and institutional and commercial building sectors. Ian is a Director of New Zealand Social Infrastructure Fund Ltd and was previously a Director and Deputy Chair of Transpower NZ Ltd, a former Director of Stevenson Group Ltd, and a former Director and Deputy Chair of Mighty River Power Ltd, a former Trustee Board member of Wellington and Wellesley Colleges, and a former Board member and President of the Association of Consulting Engineers of New Zealand.



**Director**  
**Michael John Caird**  
*BCom, LLB*

Mike was a Director of Craigs Investment Partners from 2001 to May 2020. Mike's career in financial markets includes 4 years as Head of Debt Capital Markets for Craigs Investment Partners, 11 years with ABN AMRO, during which he was Head of Acquisition and Leveraged Finance for Australia and New Zealand and Head of Global Markets New Zealand, Brierley Investments Limited for 10 years and Ernst & Young for four years. Mike has previously been a Director of Hospital Car Parking Limited, McConnell Property Limited, Mangawhai Development Holdings Limited, AsiaPower Limited and Aetna Health (New Zealand) Limited. During his time at ABN AMRO, Mike was involved in acquiring the Auckland District Health Board car-parking concession and the Mangawhai township wastewater design, build, finance, and operating concession, two early PPP style projects in New Zealand. Mike is a director of the AMN Limited private group of companies involved in glass services, Just Plants Ltd, Signal Corporation Ltd, Safety Lab Holdings Limited, Seen Safety Limited and QuayStreet Asset Management Ltd.

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**Director**  
**David McCallum**  
*MCA (Hons), CFA*

David is a Director, Investment Banking for Craigs Investment Partners. Prior to this he was for four years a Director, Debt Capital Markets and Hybrids. Previous work experience includes 12 years at ABN AMRO in the investment banking team, and four years at the Bank of New Zealand in their investment management group. During his time at ABN AMRO David was involved in acquiring the Auckland District Health Board car-parking concession (an early PPP), and acted as a director of the acquirer, Hospital Car Parking Limited, subsequent to the purchase. David is also a CFA Charterholder and is past president of the CFA Society New Zealand. David is also a director of Purpose Capital GP Ltd, an impact investing fund.

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## Committees

### NZSIF Committee

The Board has one committee, an Audit Committee, comprising all board members. The Audit Committee meets as required. The Audit Committee has full powers to require the Manager to provide any information or documents relating to the Fund, which it requires to enable it to meet the obligations of an Audit Committee. The Directors of New Zealand Social Infrastructure Fund Limited and NZSIF Management Limited must respond to any recommendations made to their Boards from the Audit Committee.

There is no remuneration committee because NZSIF and the Manager have no employees. The Manager is entitled to remuneration in respect of management of the funds. Information about the remuneration received by the Manager for this reporting period can be found in the financial statements set out in this report. The Manager does not pay directors' fees.

To the extent applicable and possible, the Board endeavours to adopt the governance, structures and principles of a listed company.

### PIP Fund Advisory Committee

The Advisory Committee of the PIP Fund comprises limited partner representatives, up to a maximum of five members. New Zealand Social Infrastructure Fund Limited has one representative, currently Kim Ellis (or his alternate Mike Caird). The Advisory Committee meets quarterly with the General Partner and Investment Manager. The Advisory Committee manages conflicts of interest between the Investment Manager and the PIP Fund; approves the independent valuer; considers and approves investment opportunities outside of the PIP Fund's core investment criteria; and is responsible for removal of the Investment Manager.



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## Directory

### BOARD OF DIRECTORS OF NZSIF

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

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

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

### OFFICES OF NZSIF

#### New Zealand Social Infrastructure Fund Limited

Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga 3141

Phone: (07) 927 7927  
Email: [enquiries@nzsif.co.nz](mailto:enquiries@nzsif.co.nz)  
Website: [www.nzsif.co.nz](http://www.nzsif.co.nz)

### AUDITORS

#### KPMG

247 Cameron Road  
PO Box 110  
Tauranga 3140

Phone: (07) 578 5179

### INVESTMENT MANAGER

#### Morrison & Co PIP Limited

5 Market Lane  
PO Box 1395  
Wellington 6140

### ADMINISTRATION MANAGER

#### NZSIF Management Limited

Craigs Investment Partners House  
158 Cameron Road  
PO Box 13155  
Tauranga 3141

Phone: (07) 927 7927  
Email: [enquiries@nzsif.co.nz](mailto:enquiries@nzsif.co.nz)

### SHARE REGISTRAR

#### Computershare Investor Services Limited

Private Bag 92119  
Auckland 1142  
159 Hurstmere Road  
Takapuna  
North Shore City 0622

Phone: (09) 488 8777  
Email: [enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

### SOLICITORS

#### Chapman Tripp

Level 35, 23-29 Albert Street  
PO Box 2206  
Auckland 1140

Phone: (09) 357 9000

