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22 December 2022

Statement of Expectations – Section 64B of the Local Government Act 2002 Bay of Plenty Regional Council

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Chair
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Tēnā koe Sir Rob

Statement of Expectations for 2023 to 2026

This Statement of Expectations (SoE) clearly sets out the Bay of Plenty Regional Council's (Council) priorities and expectations to inform the development of Quayside Holdings Limited's (Quayside) draft Statement of Intent (SOI) for the year ended 30 June 2024. Council's priorities and expectations for Toi Moana Trust (TMT), managed by Quayside, are also included in this SoE.

Context

Council acknowledges the vital role that Quayside's considerable contribution has played in Council's successful delivery of services to the Bay of Plenty community.

This SoE builds on Quayside's 2022-2025 SOI and provides further guidance on several key aspects. The 2022-2025 SOI was informed by Council's Financial Framework, which was adopted through the Long Term Plan 2021-31 (LTP) process.

Quayside's vision, as stated in its 2022-25 SOI is "*... to be a trusted, world class investment manager delivering sustainable, intergenerational prosperity to the region by prudently building capital through a disciplined investment process.*" Council proudly endorses this aim, noting that Quayside's success is fundamental to enabling Council to fulfil its own purpose.

Council thanks Quayside for its contribution and its ongoing commitment to regular collaboration and information sharing with Council staff and elected members.

Overall themes

The new Council recognises the challenges of the current economic and operating environment.

Council wants to place emphasis on working with its partners, stakeholders and communities to identify opportunities to collaborate and deliver more for residents, particularly in relation to climate change. Council intends to work with the community on transitioning to a low carbon future and adapting to our changed climate. Council expects Quayside to work towards setting goals and strategies to achieve broader climate change objectives in relation to its operations and non-Port investment portfolio. Council welcomes a presentation from Quayside on its proposed environmental, social, governance (ESG) reporting framework, in due course.

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Additionally, it is important that Quayside, quantifies and communicates regional benefits delivered in relation to non-Port assets.

This emphasis does not reduce the importance of sustainably increasing income distributions from both Quayside and Toi Moana Trust (TMT). Growth of Quayside's assets and distributions to Council are vital to Council's long-term strategy for financial sustainability and prudent use of regional assets.

Council distribution expectations

In 2022 Quayside set a new Distribution Policy, described in the 2022-2025 SOI. The Policy reflects an endowment model which weights both historical distributions (over 3 years) and current asset values. This Distribution Policy allows for the development of the forthcoming LTP 2024-2027 while providing for intergenerational prosperity.

Investment performance targets

In the past Quayside has set a target for investment returns expressed as a percentage of the investment portfolio, being a five-year rolling gross return of 7% per annum. Given the current volatility of the financial markets, Council would like Quayside to consider the feasibility and implications of setting a target linked to one or more market rates of return. Targets for different returns by class of asset (e.g. Listed Asset portfolio, Real Asset Portfolio, Private Equity) and the projected value of each asset class could be considered.

In the meantime, Council would appreciate Quayside providing advice on the short-term outlook for the 2023-2026 investment returns based on current market conditions and the same risk level that underpinned the target of 7% when the 2022-2025 SOI was developed (June 2022). This would help Council better understand what to expect in a volatile market.

Toi Moana Trust

TMT is a separate CCO which Quayside manages on Council's behalf. The forecast dividend on the TMT portfolio was set in the TMT SOI for 2022-2025 at 5% of the value of the assets. Currently \$70 million has been invested in TMT, made up of the initial \$45 million and an additional \$25 million invested on 1 July 2022.

Given the significant change in interest rates since June 2022, and the expectation that interest rates will remain relatively high over the next few years, Council would like Quayside to consider the implications of setting a higher investment return rate for future years, and to benchmark its investment return target against a market rate of return.

Council also believes the dividend on the portfolio should be based on the amount invested in TMT rather than the fair value of the portfolio, because this reflects the original intent of achieving an average return over multiple years. Council acknowledges that basing the dividend on the amount invested could (depending on the actual return achieved) mean the principal available for investment would be reduced to meet dividend expectations. Council believes that the appropriate response to such a situation would be for Council to decide whether to replenish the fund (for example, using part of the distribution amount) or not.

Perpetual Preference Shares

Council notes that a reset of the annual dividend paid on the Perpetual Preference Shares (PPS) is due in March 2023, and the dividend is expected to rise. Council would like to understand how Quayside are planning for this and whether the increase in the PPS dividend may affect the investment returns that Council can expect.

Port of Tauranga

The Port of Tauranga (POTL or the Port) is a strategic asset for the region and Quayside is currently required to maintain a majority shareholding in the Port. Council intends that it retains a majority shareholding over the long term. Council would like to work with Quayside to understand the trade-offs that are implicit in maintaining the current shareholding.

Council expects Quayside to focus on its role as shareholder when managing its relationship with the Port.

Strategic land holdings

The development of Rangiuru Business Park is strategically important to the region and Council supports Quayside progressing this investment. Given the importance of this development for the region, Council would appreciate regular updates on progress.

Council also has an interest in the Tauriko land, which Quayside currently holds on behalf of the Council. Council has previously identified this land as having strategic benefit and as a result divestment of this land should only occur with the agreement of Council. Council would like to work with Quayside during 2023 to review the strategy for this investment.

Review of Council's Policy on Appointment and Remuneration of Directors of Council Subsidiaries

Council has reviewed and refreshed its policy which governs the appointment and remuneration of directors of Council Organisations, which includes Quayside and its subsidiaries. This Council policy is referred to in Quayside's Board Charter as the guiding policy in those decisions.

Once finalised the Policy will be provided to Quayside early in the new year.

Opportunities for Quayside to explore

The Local Government Funding Agency (LGFA) is continually developing its finance offerings, some of which focus on offering cheaper borrowing to finance projects that have environmental or social benefits. Quayside could consider whether there are opportunities to secure cheaper financing through such means and whether there are efficiencies in Quayside borrowing directly from the LGFA.

Process to develop Quayside Group Statement of Intent

It is Council's preference that Quayside develop a SOI for the whole Quayside Group, rather than separate SOIs for each of its related council controlled organisations. Strategic planning for these subsidiaries is encouraged but Council would like assurance that such planning would not result in documents that are construed to be SOIs in terms of section 64 of the Local Government Act.

In closing, Council looks forward to working with Quayside to reflect the expectations in this SoE in developing Quayside's Sol for the year ended 30 June 2024.

Nā to rourou, nā tāku rourou, ka ora ai te iwi. With your contribution and mine, the people will prosper.

Ngā mihi nui



Doug Leeder

Chair

Bay of Plenty Regional Council
Toi Moana