

HAWKE'S BAY REGIONAL
INVESTMENT COMPANY LTD

Statement of Intent

For the Year Ending 30 June 2022

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1 Introduction

This Statement of Intent (Sol) is prepared in accordance with Section 64(1) of the Local Government Act 2002.

The Sol specifies for Hawke's Bay Regional Investment Company Limited (HBRIC Ltd) and its subsidiaries, the objectives, the nature and scope of the activities to be undertaken, and the performance targets and other measures by which the performance of the group may be judged in relation to its objectives, amongst other requirements.

The process of negotiation and determination of an acceptable Sol is a public and legally required expression of the accountability relationship between the company and its shareholder, the Hawke's Bay Regional Council (Council or HBRC).

The Sol is reviewed annually with Council and covers a three-year period.

HBRIC Ltd is a council-controlled trading organisation (CCTO) for the purposes of the Local Government Act 2002. It is 100% owned by Hawke's Bay Regional Council.

HBRIC Ltd currently owns 55% of shares in Napier Port Holdings Limited (NPHL), an NZX listed entity. As NPHL is a NZX listed entity there is no requirement to produce an Sol.

2 Mission Statement

HBRIC Ltd's mission is:

To optimise the financial and strategic returns to Council from its allocated investment portfolio to assist Council achieve its vision of "a healthy environment, and a resilient and prosperous community".

3 Objectives

The objectives of HBRIC Ltd are to:

- Actively manage its allocated investment portfolio and any new investments it makes, including its shareholding in Napier Port Holdings Limited (Napier Port), to ensure long term:
 - growth of shareholder value
 - increased financial and strategic returns
 - security and sustainability of investments
 - Explore partnership with Tangata Whenua where possible

HBRIC Ltd currently has assets valued at approximately \$440m.

By 2030, the company has an ambition to grow this to exceed \$600m through continued growth in value of existing assets and acquisition and development of new assets.

4 Nature and Scope of Activities to be Undertaken

HBRIC Ltd will:

- Grow assets to broaden its asset base, with a strong preference for productive investments in Hawke's Bay, with the intention of providing a diversified and growing income stream for HBRIC Ltd and in turn Council.
- Own and manage the investment assets and liabilities transferred to it by Council from time to time.
- Encourage and facilitate subsidiary and associated companies to increase shareholder value and regional prosperity through growth, investment, and dividend payments.
- Invest in equity investments providing long term commercial returns and where possible also provide a regional benefit.
- Invest in real assets providing long term commercial returns and where possible also provide a regional benefit.
- Ensure that best practice governance procedures are applied to the key regional infrastructure and financial investments that are under HBRIC Ltd's ownership.
- Monitor the performance of each subsidiary and associated company against their stated economic, environmental, and social performance objectives and against relevant benchmarks, ensure that they have proper governance procedures in place, and promote sustainable business practices.
- Advise Council on strategic issues relating to its investments including, but not limited to, ownership structures, capital structures and rates of return.
- Perform financial, custodial and other functions required by Council which may include:
 - Enabling diversification of the Region's income streams for the benefit of ratepayers.
 - Enhancing Council's capability to manage an active investment policy.
- Comply with the LGA provisions requiring a special consultative process, and with Council policies, in regard to any disposal or part-disposal of shares in any Strategic Asset.
- Advise Council of any material capital expenditure projects by HBRIC Ltd or via its subsidiaries.
- Currently HBRIC Ltd.'s assets consist of:
 - A 55% share in Napier Port Holdings Limited (valued at \$376.2m at 31 December 2020).
 - Managed funds (partial proceeds from the IPO of Napier Port) (valued at \$48.3m at 31 December 2020).
 - A loan to HBRC in recognition of managed funds sold by HBRIC Ltd to HBRC (valued at \$16.7m at 31 December 2020).
- Currently HBRIC Ltd has no debt. Through prudent leveraging (not exceeding 25% debt: debt + equity), the company expects debt to grow to \$100-\$150m over the next decade, with debt supporting continued investment in quality assets which support the Council's and HBRIC Ltd.'s objectives.

- For any borrowing to finance new investments, HBRIC Ltd will where possible seek unsecured debt over secured debt and ensure that any individual investment will not be greater than 10% of total assets. This will support risk diversification and take into consideration that the majority ownership of Napier Port and funds released from the IPO and now held in managed funds are listed strategic assets for Council.

5 Corporate Governance

This section gives readers an overview of the company's main corporate governance policies, practices and processes adopted or followed by the HBRIC Ltd Board.

Role of the Board of Directors

The Board of Directors is responsible to Council for the direction and control of HBRIC Ltd.'s activities. The Board is to guide and monitor the business and affairs of HBRIC Ltd in accordance with its mission and objectives as set out in this Statement of Intent.

Management has been delegated responsibility for the day-to-day management of the company. HBRIC Ltd may make use of external advisers from time to time.

All directors are required to comply with a formal Code of Conduct, which is based on the New Zealand Institute of Directors' Principles of Best Practice.

Responsibility to Shareholder

Statement of Intent

In accordance with the Local Government Act 2002, each year by 1 March HBRIC Ltd will submit a draft Statement of Intent for the ensuing year to Council for its consideration. The Sol sets out HBRIC Ltd.'s overall objectives, intentions, and financial and performance targets. Having considered any comments on the Sol by Council, the final operative Statement of Intent is then delivered to Council (as shareholder) for its approval on or before 30 June each year.

Board Composition and Fees

Appointments to the HBRIC Ltd board are made directly by Council.

Fees for the HBRIC Ltd Board will be set triennially in accordance with Council policy. HBRIC Ltd will affect an appropriate directors' and officers' liability insurance cover at the expense of HBRIC Ltd.

The Board meets regularly as required.

Expense Reimbursement

HBRIC Ltd will reimburse Council for the ongoing cost of management, accounting and administrative services incurred by Council in providing these services to HBRIC Ltd. HBRIC Ltd will also reimburse Council for specialist advisory, technical and management services it provides to HBRIC Ltd for particular investments. Other services will be contracted between Council and HBRIC Ltd for other investment management and operation as required.

Subsidiary Companies

All subsidiary companies (not including Napier Port Holdings or those where HBRIC Ltd owns less than 50%) are required to submit an annual Statement of Intent to HBRIC Ltd, which will evaluate them and suggest changes as considered necessary, before finalisation by the company concerned. In the event of a new subsidiary company being established the first statement of Intent of the subsidiary company will be referred to the Council for comment.

Subsequently, if any material changes are proposed by subsidiaries, HBRIC Ltd will consult with Council on such changes.

Representatives of the subsidiary board and management will meet with HBRIC Ltd at least twice each year, to discuss the company's strategic direction and any significant issues that arise. The Board also receives other reports as are necessary to perform its monitoring function. HBRIC Ltd however, does not involve itself in the operational management of the subsidiary companies.

Board appointments

All directors of subsidiary companies (and associate companies, if any) are selected through an open, professionally managed process, for their appropriate relevant expertise and aptitude in consultation with Council. Director appointments of Napier Port are done in accordance with NZX guidelines.

Financial results

Directors receive and review HBRIC Ltd parent company financial and other reports regularly and provide formal group and parent company financial statements to the shareholder twice annually – for the half year to 31 December and for the year ended 30 June.

Joint Ventures

Joint ventures not established as company entities will adhere to the reporting requirements specified for subsidiary companies above.

6 Ratio of Shareholders' Funds to Total Assets¹

Parent Company	20/21	21/22	22/23
Shareholder's funds/total assets	>75%	>75%	>75%
Net debt (\$m)	Up to \$5m	Up to \$15m	Up to \$20m
Shareholders' funds (\$000) *	459,000	461,000	459,500

The estimated figures above reflect the 30 June positions of their respective years and take into account changes to asset values due to revaluations. HBRIC Ltd will keep council informed of performance against targets on a timely basis.

¹Shareholders' funds are defined as the sum of paid-up capital, capital reserves and revenue reserves of the parent company. Total assets are defined as the total book value of all assets of the parent company as disclosed in the statement of financial position.

7 Performance Targets and Measures

Performance targets relate to the year represented by this Statement of Intent.

Napier Port Portfolio

Objective	Measure
Maintain a majority ownership of the Port of Napier Limited.	Ordinary share holdings of greater than 51%

Managed Funds Investment Portfolio

Objective	Measure
Generate commercial returns across the portfolio sufficient to protect and grow the capital base and contribute towards funding Council's operating costs.	Gross return of $\geq 6\%$ per annum Minimum cash yield $\geq 2\%$ per annum

Private Equity Investments

Objective	Measure
Invest in structures providing long term commercial returns and where possible provide a regional benefit.	Regular evaluation by the board on the performance of the private equity investments.

Real Asset Portfolio

Objective	Measure
Invest in real assets providing long term commercial returns and where possible provide a regional benefit.	Regular evaluation by the board on the performance of the real asset investments.

Governance

Objective	Measure
1 HBRIC Ltd maintains a strategic direction that aligns with Council's objectives and investment strategy.	HBRIC Ltd develops and maintains appropriate communication lines with Council to ensure HBRIC Ltd remains aware of Council's strategic priorities. By 1 March each year (unless otherwise agreed), HBRIC Ltd will submit a draft Sol for the forthcoming year for review and approval by Council.
2 HBRIC Ltd keeps Council informed of all significant matters relating to HBRIC Ltd and its subsidiaries, within the constraints of commercial sensitivity.	HBRIC Ltd submits quarterly written reports to Council in the financial year. Major matters of urgency are reported to Council at the earliest opportunity.

Objective	Measure
<p>3 Corporate governance procedures are appropriate, documented and reflect best practice.</p>	<p>The company's policies will be developed and reviewed in accordance with a schedule approved by the Board, and the company will work with and assist Council to ensure that there is alignment between Council and company policies.</p>
<p>4 HBRIC Ltd.'s process for the selection and appointment of directors to the boards of subsidiary and monitored companies is rigorous and impartial.</p>	<p>The process followed for each appointment to a subsidiary or monitored company board is transparent, fully documented and in line with Council's approved policies and procedures.</p>
<p>5 Subsidiary companies complete (as appropriate), on a timely basis, Statements of Intent that meet best practice standards.</p>	<p>HBRIC Ltd will engage with applicable subsidiary companies prior to the Sol round in each year regarding the structure and content of their Sol's.</p> <p>In each year, subsidiary companies (as appropriate) submit draft Statements of Intent to HBRIC Ltd in sufficient time for HBRIC Ltd to submit a Final SOI by 30 June.</p> <p>HBRIC Ltd will review Statements of Intent and respond to the subsidiaries and make recommendations to Council, including on any material changes that are proposed, within six weeks of receipt.</p>
<p>6 Subsidiary companies that are CCTOs comply with the Local Government Act's requirements that their principal objectives be:</p> <ul style="list-style-type: none"> • achieving the objectives of its shareholders as set out in the Sol. • being a good employer. • exhibiting a sense of social and environmental responsibility; and • conducting their affairs in accordance with sound business practice. 	<p>HBRIC Ltd will review the companies' performance in the context of these statutorily required objectives.</p>

Group strategic, financial and sustainability objectives

	Objective	Measure
1	Subsidiary companies adopt strategies that are compatible with the strategic direction of HBRIC Ltd and Council.	HBRIC Ltd will engage with subsidiary companies prior to the Sol round regarding key shareholder strategies and subsequently review their Sol's for compatibility with those strategies. There are currently no applicable subsidiaries.
2	Subsidiary companies adopt strategies that contribute to regional growth.	HBRIC Ltd will encourage subsidiary companies to seek opportunities that are both commercially sound and are capable of enhancing regional growth, and actively engage them with regard to specific opportunities that may arise.

Parent company financial objectives

	Objective	Measure
1	HBRIC Ltd financial and distribution performance meets the shareholder's expectations.	HBRIC Ltd pays a dividend for the financial year that meets or exceeds the forecast dividend and achieves the other budgeted key performance measures set out in section 7.
2	HBRIC Ltd.'s investments provide an appropriate return in relation to their business risk, and against external benchmarks.	HBRIC Ltd will periodically review the performance of subsidiary companies and other investments against external benchmarks and assess the value of the investment in the individual company in relation to its inherent business risk and community benefits.

Distributions to Shareholder

Financial Year	2022	2023	2024
Distribution (\$000's)	\$8 -11m	\$8 -11m	\$8 -11m

HBRIC Ltd will pay dividends to the shareholder after taking into account its profitability, future investment, and cash management requirements. Dividends payable to the shareholder will be determined by the Board after consideration of the company's funding requirements and the requirement to meet the solvency test under the provisions of the Companies Act 1993. Dividends are forecast to be paid in two instalments in December and June of each financial year.

In addition, HBRIC Ltd may make distributions of capital reserves and/or repurchase its shares from Council, as agreed between Council and HBRIC Ltd from time to time.

8 HBRIC Ltd to be Periodically Valued

Council and HBRIC Ltd undertook an independent assessment of the market value of the HBRIC Ltd group as at 30 June 2019, valuations will be done thereafter on 30 June at three yearly intervals.

HBRIC Ltd will monitor its own market value at 30 June in each financial year by undertaking an internal assessment of its ongoing capital value (including valuation of subsidiaries and associates). This will be used to assist the management of capital, debt, revenue and expenditure streams to achieve the returns set out in Section 7 of this Statement of Intent.

9 Reporting and Information to be Provided by HBRIC Ltd

Statutory information requirements

The company will provide an annual Statement of Intent in accordance with Section 64(1) of the Local Government Act 2002. The directors will include any other information they consider appropriate. Where appropriate, revised forecasts will be submitted to the shareholder.

HBRIC Ltd will submit an annual report to the shareholder. The annual report will include audited financial statements and such other details as are necessary to permit an informed assessment of the company's performance and financial position during the reporting period, and to comply with the requirements of the Companies Act and Financial Reporting Act.

HBRIC Ltd will provide a half yearly report to the shareholder within two months after the end of the first half of each financial year. The report will provide among other things, an update on the financial performance and investing activities of the company.

Other information to meet the needs of Council

The company will provide regular reports to Council on its activities and the results of its subsidiary companies. It will operate on a timely basis in respect of significant shareholder-related matters, to the fullest extent possible in the context of commercial sensitivity and confidentiality agreements.

10 Acquisition/Divestment Policy

HBRIC Ltd will comply with Council's Investment Policy as set out in the Long-Term Plan (LTP) 2018-28 (or any successive LTP's) for acquisitions and divestments.

HBRIC Ltd will periodically review its investments to ensure that continued ownership represents the best option for HBRIC Ltd and Council and will consult with Council prior to any material divestment or major restructuring of a subsidiary company.

11 Activities for Which Compensation is Sought from Any Local Authority

HBRIC Ltd has lent Hawke's Bay Regional Council funds to support the purchase of managed funds from HBRIC Ltd. The loan is interest bearing with Council making schedular payments to HBRIC Ltd.

12 Commercial Value of Shareholder's Investment

The Council's investment in HBRIC Ltd as at 30 June 2019 was independently valued at \$340 million.

13 Accounting Policies

HBRIC Ltd will adopt accounting policies that are consistent with New Zealand International Financial Reporting Standards, generally accepted accounting practice and the policies adopted by the Hawke's Bay Regional Council group.

Directory

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Registered Address:

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Board:

Mr Dan Druzianic (Chair)

Cr Rick Barker

Cr Neil Kirton

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