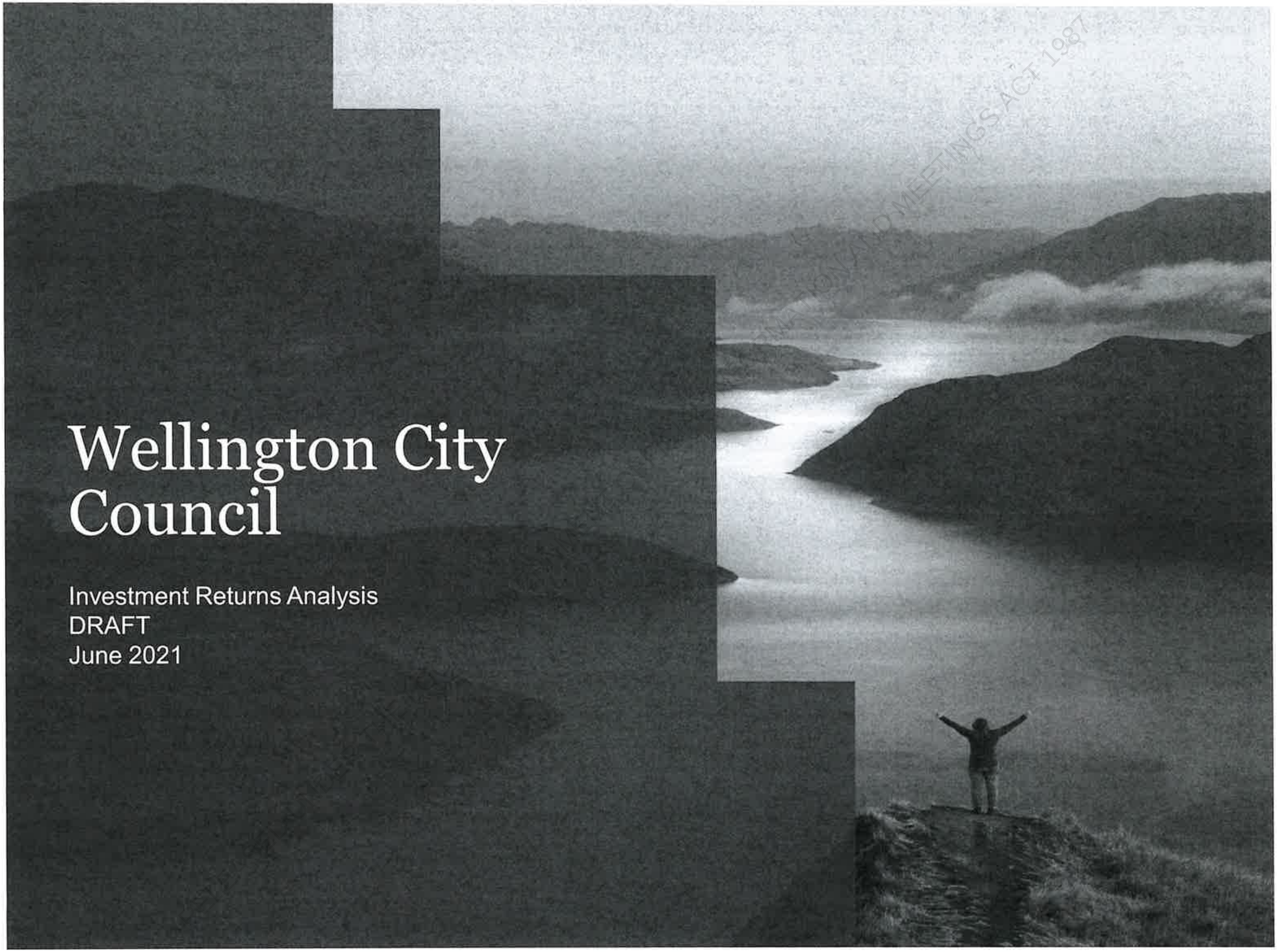

Wellington City Council

Investment Returns Analysis
DRAFT
June 2021

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pwc

Wellington City Council
PO Box 2199
Wellington 6140
New Zealand

Attention: Sara Hay, Chief Financial Officer

21 June 2021

Subject: Investment Returns Analysis

In accordance with your instructions as confirmed in our engagement letter dated 17 May 2021, we present our investment returns analysis for Wellington City Council.

Our principal findings and conclusions are set out in the Executive Summary. This should be read in conjunction with the balance of the report as well as the key terms of business and restrictions set out in Appendix.

This report is strictly confidential. We will not accept any duty of care (whether in contract, tort (including negligence) or otherwise) to any person other than the addressees in connection with this report. This is a draft report. The comments in this draft report are subject to amendment or withdrawal; our definitive findings and conclusions will be those set out in the final report.

As at the date of this report, New Zealand is at Covid-19 Alert Level 1. It is not possible to assess with any certainty the implications of Covid-19 on Wellington City Council or the economy as a whole, both generally in terms of how long the current crisis may last and more specifically in terms of its impact on a specific business or the wider economy. We note our advice is subject to significant caveats and caution at this time due to uncertainty that exists for businesses including (amongst other matters) access to capital, demand for real estate, supply chain disruption, the demand for products or services and the extent and duration of the measures implemented by various governments and authorities to contain and / or prevent spread of Covid-19.

We look forward to discussing this report with you.

Yours sincerely,

Carl Blanchard

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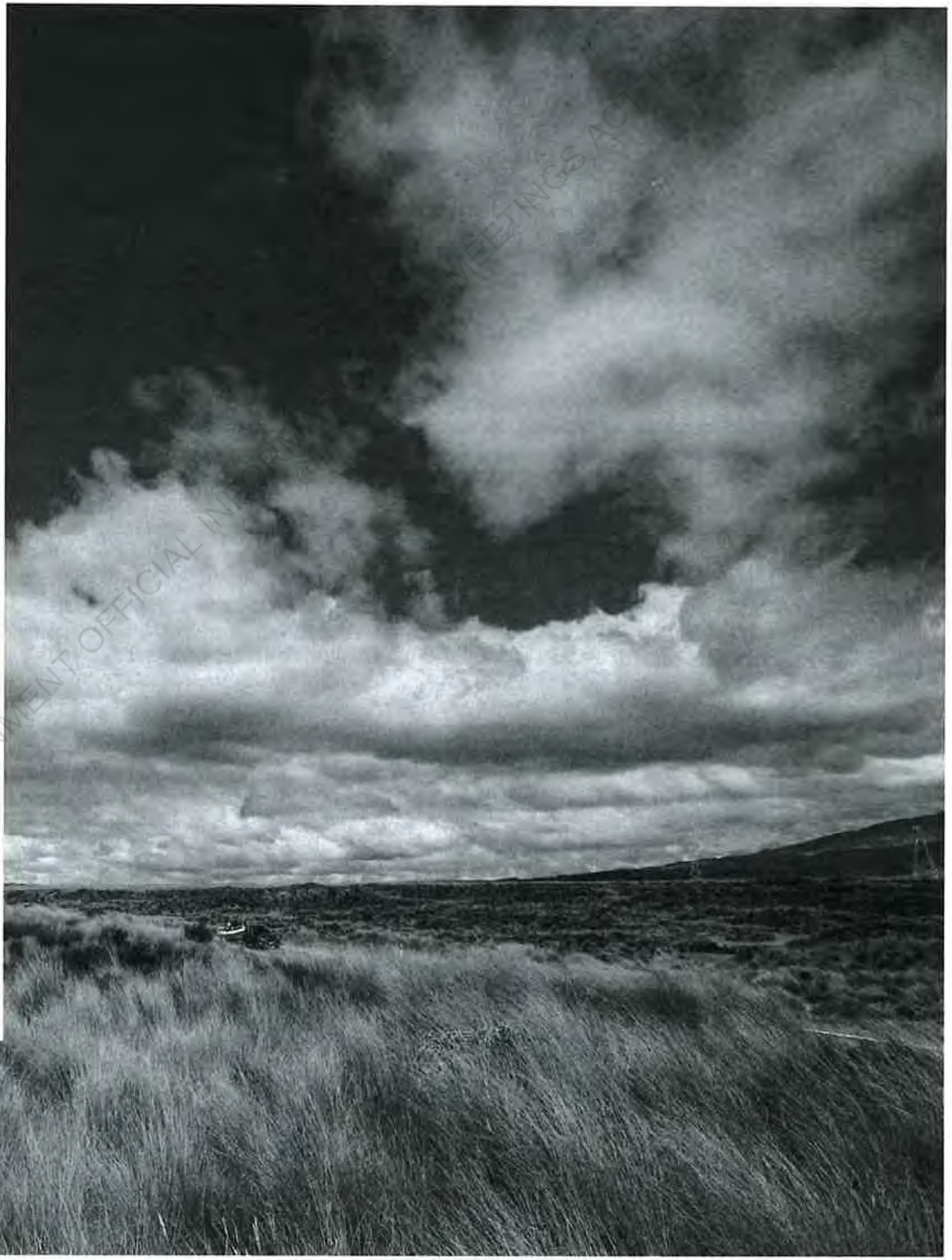

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Background and Purpose of Report

Background

- Wellington City Council (WCC or Council) has a range of investment holdings within the Wellington Region. These include property investments and a 34% shareholding in Wellington International Airport Limited (Wellington Airport). The remaining shares in Wellington Airport are owned by Infratil Limited, an infrastructure investment firm.
- Council's investment holdings are sizable and lack diversification. They are also relatively illiquid which means there could be benefits from divesting from current holdings and reinvesting in other asset classes.
- To investigate the appropriateness of these asset classes Council needs to understand the potential returns that could be achieved from a diversified investment portfolio and how these compare to the existing investment portfolio.
- In addition Council would like to understand the extent to which it can invest in a manner consistent with Environmental, Social, Governance (ESG) objectives as delivering improved environmental and climate outcomes is a core element of Council's long-term vision.

Purpose of Report

- The purpose of this Report is to provide an overview of the potential returns Council could achieve through investing in a diversified investment portfolio. This includes assessment of:
  - The estimated potential returns that could be achieved for a:
    - Diversified investment portfolio; and
    - Diversified investment portfolio with an Environmental, Social and Governance (ESG) focus.
  - Comparison of portfolio returns to Council's current investments.
  - Benchmarking of returns achieved for comparable portfolios (e.g. Quayside Holdings Limited, ACC, NZ Superannuation Fund).

1. Executive Summary

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Overview of Council's Investment Performance

Over the past 10 years, Council has achieved strong returns from its investment portfolio.

Overview

- Council's investment holdings comprise of a 34% shareholding in Wellington Airport and various investment properties held around the waterfront and city centre. Investment income received from these holdings is used to subsidise rates.
- Since FY10, these investments have generated strong returns for Council. A 8.7% total annual return (i.e. income plus capital gains) across the portfolio has been achieved.
- Of Council's investments, Wellington Airport has generated the strongest return. Since FY10 its annualised average annual return has been 12.2% which compares to the average annual return from Council's property investments of 6.4%.
- Analysis of Council's investment performance indicates returns generated have been strong, although the investments are illiquid and concentrated (both by asset class and location).
- Consideration of Council's broader ESG objectives may also be necessary when analysing returns. For instance, Council may require a higher return from Wellington Airport given the high emissions profiles in the aviation industry.
- Below is a summary of historical returns, however Council must also consider future returns. Forecast Wellington Airport dividends, an important funding source for Council, are likely to be impacted by Covid-19. This reflects some of the challenges associated with holding a concentrated and illiquid portfolio. These characteristics make it challenging to quickly reposition the investment portfolio.

		Wellington Airport	Investment Property	Total Portfolio
	Total Annual Return (Capital Gains + Income)	**12.2%**	**6.4%**	**8.7%**
Total Return Components	**Capital Gain (Compound Annual)**	**4.9%**	**2.0%**	**3.1%**
	Cash Yield (Compound Annual)	**7.3%**	**4.4%**	**5.6%**
	Years With Negative Return	**0**	**0**	**0**
	Year With Highest Total Return	**FY12 (40.0%)**	**FY17 (14.9%)**	**FY17 (19.8%)**
	Year With Lowest Total Return	**FY11 (0.4%)**	**FY11 (1.4%)**	**FY11 (1.1%)**

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Benchmarking Council's Investment Returns

Council's current investment returns are broadly in-line with the benchmark portfolios modelled. Further detail on how we have formed these portfolios is provided in Section 4.

Portfolio Return Benchmarking

- The returns from Council's investment portfolio are strongly aligned with the returns achieved by the growth portfolio (80/20 growth assets/income assets split). This is a strong endorsement of Council's investment performance over the past decade. Further, we note returns for the model portfolios are before fees and taxes, which means they would likely be lower in practice.
- Relative to the benchmark portfolios an additional return premium could be required from investors with portfolios similar to Council's to account for the additional illiquidity of the investment holdings and their concentration. However, we acknowledge Council may see value in holding regional assets and as such may not require this.
- This return analysis means the Council could notionally achieve only marginally greater investment performance under the growth portfolio. This means returns analysis alone is unlikely to be a reason for Council to divest any of its existing assets and invest in other portfolios. However, there may be other reasons for doing this such as achieving ESG objectives, increasing portfolio liquidity, diversification and/or obtaining greater investment control.

	Council's Portfolio	Moderate Portfolio	Growth Portfolio
Total Return p.a. (Capital Gains + Income)	8.7%	7.0%	8.8%
Capital Gain (Compound Annual)	3.1%	1.4%	3.2%
Cash Yield (Compound Annual)	5.6%	5.6%	5.6%
Years With Negative Return	0	0	0
Year With Highest Total Return	FY17 (19.8%)	FY15 (20.2%)	FY13 (21.4%)
Year With Lowest Total Return	FY11 (1.1%)	FY12 (1.3%)	FY12 (0.1%)

Returns shown are before fees and taxes. The cash yield is the same across all portfolio as a result of our assuming Council would receive the same investment income.

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ESG Investment Opportunities

We have considered socially responsible funds that practice negative screening as a proxy for the returns that could be achieved when investing in an ESG-related manner. Returns have been relatively comparable to other investments considered.

Overview

- We have been unable to find relevant ESG investment indices across asset classes that have been established for a meaningful period of time (ie 10+ years). This has meant we have been unable to form a diversified investment portfolio that we can compare on a like for like basis Council's performance to since FY10.
- As a result, we have instead benchmarked performance to that reported by Booster's Socially Responsible Balanced and High Growth Funds over the past five years. The ESG criteria employed by these funds is not overly restrictive (refer page 28 for fund details). Both funds practice negative screening, excluding investments in certain industries (ie tobacco, fossil fuel etc). The funds however do not emphasise specific ESG objectives. We were unable to find any domestic investment funds that did this.
- The returns analysis is presented in the table below. As can be observed, the return performance of these funds is comparable to the other investment portfolios considered and Council's own performance. This means investing in an ESG manner may not impact performance. Evaluation over a longer time horizon and consideration of other funds would be required to confirm this.

Overview of Returns	1 year	3 year	5 year
Council's Portfolio	**10.2%**	**11.5%**	**12.1%**
Diversified Portfolio 1	**7.7%**	**10.2%**	**7.6%**
Diversified Portfolio 2	**7.9%**	**11.2%**	**8.8%**
Booster Socially Responsible Balanced Fund	**11.1%**	**8.0%**	**6.8%**
Booster Socially Responsible High Growth Fund	**15.8%**	**12.7%**	**10.8%**

Note: Returns shown are total returns before fees and taxes.

ESG Investment Considerations

If Council were to invest in an ESG specific manner, there are a range of items it may need to consider. We have outlined some of these below.

- **Investment Approach:** The domestic ESG fund universe is relatively small. This may mean Council would have to take a more 'active' investment approach by investing directly.
- **Due Diligence:** The level of ESG due diligence Council is willing to undertake prior to investment.
- **ESG Investment Options:** There are a number of ESG investment options. These range from impact investing to negative screening. A more restrictive ESG investment approach reduces the investable assets available.
- **Liquidity:** A smaller ESG fund universe may mean lower investment liquidity.
- **Investments in 'Transition':** Some of the largest environmental opportunities may be investing in companies with a relatively high carbon emissions profile and assisting them to make the investments needed to reduce their profile. Council must consider how it would treat these companies (which may operate in oil and gas, for instance).

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Investing In A Diversified Investment Portfolio

There are a range of considerations when investing in a diversified investment portfolio, we have outlined some of the most important below so they can be evaluated when deciding whether to proceed with any investment.

Pros

- ✓ Able to tailor asset holdings to reflect risk tolerance.
- ✓ Able to invest in portfolios which aligns with Council's wider ESG objectives.
- ✓ Can gain investment exposure to a wide range of asset classes.
- ✓ Portfolios able to be assembled to reflect Council's specific requirements and objectives.
- ✓ Compared to Council's existing investments (particularly Wellington Airport) can exert more control to influence performance.
- ✓ Portfolio would be less correlated with the economic performance of the Wellington region. There would also be greater liquidity.

Cons

- Has higher transaction costs which may reduce returns.
- Unable to directly influence investments and outcomes.
- Requires greater monitoring and administration.
- Perception of greater investment volatility given constant market pricing.
- Investing in indices may make it challenging to avoid specific investments.

Other Considerations

- If investing in an investment portfolio, it would be prudent to establish a Statement of Investment Policy and Objectives (SIPO) and determine an appropriate asset allocation etc.
- Council could engage an investment professional to manage its independent portfolio on its behalf. This would be the most efficient approach and they would benefit from their expertise.
- Council could either invest in established funds or create its own portfolio. For investments smaller than $50m it is more efficient to invest in an existing fund (given transaction costs).
- From a financial reporting standpoint, Council's investment assets may appear more volatile.
- We understand Wellington Airport is a strategic asset which means Council will need to consult if it reduced its shareholding in the Airport.

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Case Study: Hawke's Bay Regional Council

The Initial Public Offering (IPO) for a minority shareholding in Napier Port was conducted by Hawke's Bay Regional Council (HBRC) as a means of funding development at the Port and diversifying Council's investments.

Overview

- In March 2017 HBRC formed a Capital Structure Review Panel to identify solutions to funding challenges identified during the Long Term Plan planning process. These challenges included a need to find solutions to fund Napier Port's growth (eg to fund 6Wharf development) despite limited debt capacity, maintain Council income and reduce/diversify Council's commercial investment risk exposure.
- To achieve this, HBRC evaluated a range of options related to Napier Port. These varied from retaining full Port control to selling a long term port concession. After reviewing the various options, Council ultimately decided to sell 45% of the shares in the Port via an IPO. This was considered the most attractive option because it maintained majority ownership, allowed ratepayers to invest alongside Council and received an attractive valuation.
- The Napier Port IPO raised $234m, which was at the top end of the indicative price range. Of this amount, ~$108m was invested by HBRC in managed investment funds. This was done to increase investment diversification and liquidity.
- There are similarities between HBRC's position before the IPO and Council's current position. Namely, a reliance on a significant illiquid asset for investment income that is at risk to regional 'shocks' (eg earthquakes). Given the future headwinds in the aviation sector (Covid-19, climate change and regulation), it could make sense for Council to conduct a similar review to that undertaken by HBRC previously.

Napier Port Share Price

Timeframes

2017

Mar: Capital structure review panel formed.

Nov: Interim capital structure review report released to public.

2018

Apr: Final capital structure review report released.

Aug: Independent valuation analysis presented to Council.

Sep: Capital structure paper presented to Council.

2019

May: Council confirms IPO subject to pricing.

Aug: Book build, final price announced and Napier Port listing date.

2. Council's Current Investment Holdings

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Council's Investment Holdings

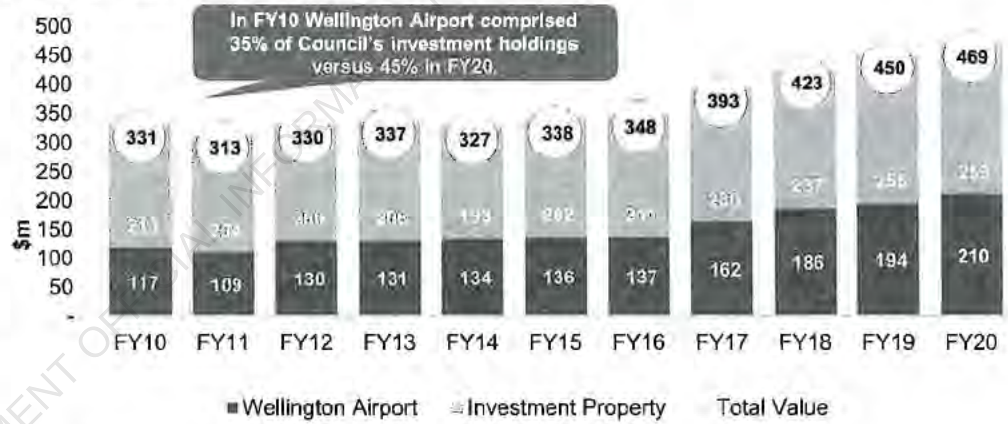
Council has investments in property and Wellington Airport. These holdings are concentrated both regionally and by asset type.

Overview

- Council has a relatively concentrated investment portfolio. Its primary holdings comprise a 34% shareholding in Wellington Airport and various investment properties held around the waterfront and city centre.
- Council also currently has ownership interests in Chaffers Marina and Wellington Water. However, we have not classified these as investments given they produce limited returns.
- Of the investments held, we understand that the Wellington Airport investment is a 'Strategic Asset'. This means Council needs to consult with ratepayers before selling any stake. It may also mean there are limitations around what the funds are used for.
- The other 66% of Wellington Airport is held by Infratil, an infrastructure investor. The minority interests held by Council means it has limited control over the Airport's operations, however it does benefit from Infratil's investor expertise.
- Council's investment holdings have increased and provided a relatively consistent cash return. However, the investments are not diversified across asset classes or geographies.
- The investments are also concentrated in the Wellington region. This means the value of Council's investments are likely to be highly correlated with the wider economy. This could mean these investments lose value or struggle to generate income at times when they otherwise could be used to reduce ratepayer funding requirements.

On the following pages, we have benchmarked the performance of Council's current investment holdings.

Council's Investment Holdings



Council's Investment Cash Income

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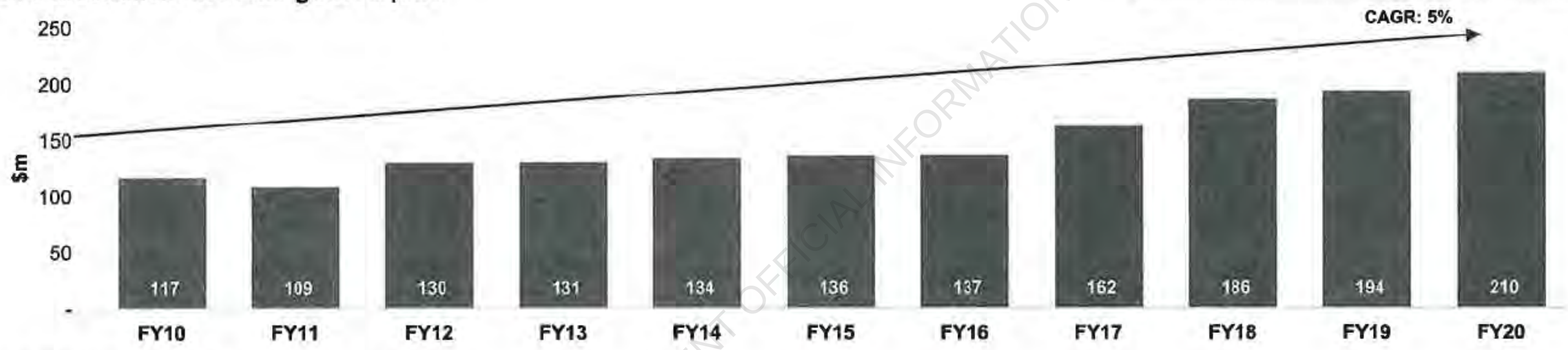
Wellington Airport

Council's investment in Wellington Airport has delivered substantive returns over the period assessed, including a consistent dividend. This may demonstrate the value in Infratil's involvement to drive robust commercial outcomes.

PwC observations/comments

- The value of Council's investment in Wellington Intl Airport has increased by 69% since the start of FY10 s7(2)(b)(ii) [redacted] s7(2)(b)(ii)
- Wellington Airport has paid Council an average dividend of $13.1m between FY10 and FY20.

Council's Investment in Wellington Airport



Council's Returns from Wellington Airport

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Capital Gain p.a.	(5.5%)	(7.3%)	19.4%	0.5%	2.5%	1.6%	0.5%	18.8%	14.7%	4.2%	8.1%
Cash Yield p.a.	12.4%	7.7%	20.6%	8.3%	9.2%	9.7%	8.9%	8.7%	7.8%	7.5%	6.2%

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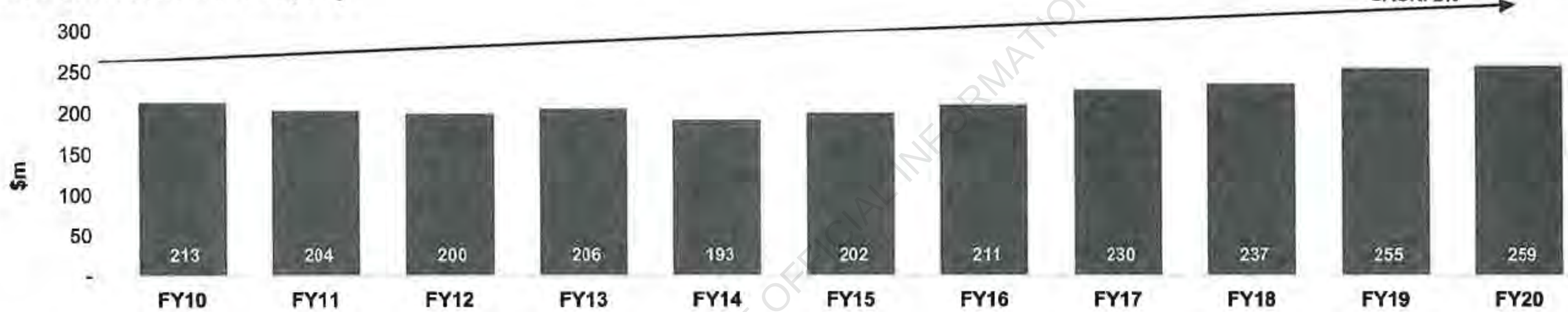
Investment Property

Council has received steady income returns from its investment property portfolio. In recent years, capital gains have been strong in line with broader property price appreciation observed in the region.

PwC observations/comments

- Council's investment properties comprise of ground leases and land and buildings. The ground leases are located in the central city or waterfront and are based on 21 year perpetually renewable terms.
- Council has received an average of $12m per annum of income from its investment properties.

Council's Investment in Property



Council's Returns from Property

	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Capital Gain p.a.	(2.5%)	(4.9%)	(1.7%)	2.7%	(3.7%)	4.4%	6.8%	8.9%	2.8%	7.8%	2.8%
Cash Yield p.a.	6.5%	6.3%	6.1%	6.3%	5.4%	5.8%	5.5%	5.9%	5.1%	4.9%	4.3%

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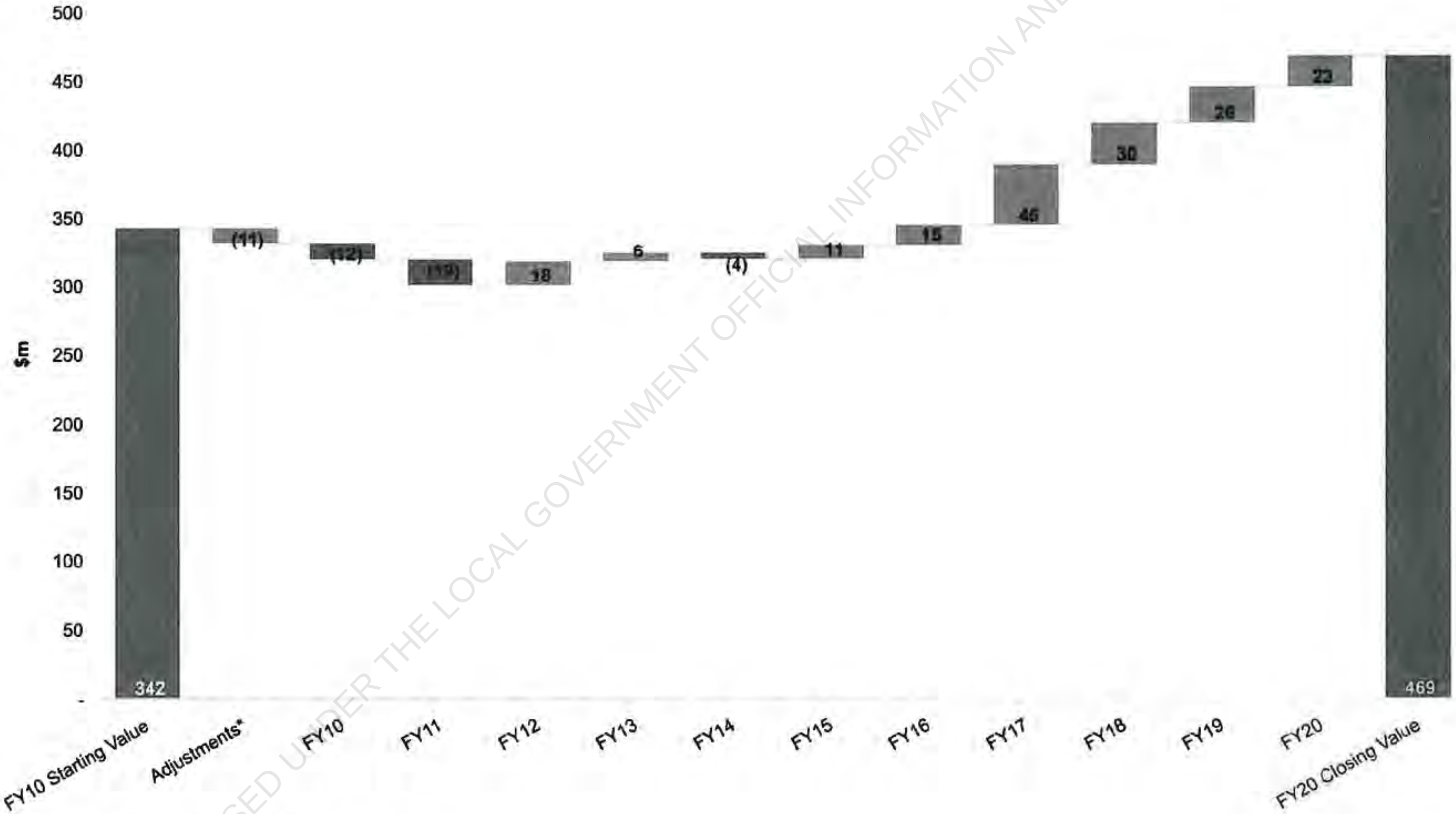
The Value of Council's Investment Holdings

Council's investments have increased by ~$130m over the past decade. In addition it has received a further ~$180m of investment income.



*Adjustments reflect disposals and acquisitions of properties

3. Assessing Council's Risk Tolerance

Identifying Suitable Investments

We have used a portfolio management framework to assess Council's investment portfolio options. This is necessary to determine likely alternative investment portfolios Council could invest in if it sold its current investment assets.

Overview

- There is an opportunity cost associated with Council's current investment holdings. Specifically, if Council sold these assets it would have funds to invest elsewhere.
- When other local governments have sold similar assets they have typically invested in diversified investment portfolios. This is done because these investment funds provide liquidity and diversification. In establishing a benchmark portfolio for comparison we have assumed Council would follow a similar approach.
- There are a range of investment portfolios Council could invest in. These are differentiated by the proportion of funds invested in 'growth' assets (ie equities) and 'income' assets (ie fixed rate bonds).
- Determining a suitable investment portfolio, first requires aligning WCC's investment requirements with the various funds available. This is done through utilising a portfolio management framework. We have presented an abbreviated version of this approach on the right of this page.

On the following pages, we have evaluated Council's investment objectives and risk tolerance. We have begun by evaluating investment objectives before demonstrating the differences in risk tolerance levels.

Portfolio Management Framework

The below outlines an abbreviated version of a portfolio management framework. To develop illustrative alternative investment portfolios, we have undertaken a simplified approach concentrated on evaluating Council's investment objectives and risk tolerance. This is because it is the primary driver of investment decisions. Further steps in the portfolio management process would need to be considered if Council did proceed with an investment in a diversified fund.

Key focus of our assessment

Define portfolio investment objectives	Define the purpose of the investment portfolio.
Determine risk tolerance	Assess factors such as time horizon, reliance on investment income, and willingness to take risk to determine the suitable level of risk for the portfolio.
Determine yield target	Determine a yield target for the portfolio based on portfolio objectives, assumptions and with reference to risk tolerance (this is iterative).
Consider constraints	Consider constraints such as liquidity requirements, any opportunity costs, transaction costs in recycling of funds, time horizon, legal / regulatory, taxes, and unique needs.

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Summary of Council's Investment Policies and Objectives

Council's Treasury Policy and Financial and Infrastructure Strategy govern Council's approach to investments. These documents articulate Council's investment objectives and return targets.

Overview

As a custodian of ratepayers' funds, Council has a range of policies, documents and procedures that govern its approach to its investments. The most fulsome documents are Council's Investment and Liability Management Policy and its Financial and Infrastructure Strategy. We note Council's current Financial and Infrastructure Strategy was devised during the 2018/28 Long Term Plan process. This means it will be reviewed as part of the current Long Term Plan process. We expect the investment related principles will remain broadly the same.

Key Investment Policy Objectives

Council's Financial and Infrastructure strategy articulates Council's investment policy objectives and are outlined below. These objectives are relevant for informing the investment portfolio modelling we undertake later on in this Report. Within Council's Investment and Liability Management Policy, there is also a specific objective related to currently maintaining a 34% shareholding in Wellington Airport.

Returns: to optimise the return on the overall investment portfolio.

Diversity: to provide diversity in Council's revenue sources

Strategic benefits: to achieve Council's strategic objectives.

In addition to the above, we expect there is also an implicit intergenerational objective relating to protecting and maintaining long term gains in the real capital value of Council's investments for the benefit of future as well as current generations of ratepayers.

Return Targets

The 2018 Financial and Infrastructure Strategy stated Council's target was to achieve an average return over time greater than its long-term cost of funds. At the time of publication, Council noted this was around 4.9% per annum. This is likely to have reduced in line with reductions in borrowing costs.

We believe measuring the performance of Council's investments against its long term cost of funds should be reviewed This is because there is additional risk associated with taking an ownership position which is not captured in a debt cost of funds. Council could also consider whether it wants to stipulate a specific income return requirement.

Hierarchy of Council Investment Documents

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Risk Tolerances

There are trade-offs when considering risk tolerance, namely between investment volatility and capital growth. This impact is observed in the indicative return targets. In the Appendix, we have presented the return distributions which show a higher risk tolerance results in greater investment volatility.

Conservative

Asset mix (managed funds): 75% income assets and 25% growth assets.

Asset mix (direct investments): Property, term deposits.

Indicative return targets[1]: 3.0% - 5.0% p.a.

Pros

- High level of capital protection.
- Strong degree of certainty around future income, reduces reliance on other income sources.
- Greater certainty regarding funding requirements from other sources.
- Low volatility in portfolio value.

Cons

- On an absolute basis the income received is relatively low in the current economic environment.
- Emphasises current and not future ratepayers.
- Size of portfolio may reduce over time.

Moderate

Asset mix (managed funds): 50% income assets and 50% growth assets.

Asset mix (direct investments): Some private equity, infrastructure, property/forestry.

Indicative return targets: 5.5% - 7.0% p.a.

Pros

- Balances needs of both future and current rate payers.
- Investment income is reasonably forecastable.
- Unlikely to experience significant volatility in portfolio valuations.
- Moderate degree of capital protection.

Cons

- Sacrifices some capital appreciation.
- Current returns from income assets are relatively low.
- Can be challenging to maintain balance between income and growth assets.

High

Asset mix (managed funds): 25% income assets and 75% growth assets.

Asset mix (direct investments): Greater weighting towards private equity than moderate. Potential for small component of venture capital (depending on risk appetite).

Indicative return targets: 7.5% - 9.5%+ p.a.

Pros

- Value of portfolio likely to increase over time.
- Higher levels of return should enable Council to do more with its investments in the long term.
- Less focus on lower returning income assets.
- Potential to invest a proportion regionally to support wider regional outcomes.

Cons

- Higher levels of investment volatility so less reliance can be placed on income, increasing reliance on other income sources.
- Emphasises future and not current rate payers.
- Lower level of capital protection.

[1]We have used Kiwisaver returns from sorted.co.nz to help inform these estimates.

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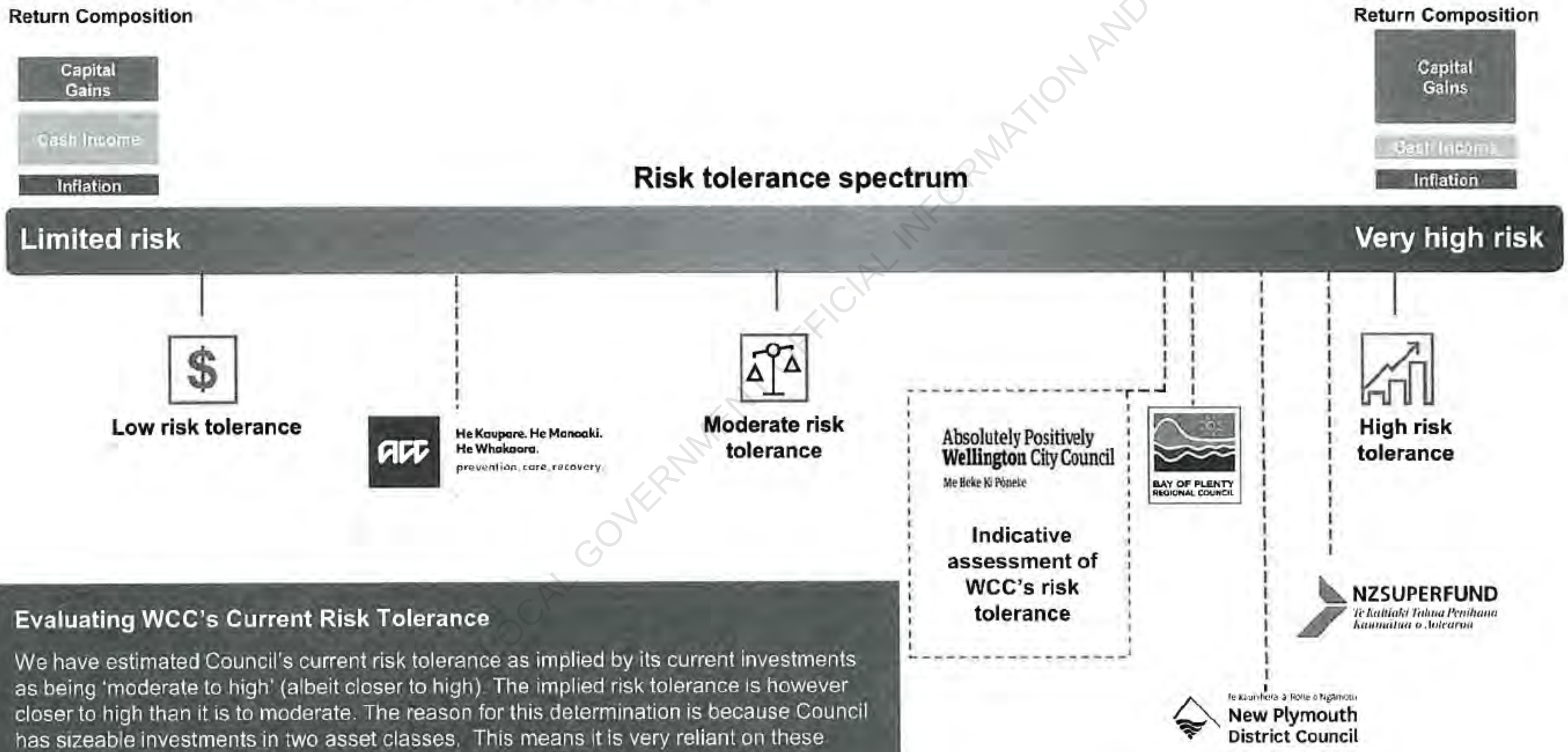
Council's Implied Risk Tolerance

We have estimated Council's current implied risk tolerance based on its current investment holdings. We have also estimated the risk tolerances of relevant peers based on their asset holdings. Relevant peer investment information is provided in Section 6.



Evaluating WCC's Current Risk Tolerance

We have estimated Council's current risk tolerance as implied by its current investments as being 'moderate to high' (albeit closer to high). The implied risk tolerance is however closer to high than it is to moderate. The reason for this determination is because Council has sizeable investments in two asset classes. This means it is very reliant on these investments and they are both in the Wellington region. They also lack liquidity and Council does not have control of the Airport (albeit it well run by Infratil). Further detail on these peers is presented on the following pages.

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The Risk Tolerance of Similar Investors

We have summarised the investment holdings of selected peers below. Outside of the ACC, all peers have a moderate to high risk tolerance. ACC's risk tolerance is lower due to its need for liquidity, uncertainty around when funds will be required and need for consistent cash flows.

Overview

- The below table summarises the investment holdings of selected peers. We have conducted this analysis to estimate what it suggests about these investors risk tolerance. The analysis builds on the previous pages' risk tolerance spectrum.
- The return targets of peers vary substantively, even amongst those with similar risk tolerances. Council's current return target is most similar to New Plymouth District Council (NPDC).
- In some ways, Council's situation could be viewed as most similar to NPDC. They begun investing in managed funds in 2004 using the proceeds raised from the sale of its Powerco shareholding.

Investor	New Plymouth District Council	Bay of Plenty Regional Council	NZ Super Fund	ACC
Investment Objectives	To provide sustainable revenue to Council.	Ensure the value of its assets are protected for the long term, grow appropriately, and generate income opportunities that can be distributed to BoPRC as required.	Maximise returns without undue risk to the portfolio as a whole, and focus on managing the Fund in line with global best practice.	Provide relatively certain income to meet injury claims and ensure ACC can continue to provide future coverage without needing to increase levies.
Investment Size	$292 million	$380 million	$44 billion	$47 billion
Return Target	Return net of costs 3.3% p.a. + NZ CPI (measured on a rolling five-year basis)	7.5% p.a. (measured on a rolling five-year basis)	Expectation for outperformance of Fund's Reference Portfolio by 1% p.a. in the long-term	Return net of costs 0.3% above ACC's market-based benchmarks
Portfolio Investment Allocation	Most significant allocation in Global Equities (49%)	Majority of allocation in Equities (totalling 56% from NZ, Global, and Private Equities)	Majority of allocation in Global Equities (67%)	Most significant allocation in NZ Fixed Income (49%), followed by Global Equities (26%)
Estimated Risk Tolerance	High	Moderate-High	High	Low

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Review Of Council's Risk Tolerance

Council's risk tolerance is influenced by both its willingness and ability to take risk. Under a typical portfolio management approach, the lower of these two items is used to determine Council's overall risk tolerance.

			Risk Tolerance Implications
Primary considerations	**Time Horizon**	• Council's time horizon is long-term (perpetual) given the purpose of investment to provide a permanent source of funding and protect capital intergenerationally.	↑
	Reliance On Investment Income	• Council uses investment income to fund opex and control rates affordability. If this were not available Council would have to raise funding from other sources. This may result in rate increases.	↓
Other considerations	**Liquidity Requirements**	• Investment liquidity required to meet annual opex.	↔
	Revenue Diversification	• Investment income is one of many revenue sources however if this is lower than anticipated, Council will have to raise funds from elsewhere.	↔
	Predictability Of Distribution Requirements	• Funding requirements are relatively predictable, so are other revenue sources such as rates, increasing predictability of investment distribution requirements.	↑
	Liabilities	• No contractually defined liability requirements for the investment portfolio to meet (e.g. contrary to a pension fund or insurance company for example).	↑
	Borrowing Capacity	• Debt capacity available which provides and ability to fund projects with debt to smooth volatility in investment returns (noting additional debt will need to be serviced).	↑
	Willingness To Take Risk	• We have assumed a moderate willingness to take risk.	↔

Key

- ↑ Increases risk tolerance
- ↔ Neutral impact
- ↓ Decreases risk tolerance

Moderate to High Risk Tolerance – although closer to high risk

Based on the above considerations we have estimated Council's risk tolerance as being moderate to high. This aligns with Council's existing implied risk tolerance and that of other peers

4. Investment Return Analysis

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Devising Alternative Portfolios to Estimate Returns

We have used our estimated risk tolerance assessment to create model investment portfolios, which can be compared to the performance of Council's current investment holdings.

Overview

- In the previous section, we estimated Council's risk tolerance as moderate to high. We have used this assessment (combined with the investment objectives review) to assemble various diversified investment portfolios. These portfolio weightings and the investment indices used are summarised in the tables on the right.
- As can be observed, we have generated two different diversified investment portfolios. This has been done to reflect different growth/income asset weightings.
- The portfolios have been created to estimate the potential returns Council could achieve. This has been done by evaluating historical performance (noting this may not indicate future performance).
- In the Appendix, we have summarised the investment characteristics of a wide range of investment assets. Due to information availability limitations we have only included a subset of these assets in our return modelling. If Council established its own portfolio there would be opportunities to invest in these assets.
- We have been unable to find relevant ESG investment indices across asset classes that have been established for a meaningful period of time. We have therefore evaluated potential ESG portfolio returns separately over a shorter time period on page 28.
- In the Appendix we have also provided an overview of the returns provided by various Kiwisaver Funds. These serve as a proxy for investment funds Council could also invest in although this is typically done for smaller size investments.
- If Council did form its own investment portfolio it would have to establish a SIPO that outlined its investment parameters and asset allocation.
- The following pages display our investment return modelling. The assumptions behind this analysis are outlined on page 42. **Importantly, we have assumed yearly cash distributions to Council would be the same as those provided.**

Overview of Model Portfolio Investment Weightings

Asset Class	Moderate Portfolio	Growth Portfolio
Growth / Income Assets Split[1]	65% / 35%	80% / 20%
Domestic Equity	25%	35%
International Equity	40%	45%
Domestic Fixed Income	10%	5%
International Fixed Income	20%	10%
Cash	5%	5%

[1]We have classified domestic equities, international equities and listed property as growth assets. The other assets are classified as income assets.

Summary of Investment Indices Used

Asset Class	Index
Domestic Equity	NZX 50
International Equity	MSCI World
Domestic Fixed Income	S&P/NZX Investment Grade Corporate Bond Index
International Fixed Income	Bloomberg Barclays Global Aggregate Total Return Index
Cash	90 Day BKBM

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Diversified Investment Portfolio Returns

The performance of Council's investment portfolio has been broadly in line with that observed by the higher risk investment portfolio we have created.

Overview

- The total returns (before fees and taxes) from Council's investment portfolio are strongly aligned with the returns achieved by the growth. This is a strong endorsement of Council's investment performance over the past decade and confirms the returns generated have been strong.
- Typically an additional return premium would be required from a portfolio similar to Council's to compensate investors for the illiquidity of the investment holdings and their concentration. However, we acknowledge Council may see value in holding regional assets and as such may not require this.

Total Returns Per Annum

Council: 8.7%
Moderate Portfolio: 7.0%
Growth Portfolio: 8.8%

	Inception	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Moderate Portfolio	3.5%	6.4%	1.3%	17.4%	7.4%	20.2%	3.3%	8.1%	15.1%	9.3%	7.7%	
Growth Portfolio	4.1%	8.9%	0.1%	21.4%	9.9%	20.5%	4.3%	10.3%	16.7%	10.4%	7.9%	
Council's Portfolio	5.1%	1.1%	16.8%	8.9%	5.6%	10.6%	11.1%	19.8%	13.9%	12.2%	10.2%	

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Diversified Investment Return Distributions

The trade off between risk and return can be observed when reviewing differences in the return distributions between the two model portfolios we have established.

Comments

- The trade off between risk and return can be observed between the two model portfolios we have created. As noted, the growth portfolio has delivered better returns than the moderate portfolio, but with larger swings on a year-on-year basis. It has the flattest and widest distribution.
- The differences between the moderate portfolio and Council's existing portfolio are less obvious, this may mean the return volatility observed is lower than expected given the risk profile of the investment holdings.
- Overall, Council's existing portfolio arguably has the most normalised return distribution, although this obscures the differences in volatility between the Investment Properties (which have been quite stable) and Wellington Airport (which has been quite volatile, albeit positive).
- The below chart is based on historical return volatilities. Wellington Airport is partially regulated and these controls are expected to become more restrictive over time, meaning returns may be less volatile, but also lower.

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ESG Investment Returns

We have considered socially responsible funds that practice negative screening as a proxy for the returns that could be achieved when investing in an ESG related manner. Refer to the following section for further ESG investment information.

Overview

- As noted, we have been unable to form an appropriate diversified portfolio with an ESG focus. Instead, we have considered the returns achieved by two Socially Responsible investment funds provided by Booster. This has been done as a proxy for the potential ESG returns possible.
- To complete this analysis, we have considered two Socially Responsible Booster Funds: the High Growth Fund; and the Balanced Fund. These funds are small relative to Council's portfolio (refer right).
- The ESG criteria employed by these funds is not overly restrictive. Both funds practice negative screening, excluding investments in certain industries (ie tobacco, fossil fuel etc). The funds however do not emphasise specific ESG objectives.
- This may reflect some challenges associated with forming such portfolios currently. As such, Council may have to scale up its ESG investment over time.
- As can be observed in the table below, the return performance of these funds is comparable to the other investment portfolios considered. This means investing in an ESG manner may not impact performance. Evaluation over a longer time horizon and consideration of other funds would be required to confirm this.

	1 year	3 year	5 year
Council's Portfolio	10.2%	12.2%	13.4%
Diversified Moderate Portfolio	7.7%	10.7%	8.0%
Diversified Growth Portfolio	7.9%	11.7%	9.5%
Booster Socially Responsible Balanced Fund	11.1%	8.0%	6.8%
Booster Socially Responsible High Growth Fund	15.8%	12.7%	10.8%

Note: Returns shown are total returns before fees and taxes.

Overview of Booster's Socially Responsible Funds

	Balanced Fund	High Growth Fund
Inception Date	September 2015	July 2015
Suggested Investment Time Period	5 Years +	10 Years +
Fund Size ($m)	50	12
Asset Allocation	55/45 (Growth / Income Assets)	98/2 (Growth / Income Assets)
Investment Objective	To achieve a rate of return (before tax but after fees) of at least 2.5% above inflation over rolling five year periods and with a medium level of risk.	To achieve a rate of return (before tax but after fees) of at least 4.5% above inflation over rolling ten year periods and with a high level of risk.

5. ESG Investing

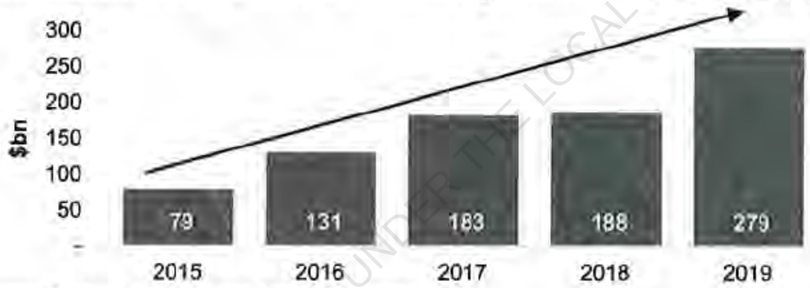
ESG Investment Objectives and Opportunities

There is a strong rationale for Council investing in an ESG related manner.

Overview

- Investing in assets that support various ESG outcomes aligns with Council's strategic priorities and objectives. This includes Council's Net Zero objective and its Social Wellbeing Framework. Accordingly, by investing responsibly, Council can further demonstrate to ratepayers the steps it is taking deliver environmental and climate outcomes.
- Outside of Council's own ESG objectives, there is growing investor interest in ESG. This means the investment offerings available continue to increase.
- Another driver of the uptake of ESG investing is that central government is starting to shape an economy, which prioritises the environment through actions and regulations such as the Zero Carbon Act, the ETS, and mandated climate-related disclosure.
- There is a strong rationale for investing in this manner. Research has shown that the use of ESG in security selection leads to better-informed investment decisions. For example, companies with a lower carbon footprint, could face lower regulatory risk than peers. Making its shares less volatile over time.

New Zealand ESG Assets Under Management **5-yr CAGR: 37%**



Source: Responsible Investment Association Australasia.
The majority of the ESG Assets Under Management use ESG Integration / Negative Screening. This is the least restrictive form of ESG investment where ESG is used as part of the investment decision making process.

ESG Investment Considerations

Below we have outlined a number of items Council may need to consider if it decides to invest in an ESG manner.

Liquidity: To date ESG funds tend to be smaller in size, which may mean there is reduced investment liquidity. Council may need to supplement these investments with larger cash holdings to ensure it has sufficient liquid assets.

Potential for Higher Long Term Returns: Through investing in more sustainable entities, there is the potential for higher long term returns. This is because these entities are more prepared for the effects of climate change and have made other necessary changes to their operations.

ESG Investment Policies And Procedures: Council would need to formulate relevant ESG investment principles and policies. This would define asset allocation along with investment parameter, reporting and other procedures.

ESG Due Diligence: Depending on the scope of its investment approach, Council may need to have the capability to ensure investments comply with its ESG policies. Otherwise Council could use an investment manager to confirm this.

Disclosures: Council may need to consider the level of ESG investment reporting it provides to ratepayers and the wider stakeholder group.

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ESG Investment Options

There are a range of ESG investing approaches. If Council were to invest in an ESG compliant manner it must decide the approach it would take. There is a trade-off between the level of ESG focus and investable asset universe.

Overview

- When investing in an ESG compliant manner, there are a range of approaches that can be undertaken. This reflects the various form of ESG investment from integration and negative screening to sustainability-themed invests and impact investing.
- These approaches are differentiated by the robustness and substance of their ESG policies and can be considered on a spectrum as outlined below. On the left of the spectrum are the least restrictive ESG approaches. As you progress further across the spectrum the policies become more specific. This typically means there are less assets to invest in and reduced investment fund options.
- Domestically, most Kiwisaver funds have implemented baseline exclusions of tobacco and weapons (ie negative screening). Funds may additionally perform ESG evaluations to identify companies whose primary business activity may not be deemed to have negative influence but whose behaviour or method of conducting business is questionable, harmful, or unsustainable. However, there is still a gap between those that claim to be practicing responsible investing and those that have embedded these practices through formal policies and accountability commitments.
- Currently there are no Kiwisaver or retail funds focused on impact investing although we understand new offerings are being developed.

	ESG Integration	Negative Screening	Positive / Best-in-class Screening	Thematic / Sustainability Themed	Impact Investing - Market Rate
Description	Consideration and analysis of ESG factors as part of investment decision-making.	Industry sectors or companies excluded / divested from to avoid risk or better align with values.	Investments that target companies or industries with better ESG performance.	Investments that specifically target sustainability themes eg clean energy, green property.	Investments that target social and environmental impact and deliver market rate financial returns.
Example Investments	Booster Kiwisaver Funds are focused on ethical investing and use ESG factors to assess investment opportunities (also uses exclusion).	Most Kiwisaver funds use some form of exclusionary screening.	ASB's Positive Impact Fund (also uses exclusion, some impact) to invest in companies that work in areas such as renewable energy, water infrastructure, affordable housing, and responsible finance. This fund was only established in 2019.	ACC Impact Portfolio aims to generate positive measurable impact to health and safety and wellbeing of New Zealanders while achieving superior risk-adjusted returns.	KKR Global Impact Fund invests in companies whose core business models provide commercial solutions to an environmental or social challenge.

Increasingly Robust ESG Policies

ESG Investment Spectrum

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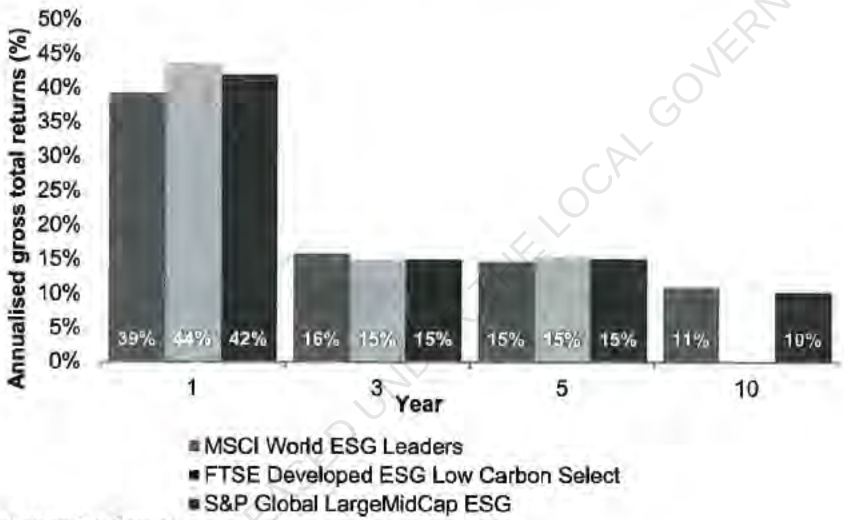
ESG Equity Investments

There are a number of international ESG indices Council could invest in. The domestic universe is also growing. There are also direct investment opportunities although Council would need to conduct its own ESG investment analysis.

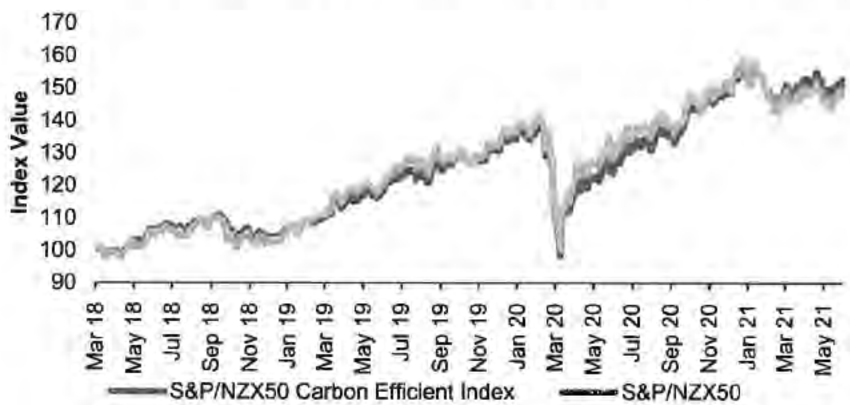
International ESG Indices

- There are a number of international ESG indices that Council could invest in. The return performance of some of these is presented below.
- Relative to their parent benchmarks, the return performance of these specific indices has been comparable. This does not mean performance would need to be sacrificed to achieve broader ESG objectives.
- When compared to similar NZ indices, these international indices are larger meaning there is greater liquidity.
- Some of these indices also have ESG ratings, which measures to long-term industry material ESG risks. This could be something Council could incorporate in its investment analysis when prioritising or benchmarking investments.



Domestic ESG Indices

- In addition to the Booster Socially Responsible High Growth Index (discussed on page 28), there are a number of other ESG compliant indices Council could invest in.
- These indices include the NZX50 Carbon Efficient Index, which was established in early 2018. This index is designed to measure the performance of companies in the S&P/NZX 50 Index, while overweighting or underweighting those companies that have lower or higher levels of carbon emissions per unit of revenue. As per the previous page, investing in this index would reflect a negative screening approach.
- As can be observed in the chart below, the performance of this index has broadly tracked the wider NZX50.
- Council could also invest directly in specific NZ equities, which align with their ESG investment mandate (ie Meridian). Although it (or its investment advisers) may need to conduct the necessary ESG investment due diligence.



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ESG Fixed Income Investment Options

There are a range of investable fixed income instruments. Domestically, a wide range of organisations have issued green bonds. These trade at equivalent levels to 'non-green' instruments that have been issued by the same company, meaning similar returns can be achieved.

Overview

There are a range of ESG related fixed income investments Council could invest in. This includes specific fixed income funds along with specific instruments issued/offered by entities and investment funds. This includes cash based money market funds and sovereign bonds. We have outlined some of the most popular instruments and how they can be used in the table below.

Fixed Income Instruments

	Description	Example
Green Bonds	Similar to a traditional bond, but a green bond is issued for the purpose of funding a project or investment, which drives a defined **environmental benefit** - in categories such as renewable energy, energy efficiency, clean transport, green buildings, wastewater management, and climate change / adaptation	Argosy Property has issued green bonds to fund the construction of certified green buildings.
Social Bonds	Proceeds used to finance or refinance **social projects** that achieve positive social outcomes or address a social issue.	In 2010, Peterborough Prison (UK) issued a social impact bond to fund a pilot project to reduce reoffending rates of short-term prisoners. Investors received an increasing return (coupon) directly proportional to the difference in relapse rates between the prison offenders and control group.
Sustainability Bonds	Proceeds used to finance or refinance a combination of **green and social projects** - can be issued by corporates or government.	Kāinga Ora, has issued sustainability bonds under its sustainable financing framework. These proceeds are used to fund social housing initiatives including green buildings, pollution prevention and control, and targeting socioeconomic disparities through housing affordability initiatives.

Domestic Fixed Income Investments

A number of domestic entities have also recently issued green and sustainable bonds (refer definitions left). This includes companies such as Contact Energy and Precinct Properties. Auckland Council have also issued their own green bonds. Relative to their non ESG compliant issues, these bonds trade at similar yields, meaning the returns received are equivalent. This is important as it means Council would not have to sacrifice returns to achieve any ESG objectives. As an investor Council could purchase these instruments directly.

For further information on bond categories, refer the International Capital Market Association (ICMA) guidelines.

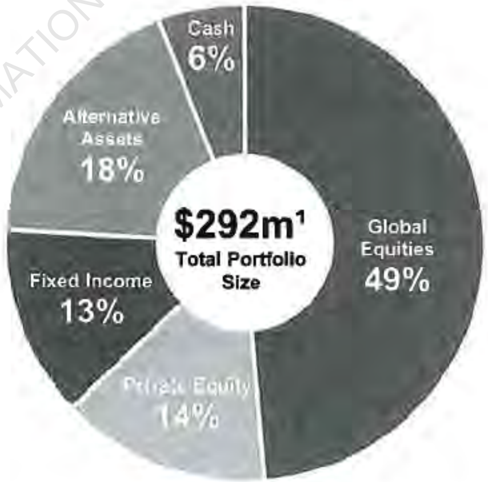
6. Peer Investment Approaches

Case study: New Plymouth District Council

Portfolio Components

Portfolio investment objectives	• Primary objective is provide sustainable Council revenue, which is to help offset rates. • To maintain a long term sustainable level of real capital of the PIF, for current and future generations.
Return target	• 3.3% p.a. + CPI + management costs (measured on a rolling five-year basis).
Constraints	• To maintain strategic asset allocations • Funds to be distributed quarterly, with payouts based on a release payment policy which seeks to balance the fund's benefits between current and future generations.
Benchmarks	• 3.3% p.a. + CPI + management costs (measured on a rolling five-year basis).

Current Portfolio Allocation[1]



NPDC's investment portfolio implies a high risk tolerance, due to its high exposure to growth assets. Global and private equity assets comprise 63% of the portfolio. Proportion of cash yielding assets are comparably lower; cash and fixed interest comprising 19% of the portfolio.

Risk Tolerance

High Risk Tolerance: As indicated by the PIF's strategic asset allocation which has a high exposure to 'growth' assets.

[1] FY20 NPDC Annual Report (Year end 30 June 2020)

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Case study: Quayside Holdings Limited (BoPRC)

Portfolio Components

Portfolio investment objectives

- Primary objectives are to ensure the value of its assets are protected for the long term, grow appropriately, and generate income opportunities that can be distributed to BoPRC as required.
- To diversify non-port net cash profit to 30% by 2024. To achieve this Quayside Holdings Limited (QHL) will building a more diversified (and larger) investment portfolio.
- Target distribution of 80% of QHL's net cash profit to be paid out BoPRC.

Return target

- 7.5% p.a. (also applied as a notional cost of capital).
- Cash component of 3.5% for non-port assets.

Constraints

- Investments excluded if an activity prevents BoPRC achieving its regional responsibilities.
- Quayside Investment Trust setup as a PIE, allows the Group's taxation and liquidity risk to be managed.

Benchmarks

- Performance target is 7.5% p.a. (five year rolling average) for the investment portfolio, set by the Board annually in the Statement of Intent (SOI).

[1]Total Portfolio Size as at June 2020 and portfolio allocations as at December 2018, noting this excludes Quayside's investment in Port of Tauranga

Current Portfolio Allocation[1]

QHL's investment portfolio implies a moderate to high risk tolerance. This is due to the low proportion of cash yielding assets (cash and fixed interest comprise 29% of the portfolio. QHL's actual risk tolerance is likely to be lower than this (refer below) due to its intergenerational responsibilities.

Risk Tolerance

Moderate tolerance: as QHL looks to provide a return (supporting current ratepayers) while also safeguarding assets (future generations), largely in line with existing (and target) portfolio.

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Case study: NZ Super Fund

Portfolio Components

Portfolio investment objectives

- To maximise returns without undue risk to the portfolio as a whole, and focus on managing the NZ Super Fund in line with global best practice.
- To employ strategies based on their long time horizon and low liquidity requirements.

Return target

- Expectation to outperform NZ Super Fund's Reference Portfolio by 1% p.a. (which since inception, has a return of 8.42% p.a.).

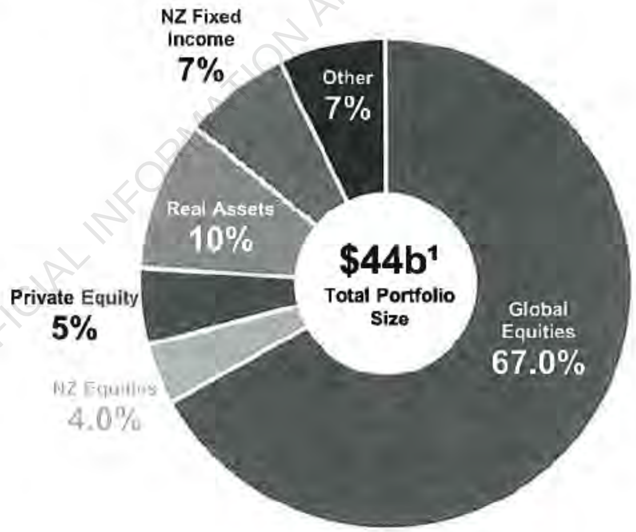
Constraints

- No specific constraints.

Benchmarks

- To exceed NZ 90 Treasury Bills + 2.8% p.a. (before tax) over any 20 year moving average period.
- Its bespoke reference portfolio.

Current Portfolio Allocation[1]



Portfolio is higher risk due to focus on global equities with only a small portion allocated to NZ equities and fixed income investments.

Risk Tolerance

High tolerance: No liquidity requirements and perpetual investment horizon support NZ Super having a high risk tolerance, in line with its portfolio allocation.

[1] 2020 Annual Report (Year end 30 June 2020)

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Case study: ACC

Portfolio Components

Portfolio investment objectives

- To provide liquidity that can meet injury claims. The investment income ensures that ACC can continue to provide future coverage without needing to increase levies.
- Preference for long-term investments that deliver relatively certain income streams for long periods of time. This is to meet its cash flow needs and help offset the decline in interest rates.
- To actively manage the portfolio with the objective of gaining better risk-adjusted returns than investing passively.

Return target

- 0.3% above ACC's market-based benchmark portfolio.

Constraints

- Must meet the number of claims each year.
- Investment guidelines use credit, exposure and markets risks to mitigate liquidity and other trading risks as well as the amount of leverage across investments.

Benchmarks

- To achieve a return after costs which is 0.3% above ACC's market-based benchmarks[1].

Current Portfolio Allocation[1]

In-line with policy objectives ACC's portfolio has an income investment focus with a high allocation to fixed income providing stable future cashflows. This is likely to result in potentially lower overall returns.

Risk Tolerance

Low tolerance: Reflective of ACC's requirement for cash certainty to meet injury claims.

[1] 2020 Annual Report (Year end 30 June 2020)

7. Appendix

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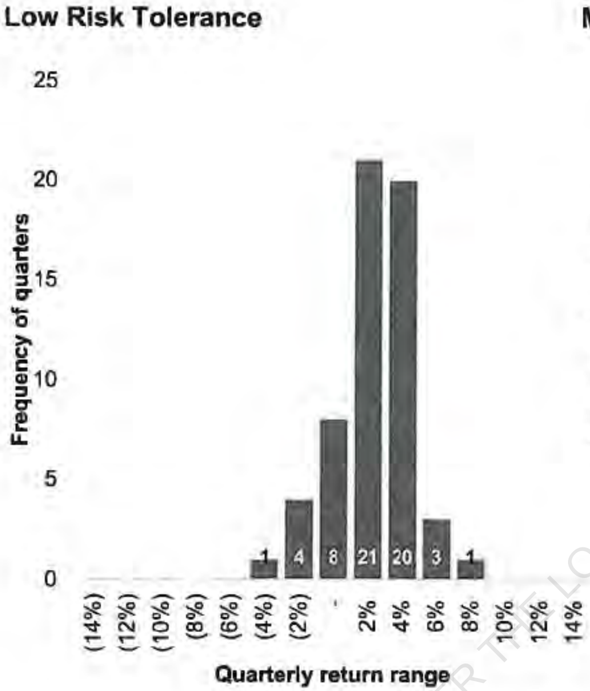
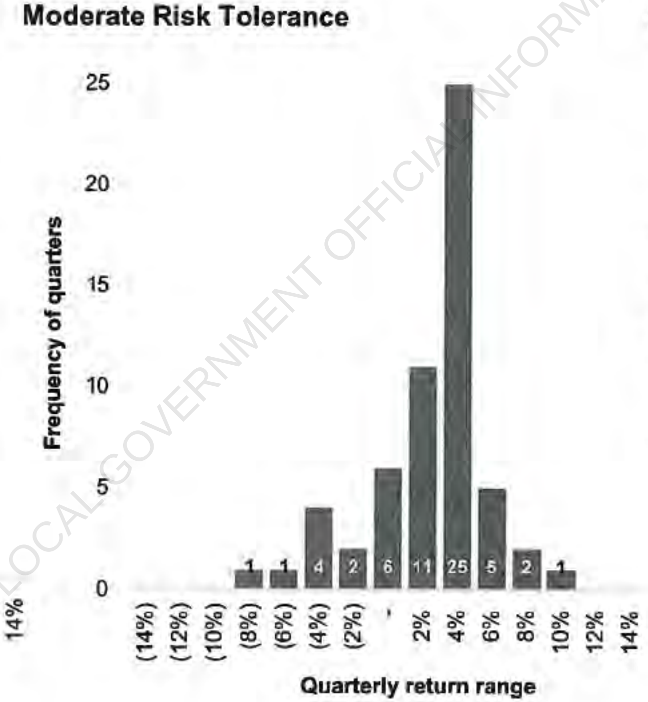
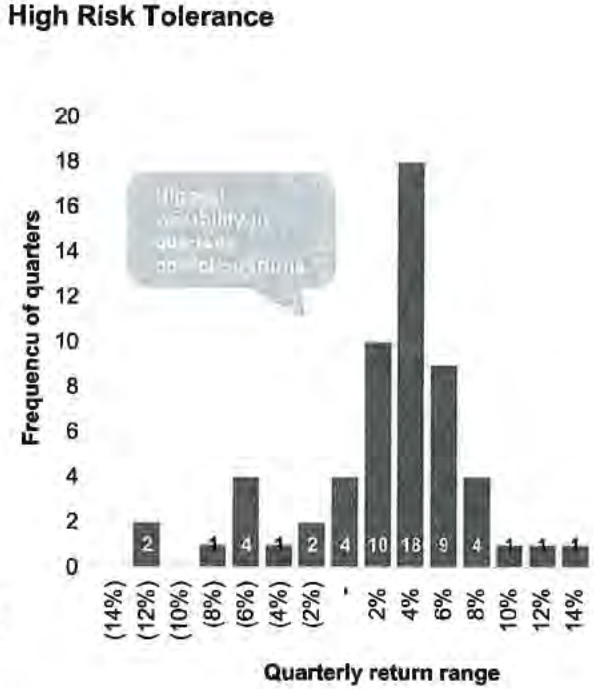
Risk Tolerance Indicative Return Distributions

Below we have outlined the indicative return distributions for various risk tolerances (as mentioned on page 20).







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Reviewing Investable Asset Classes

We have outlined how appropriate we consider various asset classes to be for Council based on our assessment of its risk tolerance.

Asset Class	Historical Volatility	Liquidity	WCC Alignment	Considerations
Cash	Low	High	High	• Liquid asset could be kept in reserve to dampen market volatility of the rest of the portfolio.
NZ Fixed Income	Low	High	High	• Offers high capital protection and consistent cash flows if held to maturity. • Highly liquid market. • Generates cash yield.
International Fixed Income	Low	High	High	• Similar benefits to NZ fixed income. • Less correlated to Council's other predominantly NZ based assets than NZ fixed income.
Infrastructure	Moderate	Moderate	Low	• Strong demand for infrastructure assets due to consistent cash flows and current low cost of capital. • Currently highly weighted towards infrastructure through Airport investment.
Forestry	Moderate	Moderate	Low	• High demand for NZ forestry assets at present. Return expectations typically 6-8%.
Property	Moderate	Low/ Moderate	Moderate/ High	• Strong NZ property returns over the last five years. • Low diversification.
NZ Equities	Moderate/ High	High	High	• Low/moderate correlation to existing portfolio. • High liquidity but also more volatile returns.
International Equities	Moderate/ High	High	High	• Low correlation to existing portfolio. • High liquidity but also more volatile returns.
Private Equity	High[1]	Low	Low/ Moderate	• Possible opportunity to invest regionally and drive economic growth.
Venture Capital	High[1]	Low	Low/ Moderate	• See comments above.

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Investment Return Modelling Assumptions

Below we have outlined the assumptions that underpin our investment return modelling. Changes to these assumptions could have implications for the returns presented.

Assumption	Description
Portfolio Rebalancing Frequency	• Semi annual.
Currency Hedging	• We have assumed all international investments (i.e. fixed interest and equities) are unhedged. • Typically fixed interest investments are unhedged. Equity investments can be hedged but aren't always.
Distributions per annum	• We have assumed Council received the same investment income (in $ terms) each year as it did from its existing investment portfolio.
Distribution Frequency	• Semi annual.

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Diversified Investment Portfolio Returns: Asset Class Returns

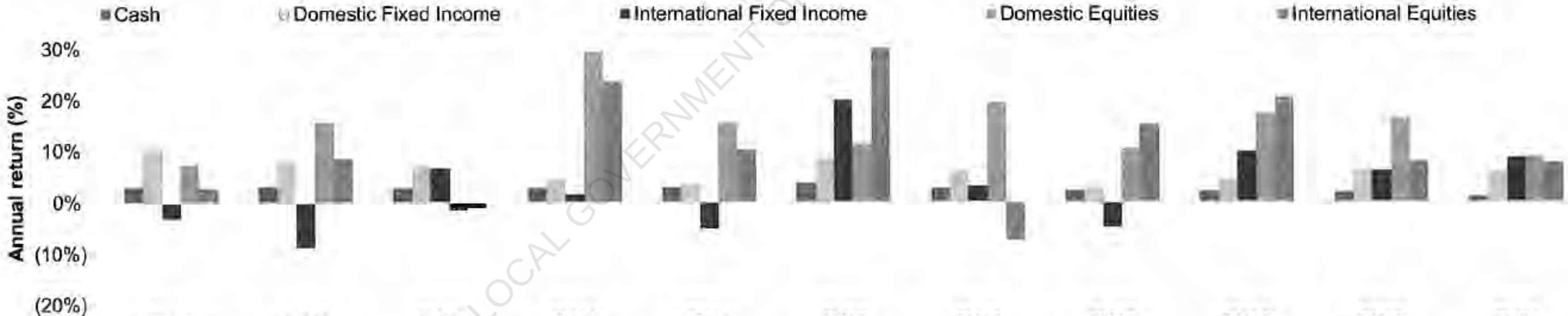
Below are the annual returns of each asset class as recorded in our two model diversified portfolios.

Overview

- Growth assets (ie equities) have outperformed income assets over the past 11 years. Accompanying this is a higher degree of volatility however. Domestic equities have outperformed international equities as investor sentiment towards NZ has been relatively positive over this period.
- The NZX50 is a smaller, more concentrated set of just 50 equities which are all relatively small. The MSCI World Index is a much more diversified index of more than 1,500 large/mid-cap companies. This makes the domestic equities' return more volatile.
- In contrast, returns from international fixed income have been much more volatile than those from domestic fixed income. As both indices are made up of investment-grade bonds, this reflects the relatively stable debt environment in NZ when compared to some international markets, particularly post the Global Financial Crisis.

Total Returns Per Annum

Cash: (0.9)%
Domestic Fixed Income: 4.9%
Intl Fixed Income: 1.0%
Domestic Equities: 11.1%
Intl Equities: 9.0%



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Cash	2.9%	3.1%	2.7%	2.7%	3.0%	3.8%	2.7%	2.1%	2.0%	1.8%	1.0%
Domestic Fixed Income	10.6%	8.1%	6.9%	4.6%	3.8%	8.6%	6.1%	3.1%	4.8%	6.5%	6.0%
International Fixed Income	(3.3%)	(8.9%)	6.5%	1.4%	(5.2%)	20.0%	3.2%	(4.9%)	9.9%	6.2%	8.8%
Domestic Equities	7.2%	15.7%	(1.5%)	29.3%	15.5%	11.3%	19.4%	10.5%	17.3%	16.4%	9.1%
International Equities	2.7%	8.4%	(1.2%)	23.5%	10.3%	31.0%	(7.3%)	15.2%	20.7%	8.0%	7.7%

Kiwisaver Returns

We have also considered the returns reported by various Kiwisaver funds. This provides a proxy of the potential returns if Council invested in a pre-existing fund. These are typically cheaper, but are more suitable for smaller investments as it can be harder to achieve specific investment objectives.

Overview

- The below table outlines the investment returns and characteristics of various Kiwisaver funds. This is provided as a further sense check and proxy for the returns that could be achieved if funds were invested in a diversified portfolio.
- If it had funds available, Council could invest in similar portfolios. However, direct investments in these types of portfolio are typically preferable when the investment size is smaller (< $50m). For larger investments, establishing a specific investment portfolio is more appropriate as this allows the portfolio to be more tailored to specific objectives. This becomes more important for larger investments and the benefits typically begin to outweigh the additional transaction costs.
- As demonstrated by the table below, portfolios with lower risk tolerances and therefore, higher asset allocations to income assets, tend to be associated with lower returns. Conversely, as a portfolio's exposure to growth assets increases, so does its return tend to increase.

Investment Portfolio	Provider	Risk Tolerance	Size ($bn)	Asset Allocation	Simple Average Annual Returns (over last 3y/5y/10y)
Cash Fund	ANZ New Zealand Investments Limited	Low	$0.8	100% Income assets (specifically cash)	1.2% / 1.4% / 1.8%
Conservative Fund	BT Funds Management (NZ) Limited - Westpac	Low	$3.0	26% Growth assets : 74% Income assets	4.5% / 4.2% / 4.6%
Balanced Fund	ANZ New Zealand Investments Limited	Moderate	$3.0	57% Growth assets : 43% Income assets	7.5% / 6.4% / 7.0%
Balanced Fund	BT Funds Management (NZ) Limited - Westpac	Moderate	$2.0	62% Growth assets : 38% Income assets	8.0% / 7.3% / 6.9%
Growth Fund	ANZ New Zealand Investments Limited	High	$0.2	89% Growth assets : 11% Income assets	10.6% / 8.8% / 8.9%
Aggressive Fund	AMP Wealth Management New Zealand Limited	High	$0.5	92% Growth assets : 8% Income assets	9.7% / 8.9% / 7.4%

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Key terms of business and restrictions

This Report has been prepared solely for the purposes stated herein and should not be relied upon for any other purpose.

To the fullest extent permitted by law, PwC accepts no duty of care to any third party in connection with the provision of this Report and/or any related information or explanation (together, the "Information"). Accordingly, regardless of the form of action, whether in contract, tort (including without limitation, negligence) or otherwise, and to the extent permitted by applicable law, PwC accepts no liability of any kind to any third party and disclaims all responsibility for the consequences of any third party acting or refraining to act in reliance on the Information.

We have not independently verified the accuracy of information provided to us, and have not conducted any form of audit in respect of the Company. Accordingly, we express no opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

The statements and opinions expressed herein have been made in good faith, and on the basis that all information relied upon is true and accurate in all material respects, and not misleading by reason of omission or otherwise.

The statements and opinions expressed in this report are based on information available as at the date of the report.

We reserve the right, but will be under no obligation, to review or amend our Report, if any additional information, which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Certain numbers included in tables throughout this report have been rounded and therefore may not add exactly.

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This report is issued pursuant to the terms and conditions set out in our engagement letter and the Terms of Business attached thereto.

Thank you

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