

SuperBuild Presentation

Infrastructure 2021: Looking Ahead Symposium

Matt Whineray, 2 June 2021

Tēnā koutou katoa,

Ko Matt Ahau, ko kaiwhakahaere o te Kaitiaki Tahua Penihana Kaumatua o Aotearoa ahau

Kia ora koutou nga rangitira kua tae mai nei

Ki Te Waihanga hei tautoko i nga korero i tenei ra, kia ora.

I'm here on behalf of Te Kaitiaki, the Guardians of New Zealand Superannuation to introduce you to SuperBuild, an investment model for large-scale, transformational infrastructure.

We're creating awareness of the model so potential partners, be they the Crown, local government or the private sector, understand how we operate, how opportunities can be identified, relationships developed and ultimately scale infrastructure gets built.

What I want to leave you with is what's different – as there are endless types of models but it's the practical outcomes they drive that actually matter.

The key differences

1. Involvement of the investors in designing the solution to the societal problem – it's about having the humility to accept that one party doesn't have all the answers
2. Significantly longer horizon, creating much better alignment and ownership of key decisions along the way.

Slide 1 – What is New Zealand Super Fund?

So first up, what is the New Zealand Super Fund.

- Crown-owned global investment fund
- Allow us to afford to pay for universal superannuation in New Zealand.
- long term Fund that won't start paying out in a significant way until the 2050s.

We are the kaitiaki of \$57 billion of the nation's putea on behalf of the people of New Zealand.

That number is set to almost double over the next decade or so and to double every decade after.

We make a difference to the outcome: When we're fully distributing cash back to the government – to help smooth the increasing cost of providing universal superannuation, we will be contributing 1-in-5 pension dollars. To date, the people of New Zealand are more than \$26 billion dollars better off as a result of the creation of the Fund. Full credit to Sir Michael Cullen.

When it comes to our portfolio of diversified investments, to help grow that putea - infrastructure and urban development projects are an essential part of our future portfolio

Slide 2 - Why is infrastructure of interest to institutional investors?

Internationally, pension and sovereign wealth funds, like the New Zealand Super Fund, see large-scale infrastructure as an attractive investment opportunity.

- Institutional investors are able to invest over long time horizons,
- They can take development risk and
- They can withstand illiquidity and volatility

meaning that as providers of capital they are a good fit with the long-term view needed on infrastructure.

Institutional investors are also looking for attractive risk-adjusted returns.

Infrastructure generates consistent returns and yields, and also can act as a diversifier in a broader portfolio - providing lower volatility and defensiveness in market down-turns.

As of 2020, the top 50 global institutional investors have over \$400 billion invested in infrastructure.¹

Historically, sectors of interest have ranged across transport, utilities, and energy.

Increasingly institutional investors are looking to improve the environmental and social impact of their investments, because sustainability is good for long term outcomes

They're looking to redirect capital to accelerate the decarbonisation of the economy. This is being achieved by investing in:

- renewables and industry transition,
- supporting the rise in digital communications
- the need for infrastructure to drive productivity improvements and fast-track sustainable growth.

This is exactly where we would like to invest.

¹ infrastructureinvestor.com/gi-50-meet-infras-top-institutional-investors/

Slide 3 - What do institutional investors bring to infrastructure development

Institutional investors also bring a lot to the table.

We can look overseas to see the success institutional investors like IFM in Australia or CDPQ in Canada have had in bringing innovation, partnerships, governance and financial management expertise to their infrastructure investments.

Let's take the REM project in Canada for example.

CDPQ is a well-respected, long-term ~C\$300 billion Canadian public fund manager with extensive active direct infrastructure investment experience and capabilities.

CDPQ is delivering the Réseau express métropolitain (REM) light rail project in Montreal which is on track to be operating next year with the team currently preparing for commissioning.

Faced with a saturated public transit system in Montreal which was unable to support projected growth and economic development, CDPQ worked with the Government of Quebec to analyse different service offerings, alignment options and related technical challenges to develop a unique proposal integrating two projects into a single network and making use of underutilised existing assets.

Throughout the project, transparent governance and public accountability has been critical.

The governance structure for the project ensures all relevant stakeholders had a voice while decisions are made efficiently through operational, executive and governance committees.

Efficient governance, project management and innovation has also allowed the project to move at pace. The project was announced in 2016, construction began in 2018, commissioning in 2021 and operations starting in 2022.

Six years from announcement to operation for 67km of light rail. [Compare this to the Waterview tunnel, that took 8 years from design to operation for 5km of road with 2.5km of tunnels].

C1 - Public

The innovation, partnership, governance and financial management expertise CDPQ, an institutional investor, brought was pivotal to the REM project success.

As a New Zealander I feel it's important New Zealand attracts not just any capital, but high quality, stable capital.

By this I mean long-term investors with genuine infrastructure expertise and a commitment to creating not just great investment returns, but increased productivity and positive social and environmental outcomes for New Zealanders.

Slide 4 – Why is infrastructure interesting to the NZ Super Fund?

We're looking for large scale, transformational opportunities that infrastructure can deliver.

As an organisation we have a strategic desire, led by our Board, to see if we can find a way to invest in projects that are going to not just deliver good investment returns to us, but to, at the same time, grow Aotearoa's economy and capabilities and help create a more sustainable country.

To give a specific example, as part of our response to climate change risk, we are actively seeking new investment opportunities suitable for long horizon investors, including in the areas of alternative energy, energy efficiency and transformational infrastructure – and we see local New Zealand infrastructure being part of this.

The Fund has some very successful offshore infrastructure investments, such as our stake in Horizon Roads, which manages Melbourne's East Link toll road, and a fast-growing investment in Longroad, a US renewable energy developer.

However, we have few local infrastructure investments within our \$7 billion portfolio of New Zealand assets. It's something we're looking to change– and we need to start creating these opportunities now..

We have a long-standing ministerial directive to consider investments in New Zealand and see infrastructure as an important part in meeting this objective.

New Zealand needs unprecedented levels of investment to ensure our transport, energy, water and housing are fit for success in the 21st century – you'll all be familiar with the massive numbers involved. President Biden recently noted a key objective of his \$1.7tr planned infrastructure spending package is to improve America's global ranking of 13th for overall quality of infrastructure. New Zealand sits at 46.

We face a large and growing infrastructure deficit and need to consider alternative financing channels to accelerate delivery to supplement our traditional and PPP models to ensure NZ does not slip further behind.

Our SuperBuild model is another investment approach to get big projects off the ground.

Slide 5 – How does SuperBuild work

So how does SuperBuild work?

Through our experience developing infrastructure investment opportunities and understanding how leading institutional investors are investing in infrastructure, we created the SuperBuild model to help engage with government and industry.

SuperBuild does not re-invent the wheel, it is similar to partnership investment models that has been successful overseas.

It is an end-to-end investment and delivery solution. Our partnership approach covers the design, financing, build and operation for transformational infrastructure and urban development projects in New Zealand.

It can be applied to infrastructure, as well as to associated urban development.

It works for all projects that need long-term vision, scale, and innovation – and it sits alongside current delivery models and helps bridge our country's infrastructure gap.

To solve New Zealand's infrastructure and housing challenges – we must be open to the best ideas from abroad, as well as capital from abroad.

SuperBuild allows us to bring in world-leading design and operation expertise, with a track record of success, from our international network.

Under our model, once an infrastructure need is identified - this could come from government, council, business or other interest groups - NZ Super Fund and our partners then jointly agree the outcomes with key stakeholders. The Fund and partners then manage the project from end-to-end, with collaboration from relevant Government agencies, bringing accelerated delivery.

An important component of the model is also the partnership with local industry. Through open and transparent procurement, the opportunity for local service and construction partners is significant.

Importantly, the projects will be majority Kiwi-owned and the returns on the Fund's investment go back into the pockets of New Zealanders, while enhancing overall wellbeing.

Slide 6 – Benefits of SuperBuild

SuperBuild brings together the Fund's long-term capital and deep local knowledge – in partnership with local and central government, iwi, and communities – with a network of global specialists who have delivered similar ground-breaking projects around the world.

We've grouped the benefits we can bring into five main pillars:

Firstly, partnership: We look to create genuine partnerships with Government, Iwi/Maori, industry participants and the community. We can create genuine alignment

We want to seek out and work with others that have a similar long-term, outcome orientated approach.

Together, we can deliver capital, innovative design, competitive procurement, and deliver the best project possible.

Engagement: Through our roles as both a Crown entity and international investor we can effectively join up global specialists with government, Iwi/Maori and communities (and have a track record of doing this).

Commerciality: We bring to projects the rigour of a commercial investor with long-term investment horizons.

Our certainty of equity funding means we can create significant competitive tension by attracting the best of local and international interest

Flexibility: being a long term investor creates capacity to cope with the unexpected and shocks (e.g. Covid)

Capability: Kiwi investment professionals with quality local relationships and strong international investment and industry networks.

We can leverage relationships to bring knowledge, experience and innovation into NZ

Slide 7 – Contact details

We are excited about SuperBuild's potential and hope that you've learnt a bit more about how we operate so that opportunities can start being identified and created, relationships developed and partnerships formed.

If you'd like to get in touch our contact details are up on the screen, and I've now got some time for questions...