

[NCC Letterhead]

Xx xxxx 2024

The Board of Directors

Ahuriri Investment Management Ltd

By email

Tēnā koe Directors,

This Draft Statement of Expectations that has been approved by Council.

Following the appointment of the Board and legal establishment of AIM company, the letter will be finalized and formally sent to the Board. While there may be some minor edits may occur, substantive changes are not expected as this document gets finalized.

Draft Statement of Expectations

Napier City Council (**'Council'**) is pleased to issue its foundation Statement of Expectations for Ahuriri Investment Management Limited (**'AIM'**).

This Statement of Expectations (**'SOE'**) sets out the priorities and expectations of Council to inform the development of AIM's first draft Statement of Intent (**'SOI'**) for the year to 30 June 2026.

The SOE has been prepared in accordance with the Local Government Act 2002 s.64B and has been informed by the public consultation undertaken by Council on the establishment of a council-controlled trading organisation to manage a commercially focused investment portfolio, to manage Councils investment assets into the future.

Council is looking forward to working with and supporting AIM in its collective endeavours on behalf of the ratepayers of the city.

History of Napier City Council Investments

In 1989, Local Authority reorganisation saw Council reallocated a portfolio of assets from the disbanded Hawkes Bay Harbour Board. These assets are largely the consequence of land risen from the seabed in the 1931 earthquake. Council has, and continues to have, obligations in relation to maintaining the inner harbour as a corresponding cost for the benefit these assets provide.

Today, Councils assets include leasehold developed land and bare land from the 1989, Local Authority reorganisation. The bare land is being developed into the residential area now known as Parklands. As part of the 2024-2027 Three Year Plan, Council consulted with the ratepayers on the establishment of a commercial subsidiary, namely AIM, to manage the investment assets of Council as an investment portfolio. This was supported and the decision is documented in the 2024-2027 Three Year Plan.

Ahuriri Investment Management Limited as the Napier Investment CCTO

AIM is a registered company and a Council Controlled Trading Organisation (**'CCTO'**) under the Local Government Act 2002. As a CCTO, AIM is expected to act commercially to achieve the objectives set by Council. The Council recognises that for the AIM to succeed is needs to be able to make independent and commercial decisions.

To support AIM, Council will elect a majority independent Board of Directors. AIM will have a Board of five, including two Councillor representatives. The Chair of AIM will be an independent. To maintain the integrity of the stakeholder relationships, the Mayor will not be eligible to be a Director of AIM.

AIM will be appointed as the Investment Manager, through a Management Services Agreement, to manage the '**NCC Investment Portfolio**'. The NCC Investment Portfolio is a set of commercial assets currently owned by Council, a summary of which is outlined below.

Council expects AIM to manage the NCC Investment Portfolio for commercial gain to deliver the set financial performance targets, including the provision of an annual cash return to Council. Council utilises the cash flow generated by AIM to support its core services and achieve Council's wellbeing objectives.

Council understands that to achieve the commercial focus AIM may dispose or improve existing assets, or acquire new assets, in line with the Key Principles.

Council expects AIM to develop commercial relationships and partnerships including the development and ownership of assets under its own name and brand in time.

NCC Investment Portfolio Purpose

Council in its consultation documents noted

"Managing the value of our investment assets as an inter-generational investment portfolio would benefit the residents and ratepayers of today, and those in generations to come. It will eventually give us extra income to fund more services and activities our residents want and need, without depending as much on rates funding. It will help to build our financial resilience to unexpected events, such as what we have experienced with Cyclone Gabrielle, the 2020 Napier flood, and Covid-19 lockdowns. It will help us diversify our investment types to lower our risks. It will also help us to protect the value of our cash assets against inflation."

Council has simplified this into the following purpose of the NCC Investment Portfolio:

"To operate an inter-generational investment portfolio that builds financial resilience and reduces future reliance on ratepayers for funding activities."

Council has determined the following '**Key Principles**' for the NCC Investment Portfolio. The Council expects AIM to use the Key Principles when it develops and executes the strategy for the NCC Investment Portfolio.

Key Principles for the NCC Investment Portfolio and its management:

- is managed in a commercial and responsible manner.
- balances commercial returns through cash distributions to Council for today's ratepayers and building resilience through capital growth for future ratepayers.
- holds the right mix of regional and financial assets to achieve its growth and income objectives.
- is appropriately diversified (in both investment type and location) to provide resilience and buffer Council from the impact of economic cycles and localised disasters.

- achieve commercially focused outcomes while ensuring activities do not negatively impact well-beings.
- the ‘front page test’ will be applied to investment decisions.
- is aligned to Councils vision and values.
- has the right resources to achieve its growth and income objectives.

The NCC Investment Portfolio

On day one the NCC Investment Portfolio will consist of assets identified by Council as being commercial in nature and would benefit from the investment asset oversight provided by the AIM Board under delegation.

The NCC Investment Portfolio, on day one (namely Tranche 1), will consist of the following assets to be managed on behalf of Council:

- | | |
|------------------------------------|---|
| Investment Property: | Asset Value c.\$100m. Council holds a portfolio of about 60 land investments predominantly in the Ahuriri, Pandora, and Onekawa suburbs of Napier. Council owns the underlying land with lessors owning the leasehold improvements and buildings on site. Councils earns lease from enduring lease terms subject to periodic reset. Council has divested some property and transactions are subject to Council’s Investment Property Portfolio Policy (Leasehold Land). |
| Parklands Residential Development: | Asset Value c.\$30m. Council has since the early 2000’s been engaged in the development of residential land at Parklands. Limited sites in Area 3 remain for sale, while Area 4 (c.200 lots) is in early green field to brown field stage. Returns to Council from the development and sale of Parklands has significantly supported Council income in the past. |
| Surplus Land: | Asset Value c.\$20m. Council holds land blocks and buildings that are surplus to requirements. On day one the NCC Portfolio will consists of 7 titles of surplus land. |
| Airport Shares: | Asset Value c.\$15m. Council is a 26% shareholder in the Hawkes Bay Airport. The Crown and Hastings Council are the other shareholders. The airport is a Strategic Asset under the Local Government Act. |
| Managed Funds | Asset Value under \$5m. Council recognises the value of a Managed Fund portfolio for both returns and diversity. Council has approved a Statement of Investment Policy and Objectives (‘Managed Fund SIPO’) to meet the initial risk and return expectations. The AIM Board will select the Fund Investment Manager and recommend future changes in the Managed Fund SIPO to Council for approval. |

The current NCC Investment Portfolio assets will remain under Council ownership for the simplicity of both financial and operational management.

Council expects to work closely with the Board of AIM in assessing other opportunities within Council where additional commercial value could be by moving the asset to the NCC Investment Portfolio and under AIM’s management. These may be added as future tranches of assets.

Council also expects AIM to seek new investments beyond assets currently held by Council to achieve its overarching purpose. In assessing the investment, return, and partnership expectations, the Board of AIM will recommend if the investment is better undertaken on the Council balance sheet or on the AIM balance sheet.

Council will always remain the owner of the NCC Investment Portfolio, whether the assets are on its own direct balance sheet or on the AIM balance sheet.

A Strategic Asset

Under legislation, Council is required to review and adopt a Significance and Engagement Policy. The policy determines what Council assets are considered Strategic Assets under the Local Government Act section 5 and includes some of the assets within the NCC Investment Portfolio. The shareholding in the Airport is legislated as a Strategic Asset under the Local Government Act.

Council sees AIM as holding and developing the NCC Investment Portfolio as an intergenerational asset, per AIMs purpose. Council's intention is that inflation adjusted value of the NCC Investment Portfolio, whether in the name of Council or AIM, is collectively a Strategic Asset. This intent will be confirmed following public consultation in Q1 2025.

The AIM Board

Council wishes AIM to behave in a commercial and independent manner, while being aware of the expectation of being a CCTO and the values of Council. Council, as sole shareholder, will work with the Board to ensure that the Board has the appropriate blend of skills between members and succession planning.

The Board is responsible for ensuring that the CCTO is a 'good employer' and exercising 'sound business practice' under the Local Government Act.

Council expects the Chair of AIM to be an independent member of the Board, able to well represent the activities of AIM as a Council CCTO and asset manager in the local community. Formal interface with the Council will be as outlined in the 'Relationship with Council' and 'Reporting to Council' portions of this SOE. The Chair is expected to additionally interface with the Mayor on matters of public interest.

Council will continue to work with the Board of AIM to ensure Council appoints the best directors in accord with Council's Appointment and Remuneration of Directors Policy of 29 August 2024.

Relationship with Council

Council expects the relationship between AIM and Council to be on a 'no surprises' basis. The expectation of both entities should be of two-way open communication of material issues at both an Executive and Governance level.

Council will set an annual SOE to outline the broad objectives and mandate that Council expects from AIM and to be addressed in its Statement of Intent. Matters raised in the SOE are expected to be aligned with prior discussions between Council and AIM.

As the Investment Manager for the NCC Investment Portfolio, Council also will look to utilise the expertise held in AIM to support Council with matters of treasury or commercial business, on an as needed basis.

Council will also seek advisory services from AIM. Such advice will be sought to explore whether further tranches of Council assets are appropriate for AIM management into the future. Council would also benefit from AIM's commercial expertise on specific projects which have a commercial aspect or workstream which benefit from the skillsets and commercial lens that the board hold.

Reporting to Council

Council expects the following reporting from AIM:

Quarterly: Council and the ratepayers have high interest in the successful development of the NCC Investment Portfolio managed by AIM. Council will receive, in person from the AIM Board and Executive, four quarterly presentations a year. Presentations will be in Public open session where practical. This will include assessment of the key performance objectives, adherence to Council delegations and the Management Services Agreement, particularly in relation to the Council directly owned assets managed by AIM.

Annual: A written Annual and Financial Report commentary on the NCC Investment Portfolio. Council expect AIM to provide whatever necessary support to help Council create financial statements for AIM and Councils own assets.

The New Zealand Government has passed legislation on Climate Reporting disclosures. Council expects AIM to support Councils compliance legislation and timeframes for the NCC Investment Portfolio, and to learn from lead Crown entities.

Both AIM or Council may request an audience with one another at times outside of formal reports to Council as required.

Investment Mandate

Council expects AIM to manage and monitor the NCC Investment Portfolio to achieve the following:

Return Expectation: Council expects a blend of growth and income across the portfolio to achieve the cash drawdown to Council and inflation adjusted asset growth.

The cash contribution expectation to Council is based on the current returns of annuity assets and a contribution from land development. Any income derived from rental of lease hold land will require separate disclosure.

Council acknowledges that returns from both investment and development are volatile. Council is targeting a smoothed cash return to Council in line with the 'no surprises' expectation and expects AIM to in time be able to buffer Council from income volatility.

It is the responsibility of the Board of AIM to determine where in the NCC Investment Portfolio cash income is derived from.

Initial cash contributions have been set in Councils 2024 – 2027 Three Year Plan. Council will work with AIM to refine expectations as AIM settles into its work.

Growth targets from profit retained inside the NCC Investment Portfolio by AIM are targeted to achieve long term growth and resilience above the level of budgeted inflation. In the 2024-2027 Three Year Plan this is assumed at 2.5%.

For the first three years the cash contribution to be supplied to Council is as follows:

| LTP 2 (2025) | LTP 3 (2026) | LTP 4 (2027) |
|--------------|--------------|--------------|
| \$4.4m | \$4.8m | \$5.3m |

Management of Assets: Council expects AIM to manage the NCC Investment Portfolio for commercial gain. This may include the disposal or improvement of existing assets, or the acquisition of new assets, in line with the Key Principles, to best achieve the Purpose of the NCC Investment Portfolio.

Where such an asset is deemed a Strategic Asset of Council (such as our shareholding in the Airport), AIM will need to consider the nature of the asset and the purpose for which it is held and Council’s obligations under the Local Government Act.

In establishing a commercial focused investment portfolio through the 2024 - 2027 Three Year Plan, Council noted the desire of the ratepayer to ensure that the value of the NCC Investment Portfolio is preserved as intergenerational wealth for the ratepayers of Council. In addition to any individual assets held as Strategic Assets, Council has included the value of Investment Portfolio as a Strategic Asset.

To support AIM in the day-to-day operational management, to support the development and execution of AIM’s investment strategy, the Council will make available the internal resources. The specific details of this arrangement will be documented in the Management Services Agreement. As AIM settles into its work it is expected Council and AIM will work together to refine the service and service level expectations to support the successful commercial focus of the NCC Investment Portfolio.

Regional benefit: Council acknowledges that natural tension may arise between AIM’s commercial focus for the NCC Investment Portfolio and the ratepayer expectations regarding regional benefits and outcomes.

In this context, Council reaffirms AIM’s primary objective as the Council’s investment manager, is to make a commercial return for Council and is to apply the following priority order to its focus:

1. Providing an annual cash return to Council equivalent to that set in the AIM Statement of Intent in line with Council’s Annual Plan.

2. Achieving long term capital growth and resilience of the NCC Investment Portfolio for the benefit of future generations of ratepayers.
3. Council expects AIM to be a respected partner in the investment community.
4. Council supports AIM as a direct investor in Hawkes Bay (an example being the development of Parklands) and reporting on these regional benefits.

Social Responsibility: Council expects AIM to have social responsibility to be woven into AIM's fabric or culture, as determined and role-modelled by the Board.

AIM will demonstrate its social responsibility culture through the way it operates and manages the NCC Investment Portfolio and conducts itself in the community.

Council expects AIM to align with larger NZ investment entities like the New Zealand Super Fund on social responsibility but be reflective of the Council values and its place in the Hawke's Bay.

No investment will be directly contrary to the objectives or well beings of the Council.

Debt: Council accepts that as part of enabling AIM to operate the ongoing development of Parklands AIM will require access to debt facilities. Council will facilitate the provision of debt facility to enable AIM to operate. AIM will be responsible for capital repayments and interest for these debt facilities, and this will be accounted for as part of the NCC Investment Portfolio performance.

As AIM matures and diversifies the NCC Investment Portfolio, Council anticipates discussion with the AIM Board on access to new facilities within Council's overall credit ratings and limits.

Partnerships, Relationships and Co-Investment

AIM is expected to become a trusted partner and take a leadership role in the local investment community.

Council expects AIM will actively consider co-investment with other local investment entities, including local iwi settlement trusts, as appropriate. Looking wider than the region, AIM should create trusted partner relationships with exemplary Crown, Local Government, Community, and Iwi investment entities.

Looking Ahead

The establishment of a commercially managed investment portfolio Council is a significant milestone for our city. The decision to entrust our intergenerational wealth as the NCC Investment Portfolio to AIM, as Council's Investment Manager is exciting. We look forwards to building and developing a strong relationship, based on trust and confidence, to the benefit of Council and its ratepayers.

Ngā mihi nui

Kirsten Wise Mayor

Napier City Council