



Mangatawa Papamoa Blocks Inc

Organisational Structure and
Investment Review

Presentation for the SGM
July 2022

Why are we here?



Inception Point

There have been a number of internal and external factors driving change in MPBI.

In light of a number of changes and in line with good governance practice the MPBI trustees initiated independent review of the Trust's current state and to seek recommendations for areas of improvement.

We ran a formal request for proposal process in August 2021.



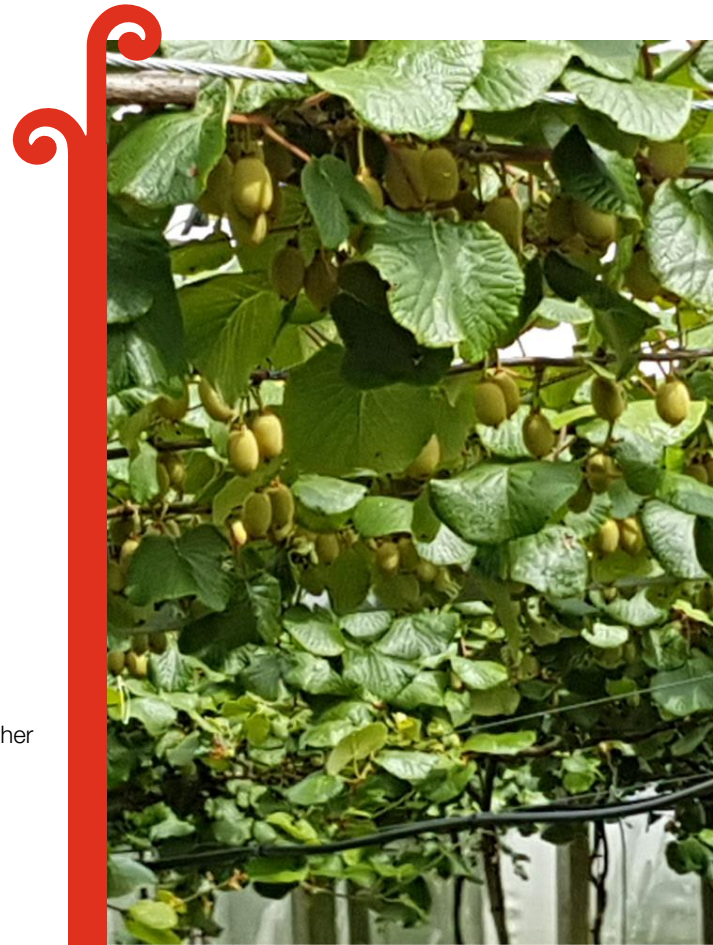
Scope


We employed PwC, a large professional services organisation, to conduct an independent review.

The scope of the review was to understand:

- a. the current state and future state of the organisational structure;
- b. the current and possible returns from our existing investments over the short to medium term; and
- c. the current state of our tax structure

Their high level review identified areas requiring further work needed to be undertaken as well as areas of improvement and broader recommendations. The following slides provide a summary of the key observations and recommendations of the PwC report.

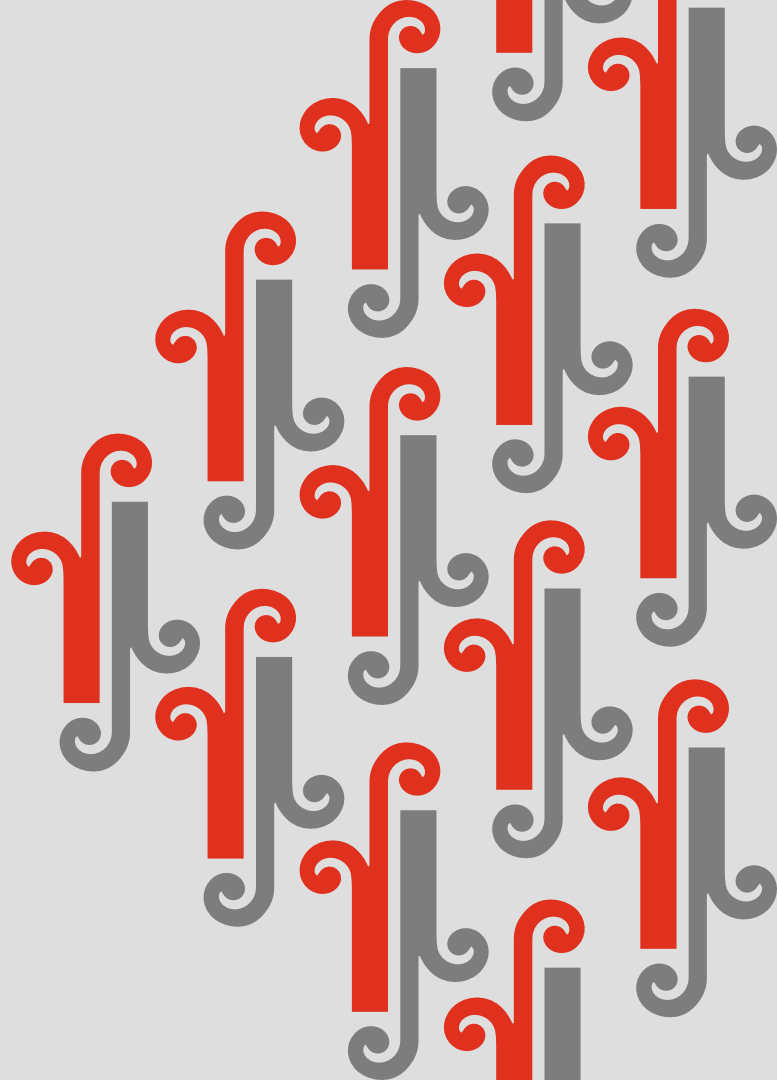




PwC's approach to the areas in scope

	Organisational Review	Tax Review	Investment Review
What PwC did	<p>Analysed the organisation, with an emphasis on the following:</p> <ol style="list-style-type: none"> 1. What currently impacts MPBI to achieve its vision, particularly what exists that supports or limits this 2. Current state of MPBI across the organisational structure, capabilities, and activities, particularly the successes, challenges and areas for improvement 3. The ideal future state of MPBI and areas for change across its structure, capabilities and activities 	<p>Evaluated how tax is treated within MPBI and its subsidiaries. The review focused on:</p> <ol style="list-style-type: none"> 1. Whether MPBI and the subsidiary companies meet the Māori Authority (MA) tax regime eligibility criteria 2. Any areas of tax risk 3. Application of funds for charitable purposes and potential for use of a Charitable Trust to provide a tax efficient outcome 	<p>Analysed our investment portfolio, highlighting the strengths, weaknesses and areas for improvement compared with market benchmarks. The analysis involved:</p> <ul style="list-style-type: none"> • Individually assessing each asset class, with attention given to: <ul style="list-style-type: none"> ○ Market value, FY21 earnings and cash returns ○ Future cash flows ○ Comparison to normal market returns for each asset <p>The analysis helped to provide an informed view of each asset and the actions MPBI should take.</p>
How PwC did it	<p>PwC interviewed the board, senior management staff and other key stakeholders to understand the current state and ideal future state for MPBI.</p>	<p>PwC researched the tax profile and tax compliance processes of MPBI and its three subsidiaries. This included conversations with MPBI's external accountant, Cookson Forbes & Associates.</p>	<p>PwC conducted financial analysis of the investment portfolio and used relevant market data and reports to come to an informed view. They also met with relevant stakeholders such as the owner of Generus Living, the JV partner for both retirement villages, to gain a better understanding of the assets.</p>
Current stage	<p>High level assessment complete</p>	<p>Still ongoing - not discussed today</p>	<p>High level assessment complete</p>

Key Findings





Organisational review

Key observations

	Current State	Future State	PwC's View
Key Observations	<ul style="list-style-type: none"> • Successes focused on the development of the land and also the recent improvements in some of the organisational aspects. • There were a number of structural challenges identified by staff including the lack of strategy, the overlap of governance and management, and the growing social arm of MPBI. • Capability gaps included lack of training, lack of property and retirement village expertise and the growing scale of social challenges. This includes a high reliance currently placed on certain individuals and partners. • Shareholder engagement strategies were identified as an important activity to change by both the CoM and Senior Management. 	<ul style="list-style-type: none"> • MPBI's requires a vision and structure reset with a more efficient organisational structure, whilst also maintaining and upholding the mana and reputation of Mangatawa. • With gaps in capability, MPBI require a recruitment strategy to ensure that there is expertise in areas currently lacking. • A clear communications strategy to bring shareholders on the journey. • MPBI need strong leaders who are forward-thinking, future expansive. • MPBI want to support whānau as best they can, with an emphasis on increasing the scale and range of social support available. 	<p>Some common themes that emerged as a result of this process included:</p> <ul style="list-style-type: none"> • The current structure, policies, processes and technologies are already not maintaining pace with legislative changes or delivering to current needs. • The lack of an organisational strategy limits the teams understanding of direction and priorities. • The separation of Social and Commercial activities is required to better enable the vision.

Organisational review

Key recommendations



For MPBI to be fit for the future, it first needs to be fit for now

Based on our initial review and conversations with key governors and staff, we believe there are **some initial quick wins have been identified:**

Suggestion	Our Response
Resetting the Grants and Scholarships process	A new distribution policy and framework is being developed and will be presented at this year's AGM
Development of a finance manager/CFO role	CFO – (contracted/part-time – starts August)
Bringing your IT support in house	Full contract for service – Oxygen IT
Splitting Secretariat and Shareholder Management roles	This will take effect once our Comm's & Engagement Manager starts, leading to a newly developed Owner Liaison Team
Continuing to invest in communications approach	-Developing a Comm's strategy for MPBI -New Comm's & Engagement Manager to start later this year



MPBI also needs to plan for the future

In order for MPBI to move confidently forward there is an opportunity to rethink how it is currently organised. Throughout that process we believe **the following must be considered in the development of this new organisational design include:**

Suggestion	Our Response
Clear distinction between governance and operational management roles and responsibilities	Reporting to Board is now in line with governance oversight and responsibilities – GM and Management team overseeing all operational matters
Elevated role of the General Manager with fewer direct reports and greater strategic view	-The appointment of a CFO (part-time) this year and a GM Operations being recruited later this year will enable a change in GM title to CEO and enable GM Operations to oversee day to day management of MPBI operations -MPBI Board is currently developing a 2030 strategy with its execution being the responsibility of the CEO and his team
Creation of Commercial, Corporate and Social business groups based on capabilities and acknowledging the different strategies and activities required from each	Operations and Management of MPBI all to be realigned, with clear reporting lines and responsibilities by end of year 2022

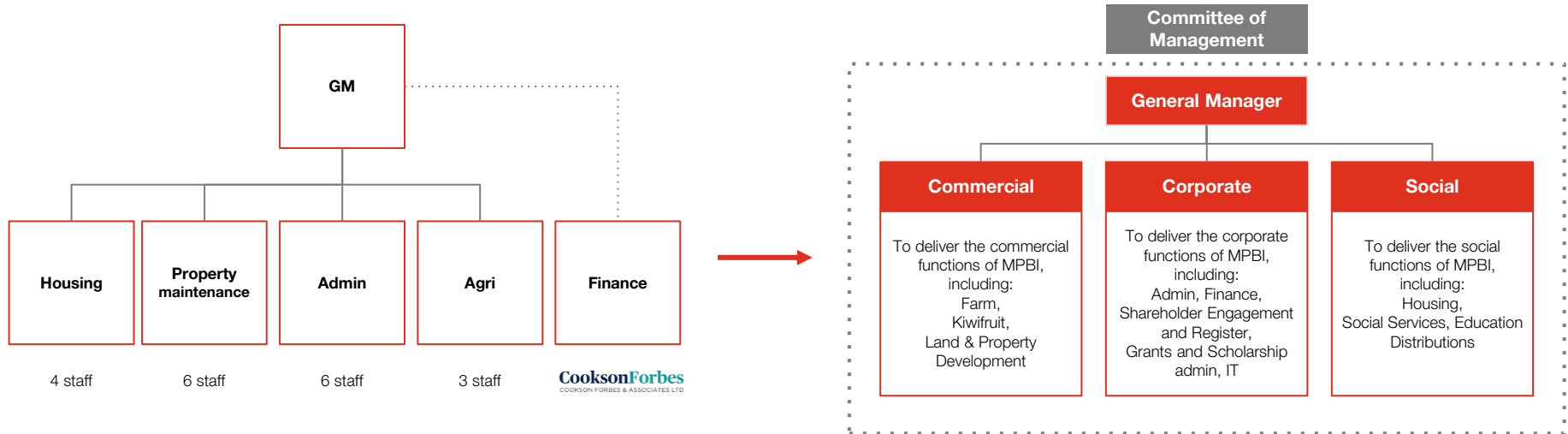
Organisational review

Structure to consider as part of Phase II



Proposed organisational structure

The current organisational structure of MPBI provides for a mix of social and commercial operations to be delivered directly by MPBI. The scope of these operations is quite broad and is delivered by a relatively small in-house team (22 full time staff). As it exists, there are opportunities to rethink the organisational design so that it can deliver to its future expectations. A new potential organisational structure is illustrated below. It re-positions the current structure into clear responsibilities and distinct teams, which will allow for a more efficient overall organisation. Work has already started to embed the new structure.



Investment review

Summary

Key observations that have a material impact on the viability of future grants and distributions:

- Investments in the **Retirement Villages** account for the **largest proportion** of the investment portfolio (**34.4%**), while currently delivering **minimal cash returns**. However, this investment could be a source of **significant cash distributions** once the **villages mature**.
- The **Kiwifruit** operations provide the **largest proportion of income** in the portfolio, however the **net return of 4.9%** appears to be **below market for the Bay of Plenty**.
- A number of **Commercial Ground Leases** are either currently in **rent free periods** during FY21 (i.e. recently signed), have **substantial term to run** and appear to be already significantly **below market rent**.
- A large proportion (**19.9%**) of the investment portfolio is either **Unutilised Land** providing **zero return** or **Agricultural Land** providing **negative returns**. We have identified a more effective alternative use is identified.
- Annual forecast **CAPEX requirements** of **\$170 - \$700k** in the short term.

Asset Class (NZ\$'000)	Market Value (FY21)	Earnings (FY21A Cash)	Cash Returns (%)
1. Retirement Villages	69,100	200	0.3%
2. Horticulture (Kiwifruit)	45,903	2,233	4.9%
3. Investment Properties	45,147	478	1.1%
4. Unutilised Land	36,251	-	-
5. Agriculture (Beef Farming)	3,694	(194)	(5.2)%
6. Minority Direct Investments	597	11	1.8%
Total Investment Portfolio	200,692	2,728	1.4%



Slightly below market



Significantly below market



Other



Investment review

By asset class (1 of 3)

	Current Situation	Recommended Actions	Our Response
1. Retirement Villages	<ul style="list-style-type: none"> Both PCV and PLV operations are still in the early stages of the lifecycle for a retirement village MPBI's returns are tied to their equity interests. Land has been provided at a low rental rate and does not provide a separate return Cash returns are not expected till at least FY26 for the PCV. CBRE has forecast attractive cash returns once both operations mature Significant revaluation gains have accrued to MPBI from the joint ventures 	<ol style="list-style-type: none"> MPBI should continue to monitor the operations to ensure that the value of both villages is optimised, potentially through an independent board member or advisor In addition, MPBI should also look for the return of its loan funding to PCV (a substantial portion has already been returned) We do not recommend a sale of its equity interests 	<p>GM currently appointed as Director on the subsidiaries with an active search underway for a suitably qualified independent Director to represent MPBI's interests to be appointed by end of FY23.</p> <p>Work is underway to optimize the return from PCV in line with future aspirations for the development of the balance of the Asher Block.</p>
2. Horticulture - Kiwifruit Operations	<ul style="list-style-type: none"> Kiwifruit operations currently represent the largest source of cash earnings for MPBI Comparison with similar operations in the region suggest however that the returns are lower than its competitors MPBI has outsourced the management of the orchards to Seeka MPBI has recently replaced the orchard manager based on performance and management of the operations 	<ol style="list-style-type: none"> Undertake a more detailed review to identify areas of underperformance, including capturing the cost of the capital maintenance items as noted by Management A more comprehensive business case is undertaken before investment into or conversion of some of the orchard to red kiwifruit Consider through sensitivity and scenario analysis the impact of not using HI-Cane may have on the kiwifruit yields and overall profitability 	<p>A comprehensive management plan for all assets in our portfolio is being developed in order to see concrete and robust actions come from the review.</p> <p>Much work has gone into establishing the viability and impact of introducing red kiwifruit into our horticultural portfolio. Cutover has been identified as the preferred strategy.</p> <p>Work is being carried out alongside our post-harvest partner Seeka to map out a risk mitigation strategy for HI-Cane.</p>



Investment review

By asset class (2 of 3)

	Current Situation	Recommended Actions	Our Response
3. Investment Properties	<ul style="list-style-type: none"> It appears that some of the Commercial land has been leased at sub-optimal terms In the short term, there appears to be limited ability to renegotiate the terms of the commercial leases to be more in line with the market. Residential (Papakainga Housing) provides a net positive return of 2.0% with strong social benefits for the iwi 	<p>Commercial:</p> <ol style="list-style-type: none"> Tui - a deep dive cost/benefit analysis into the potential to acquire the lessee's interest Others - restricted to waiting for market rent reviews per the agreements <p>Residential (Papakainga Housing):</p> <ol style="list-style-type: none"> Continue with the current state given the positive return and significant social benefits for the iwi Consider whether a sinking fund is required to ensure that the units are maintained at the appropriate level 	<p>Commercial</p> <ul style="list-style-type: none"> GM has engaged MPBI's project manager to undertake detailed analysis on 1. <p>Residential</p> <ul style="list-style-type: none"> 2. Budgets have been developed for preventative maintenance with property team being upskilled.
4. Unused Land - Vacant Commercial & Asher Block	<ul style="list-style-type: none"> The Vacant Commercial land has good physical characteristics, making it suited for commercial development along the lines of the current leases (albeit see our recommendations to the right) The 'Balance' Asher Block is ~13ha of land, adjacent to the under development PLV retirement village. The land is classed as 'Suburban Residential Zone' under the Tauranga City Plan, which permits residential dwellings and retirement villages 	<p>Vacant Commercial:</p> <ol style="list-style-type: none"> Further discussions / negotiations Engage commercial / legal advice in relation to negotiations and drawing up potential lease agreements, with focus on: Market rental rates, Term, Review mechanism / frequency and Cap and collars. <p>'Balance' Asher Block:</p> <ol style="list-style-type: none"> A further deep dive analysis needs to be conducted to ascertain the optimal land use for MPBI 	<p>Vacant Commercial</p> <ul style="list-style-type: none"> Remaining leases have now been executed at market rates. <p>'Balance' of Asher Block</p> <ul style="list-style-type: none"> Large urban designed residential housing development is being proposed at the SGM. This is at conceptual stage only and shareholders will be consulted with throughout all stages.



Investment review

By asset class (3 of 3)

	Current Situation	Recommended Actions	Our Response
5. Agriculture - Beef Farming	<ul style="list-style-type: none"> The operations are not commercially viable, and have generated relatively large cash losses for some years A recent farm review by PerrinAg recommended a significant change to the farming operation and this is currently being actioned by the Farm Manager MPBI has obtained a report on alternative uses for the land that should be considered in more detail. 	<ol style="list-style-type: none"> Investigate alternative uses for the land as per the PerrinAg report Continue with the planned action to reduce the stocking rates Proceeds from any reduction in working capital stock could be utilised for any of the following options: <ol style="list-style-type: none"> Use to redevelop land currently used for beef farming and/or the undeveloped land Pay down third-party debt Use to make a distribution to members 	<p>Significant progress has been made to our existing beef farming operation already over the past 6 months</p> <p>– actions were identified and implemented prior to the PWC report being received.</p> <p>- Stock tally to decrease from 1450 head of stock to 450 head of stock in next 12 months</p> <p>- Optimization of feed stock budget</p> <p>- 3- 5 year revenue maximization plan developed with Perrin Ag Consultants</p>
6. Minority Direct Investments	<ul style="list-style-type: none"> The majority of these investments represent shareholdings of <0.01% of each individual investment and from our understanding were undertaken without due diligence and through historic relationships, rather than an external broker Cash returns for FY21 were negligible in the context of the portfolio, with two out of the five investments paying zero dividends 	<ol style="list-style-type: none"> Decide to hold any further investment If viable, liquidate all five direct minority investments for the following reasons; <ol style="list-style-type: none"> Extremely small shareholding means lack of influence and control Cash returns are negligible Proceeds could be utilised for a range of alternative options 	<p>A plan to liquidate the smaller minority investments has been identified as a priority for 2023.</p>

He pātai?

