



# ANNUAL REPORT 2019

JUNE

Investing in the future of Australian infrastructure





“

**We are pleased to report that during the year we successfully achieved construction completion on a number of projects, including Palisade’s first solar farm investment, the 148MW Ross River Solar Farm located just outside Townsville.**

”



# Message from the CEO

I am very pleased to present to you Palisade's Annual Report for FY19. It has once again been a busy year for the team, which has seen a number of new acquisitions across the portfolio – both in new sectors and through our existing sector platforms – as well the successful completion of various organic growth initiatives within our portfolio companies. As a long-term infrastructure investor, we remain focused on delivering strong cash yields across all our portfolios, with our flagship diversified fund once again generating income returns in excess of 7% per annum, with a total return of over 10% on a gross basis.

Building well constructed, diversified portfolios for our investors is a key element in achieving our investment objectives. During the year we were pleased to announce our investment in Hawaiki Submarine Cable, our first investment in the communications infrastructure sector, a thematic which in our view exhibits strong tailwinds given the forecast exponential growth in data consumption. During FY19, Palisade completed the selldown of a 49.8% stake in Granville Harbour Wind Farm, delivering an outstanding result to our investors. Palisade also reached agreement to fully divest its interest in Sydney Metro Northwest which is expected to reach financial close in FY20.

We continue to apply a proactive approach to management of our portfolio companies. We are pleased to report that during the year we successfully achieved construction completion on a number of projects, including Palisade's first solar farm investment, the 148MW Ross River Solar Farm located just outside Townsville. We were also able to capitalise on favourable debt market conditions and refinance over \$1.1 billion of debt across five of our portfolio companies – in two instances executing permanent long-term financing structures that eliminated refinance risk from these assets.

Finally, Palisade Integrated Management Services (PIMS), our operational management services team, now provides services to 8 of the 24 assets in the Palisade portfolio – typically those assets where it is not economic to support their own internal management teams. PIMS continues to generate a number of operational cost-saving and revenue enhancement initiatives across the portfolio companies they serve.

I remain buoyed by the number of opportunities we continue to see in the market, and we remain committed to continuing to grow and diversify our client's portfolios. I would once again like to thank all of our investors for their ongoing support, as we look forward to an even stronger FY20.



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**As a long-term infrastructure investor, we remain focused on delivering strong cash yields across all our portfolios, with our flagship diversified fund once again generating income returns in excess of 7% per annum...**

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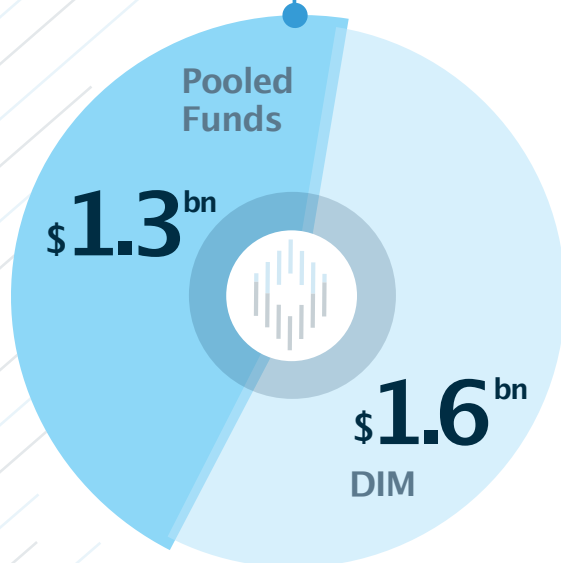
**Roger Lloyd**

Managing Director & CEO

# Business overview

**\$2.9  
billion**

in funds under  
management and  
commitments as at  
30 June 2019



Strong investment and operational  
management capability

**19**

investment  
executives

**16**






specialist  
operational  
management  
personnel

**3** Pooled  
Funds

**7** Direct Investment  
Mandates

**24** Assets

## Palisade's Renewable Energy Portfolio

Power    
**200,000**  
  homes  
Abate over   
**600,000**  
tonnes of Co<sub>2</sub> per year

## Awards



**“ Winner ”**

Hawaiki



INFRASTRUCTURE INVESTOR  
**AWARDS 2018**

Telecoms and Broadband  
Investor of the year  
Asia Pacific

**“ Finalist ”**

Biosciences refinancing

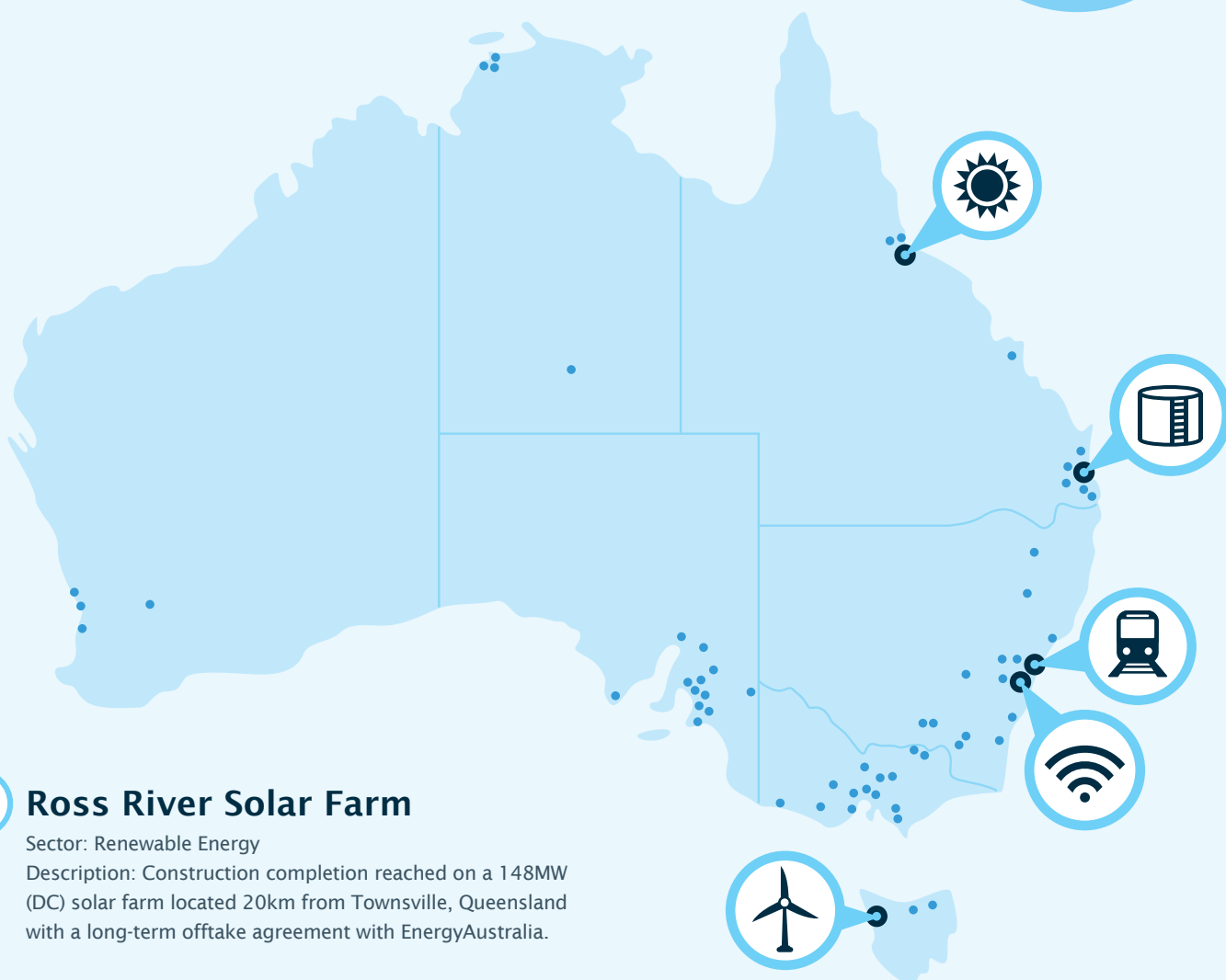
Category: Financial Excellence



INFRASTRUCTURE  
PARTNERSHIPS  
AUSTRALIA

# FY19 investment activity

24  
assets across  
61 sites



## Ross River Solar Farm

Sector: Renewable Energy

Description: Construction completion reached on a 148MW (DC) solar farm located 20km from Townsville, Queensland with a long-term offtake agreement with EnergyAustralia.



## ANZ Terminals

Sector: Bulk Liquid Terminals

Description: Agreement reached for ANZ Terminals to acquire GrainCorp's bulk liquid business.



## Hawaiki Submarine Cable

Sector: Communications Infrastructure

Description: Investment into a 15,000km brownfield fibre optic deep sea cable linking Australia, New Zealand, the Pacific and the United States.



## Sydney Metro Northwest

Sector: Transport PPP

Description: Construction completion reached on Australia's first fully-automated metro system, including 8 new stations, interchange facilities and train systems over a new 23km rail link from Epping to Rouse Hill, and an upgrade to the existing 13km Epping to Chatswood link in Sydney.



## Granville Harbour Wind Farm

Sector: Renewable Energy

Description: Financial close reached on a 112MW wind farm development located in Granville Harbour on the west coast of Tasmania with long-term offtake agreement with Hydro Tasmania.



# Sector overviews



## **Airports**

Mike Reynolds, Investment Director

The domestic aviation market in Australia has been relatively subdued over the past 12 months with total Regular Public Transport passenger growth of only 0.7% for the year ending 31 March 2019 (compared to prior year). This growth was achieved despite a reduction in domestic seat capacity of 0.2%. In all our airport investments, passenger volume fluctuations are moderated by non-aeronautical revenue streams such as retail, car parking and property rental.

With respect to potential deal flow, whilst all capital city airports in Australia have now been privatised, a number of smaller airports remain in the hands of local government. Whilst these opportunities are smaller in nature, they may be attractive as part of Palisade's roll-up or platform approach.

Finally, during the year, the Productivity Commission released its draft report following its five yearly review into the economic regulation of airport services. The recommendations of the draft report are largely to preserve the existing "light handed" regulatory framework. The final report will be released in June 2019.



## **Ports & Bulk Liquid Terminals**

Alastair Pollock, Investment Director

Australian port volumes in 2019 remain strong, with most container and bulk ports expecting to meet or exceed 2018 trade volumes. Container volume growth has been driven by continued strong population growth which has been higher than other major OECD countries. Forestry products export volumes, a key trade for Port of Portland, are expected to be comparable to 2018, with plantation profitability enhanced by the weak Australian dollar. Continued build-out of wind projects is providing a boost to break-bulk cargo volumes at Australian ports. Port of Portland has captured cargoes from several wind projects in 2018/19 and is expected to see further projects come through the port over the next few years.

Demand for port-side bulk liquid storage in Australia remains stable due to domestic population growth and relatively robust economic conditions. Some substitution has occurred within liquid chemical imports, with finished product imports replacing input products that were going into some manufacturing processes. The outlook for bitumen imports remains attractive, driven by the pipeline of large infrastructure projects.

Transport fuel import volumes continue to grow, driven by diesel and jet fuel, whilst gasoline demand is expected to gradually decline with vehicle efficiency and electric vehicle adoption. Further decline in domestic refining capacity will drive a step-increase in transport fuel imports that is likely to benefit ANZ Terminals.

# Sector overviews



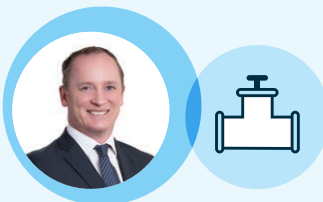
## Renewable Energy

James Hann and Karen Gould, Investment Directors

The past two years has seen consecutive records broken for investment in renewable energy in Australia. In 2017 over A\$10 billion was committed to the sector, which doubled to A\$20 billion in 2018. By the end of 2018, over 14.5 gigawatts of capacity was under construction, equivalent to almost 30% of existing system capacity.

It is unsurprising then that the large-scale renewable energy target is now expected to be easily met, if not significantly exceeded. We expect continued buildout of renewable energy to be underpinned by the 50% renewables policies of the Victorian and Queensland governments, as well as corporate energy users increasingly opting to source their generation directly from renewable generators via long-term energy offtake contracts to support their sustainability credentials.

Notwithstanding this recent investment boom, we are still only at the beginning of a significant transition in the way energy is generated, transmitted and consumed, not just in Australia but globally. Here in Australia that transition will require further major investment, not just in large-scale solar PV and wind, but also in pumped hydro, batteries and transmission infrastructure which should continue to provide investment opportunities for private capital over the next several years.



## Gas Markets/Pipelines

James Ward, Investment Director

Australia's gas markets continue to change rapidly. Australia's commitment to sell Liquefied Natural Gas overseas, the decommissioning of ageing coal fired power stations, as well as a moratorium on onshore gas drilling in NSW and Victoria, has put pressure on gas supply and prices. Accordingly, a number of measures such as government intervention (in the form of the Australian Domestic Gas Security Mechanism and increased regulation on pipelines) and imports are being considered to shore up supplies for local manufacturing and to ensure sufficient supply for energy security.

Balancing of supply and demand is critical to ensure that Australian consumers and industry can access affordable gas and power. To achieve the right balance further political change is needed to support further gas development, but more importantly from a Palisade perspective, capital is required to be invested in the network infrastructure to connect further supply and increase efficiencies. As an example, Palisade is undertaking a Front-End Engineering Design study for the construction of additional compression on the Tasmanian Gas Pipeline (TGP) to add additional storage and to facilitate the physical flow of gas from the Declared Wholesale Gas Market to the TGP.

# Sector overviews



## Communications Infrastructure

Mike Reynolds, Investment Director

The market for submarine cable capacity continues to grow strongly, with bandwidth demand forecast to continue growing at over 30% per annum in the key markets serviced by the Hawaiki cable. Within this, the Hawaii / US mainland and Australia / US routes are the fastest growing segments.

This growth in data is being underpinned by the growing popularity of video streaming, cloud computing and other services provided by content players such as Amazon, Google and Microsoft. In addition, other new applications such as 8K TV, virtual reality, augmented reality and Internet of Things will also drive continued strong growth in demand for bandwidth. Palisade will continue to pursue mid-market opportunities in the communications infrastructure sector to take advantage of the sector tailwinds described above.



## Social Infrastructure

James Ward and Karen Gould, Investment Directors

The continued demand from offshore investors for yield, particularly for government backed projects, has seen additional demand for greenfield and brownfield Public Private Partnerships (PPP). This demand has led to a compression of returns, particularly on brownfield PPPs, and increased risk appetite from equity investors on greenfield PPPs. In addition to deteriorating risk return metrics, apart from large scale transport projects, the greenfield PPPs pipeline remains relatively lean across Australia, further increasing the competitiveness within the sector.

Despite the challenges facing the industry from an investment standpoint, Palisade continues to see select opportunities for extensions of existing projects, such as Casey Hospital and Gold Coast Light Rail.



## Debt Markets

Simon Parbery, Investment Director

As a result of ongoing concerns around the global economy and higher bank capital requirements, we have continued to see upward pressure on domestic bank funding costs during FY19, however this has been offset by a historically low and flat base swap curve, driven by the market's expectation around the Reserve Bank of Australia's use of monetary policy to stimulate economic growth. FY19 also saw strong liquidity for investment grade borrowers, driven by foreign entrants to A\$ debt markets and slowing investment activity for lenders given low levels of state-led privatisations.

Lenders are also demonstrating increasing appetite for long dated loans as banks face competition from institutional investors who can offer long-tenor debt, thus providing borrowers seeking to diversify tenors with alternatives to traditional capital markets issuances. Palisade was able to take advantage of this during the year with several refinancings across the portfolio.



# Inside Palisade

As an investor in services and facilities that are essential to the communities and economies they serve, we focus heavily on how each of our portfolio companies interacts with its employees, customers and the community. We are firmly of the view that maintaining our social licence to operate is achieved through a focus on employee safety, and community relationships developed through the employment of local people and companies.

In that light we were proud to launch our Beyond Zero safety campaign during the year. The “Zero Harm” safety initiative has been used extensively by many companies, however Palisade’s view is that the Zero Harm message can cause organisations to focus purely on numbers, rather than on behaviours and culture. Led by our operational management services team, Palisade Integrated Management Services, our Beyond Zero campaign is being introduced across our portfolio companies in an effort to re-energise discussions around safety, as well as enhance the well-being of all personnel through employee assistance programs and general wellness support.

Diversity also remains a significant focus – we support the notion that greater diversity in not just skillset, but backgrounds, leads to improved performance of organisations. Whilst not the sole focus, Palisade continues to be a key promoter of gender diversity within the industry. As part of our efforts, Palisade’s CEO Roger Lloyd has been appointed to the Steering Committee for the Women’s Infrastructure Network, and Palisade sponsored and participated in the Women in Finance mentoring program organised through the University of New South Wales.

During the year we have made a number of appointments which reflect our ongoing focus on best practice governance. Kirri Stone joined Palisade’s Investment Committee as an independent member, replacing David Howell. Mark Vaile was appointed as Chair of the Palisade Board and John Hughes joined as an independent, Non-Executive Director. At the same time, Ian Mitchell, Palisade’s founding Director and former Managing Director and Chair retired from the Board. Ian Mitchell made an immense contribution to Palisade’s business over more than a decade as did David Howell to our investment committee over a similar period. For this, we are extremely grateful. They leave Palisade well positioned for continued growth over the years to come. Finally, consistent with our approach to ensuring that portfolio company boards comprise directors with diverse skills and experience, we were delighted that Greg Bourne and Stuart Lee agreed to join the boards of Granville Harbour Wind Farm and Hawaiki Submarine Cable, respectively, as independent directors.

As part of our continued partnership with youth mental health charity batyr, we are delighted to report that Palisade and Pinnacle together donated a further \$50,000 to batyr for FY19, bringing total donations to \$140,000. We remain very supportive of batyr’s work, particularly in regional areas of Australia where Palisade is a prominent investor.



**Vicki Rigg**  
Executive Director



# Inside Palisade

## Palisade appointments



### **Hon. Mark Vaile AO**

Independent Chair, Palisade Board

Mark was appointed to the Palisade Advisory Board in January 2014 and as Chairman of Palisade's Investor Advisory Group in August 2008.

Mark resigned from the Federal Parliament in July 2008, after 15 years as the national member for Lyne in Northern NSW. Mark was Leader of the Federal National Party and Deputy Prime Minister from June 2005 until November 2007.



### **John Hughes**

Independent Director, Palisade Board

John joined Macquarie Group in 1999 as part of the acquisition of Bankers' Trust Australia and has over 35 years of investment banking experience. Throughout his career at Macquarie, John has held a number of leadership positions and became Global Head of Principal Investments in September 2010.

While at Macquarie John was responsible for over \$2 billion of equity investments spanning a variety of industries, currencies and investment terms. Infrastructure experience includes investments in the following sectors; PPPs, energy (including renewable), transport, water and resource themed infrastructure projects. John retired from Macquarie Group in October 2013.



### **Kirri Stone**

Independent Member, Palisade Investment Committee

Kirri has over 25 years of experience in infrastructure investment and financing. Kirri is currently Director, Investment Management at WestConnex, Sydney's largest road transport project.

Prior to joining WestConnex in 2015, Kirri spent seven years at the CIMIC Group (formerly Leighton Holdings), working in the Finance and Investment and Infrastructure Investment teams. Kirri's role involved the acquisition, management, restructure and disposal of infrastructure investments and businesses across the road, services and social infrastructure sectors, and included establishing an infrastructure investment fund.

# Inside Palisade

## Asset board appointments



### **Greg Bourne**

Independent Chair, Granville Harbour Wind Farm

Greg has over 30 years of experience in energy and policy, including with BP, where he lived and worked in the UK, Middle East, USA, Canada, Ireland, Brazil, China, Venezuela and Australia. For two years he was Special Adviser on Energy and Transport to Prime Minister Margaret Thatcher. He returned to Australia in 1999 as Regional President, BP Australasia and worked with business and governments on the Climate Change agenda. Greg was CEO WWF Australia for six years and later a non-executive director of Carnegie Wave Energy. He is the former Chair of the Australian Renewable Energy Agency (ARENA).



### **Stuart Lee**

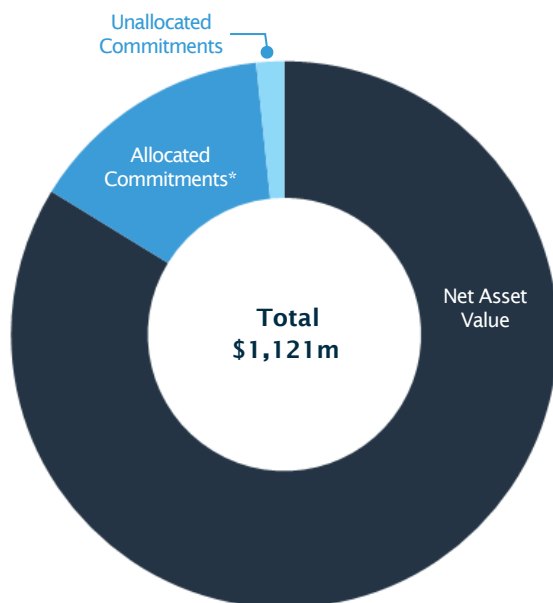
Independent Director, Hawaiki Submarine Cable

Stuart held senior executive roles in engineering, operations, IT, product management, marketing, billing, and procurement during 45 years with Telstra, including five years leading Telstra Wholesale.

He is a director of Reach Ltd (Hong Kong), Telstra Foundation Ltd, Heritage Telecommunications Ltd and Chairman of the University of Melbourne Industry Advisory Group to Electrical and Electronic Engineering. Previous directorships include 1300 Australia Ltd, 3GIS Ltd, and Extant Corporation (USA).

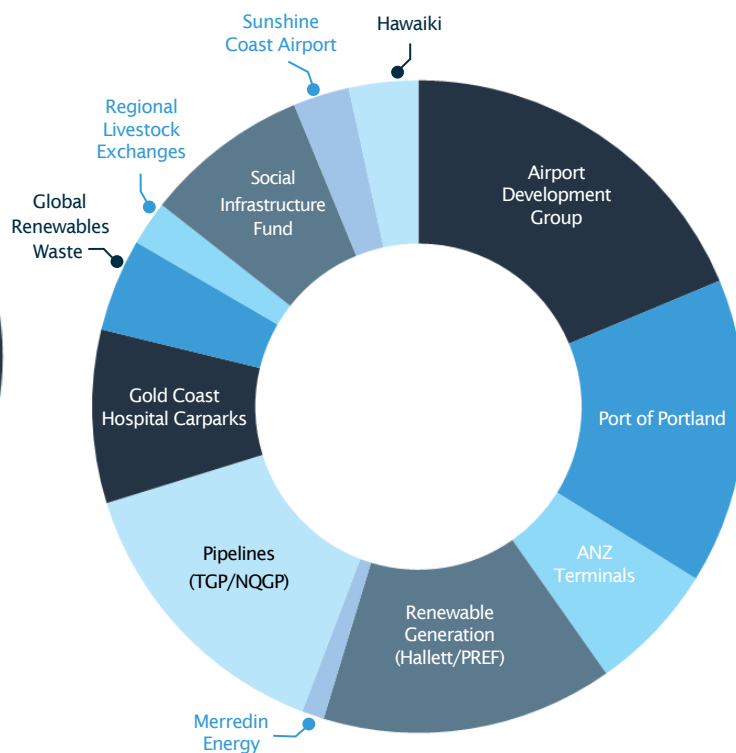
# Palisade's Diversified Infrastructure Fund (PDIF)

## PDIF Capital Commitments



\* Estimated commitments relating to various investments

## PDIF Portfolio Overview

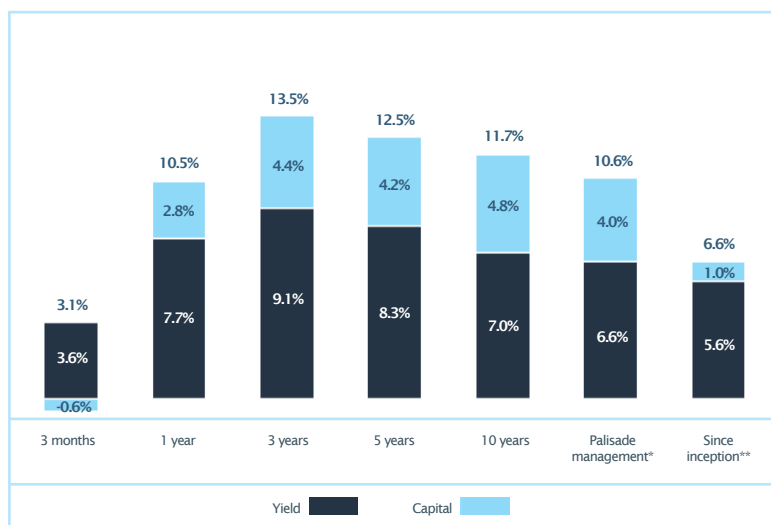


Portfolio composition as at 30 June 2019  
Excludes deferred commitments for Sunshine Coast Airport and PREF

## FY19 Key Highlights

- Financial Close achieved on an investment in the Hawaiki Submarine Cable, a 15,000km fibre optic deep sea cable linking Australia, New Zealand, the Pacific and the United States
- ANZ Terminals entered into documentation to acquire Graincorp's Australian bulk liquid terminals business (subject to CPs)
- Refinancings completed for Tasmanian Gas Pipeline (TGP) and Airport Development Group (ADG), with 8 year (in the case of TGP) and 5 and 7 year (in the case of ADG) debt

## PDIF Portfolio Performance



Gross performance as at 30 June 2019

Returns for periods greater than 12 months have been annualised

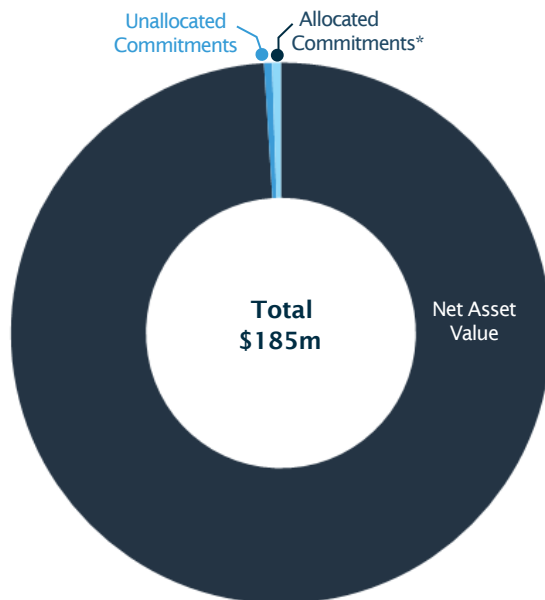
\* Palisade management inception August 2008

\*\* Inception date December 2004 and includes the period of Perpetual management to July 2008



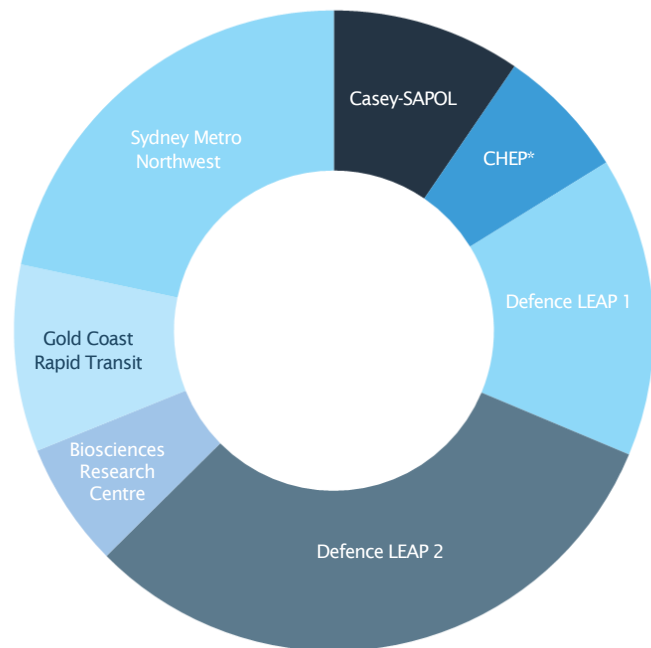
# Palisade's Australian Social Infrastructure Fund (PASIF)

## PASIF Capital Commitments



\* Commitments relating to Casey Hospital Expansion Project

## PASIF Portfolio Overview



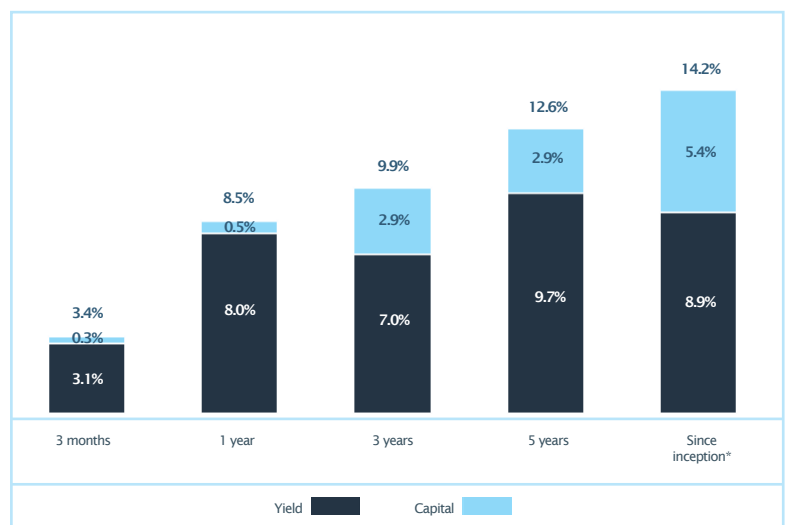
Portfolio composition as at 30 June 2019

\* Includes deferred equity commitment

## FY19 Key Highlights

- Commissioning of Stage 1 of the Casey Hospital Expansion Project was achieved with final completion expected late 2019
- Financial Close reached on a new 17 year (full term) debt facility for Biosciences Research Centre
- Construction completion and commissioning of Sydney Metro Northwest, and agreement reached for Palisade-managed investors to sell the investment upon Financial Close being reached on the expansion of the system to Sydenham and Bankstown

## PASIF Portfolio Performance



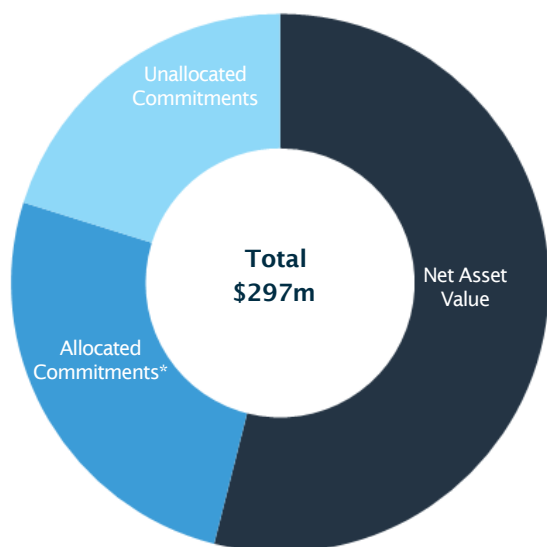
Gross performance as at 30 June 2019

Returns for periods greater than 12 months have been annualised

\* Inception date May 2011

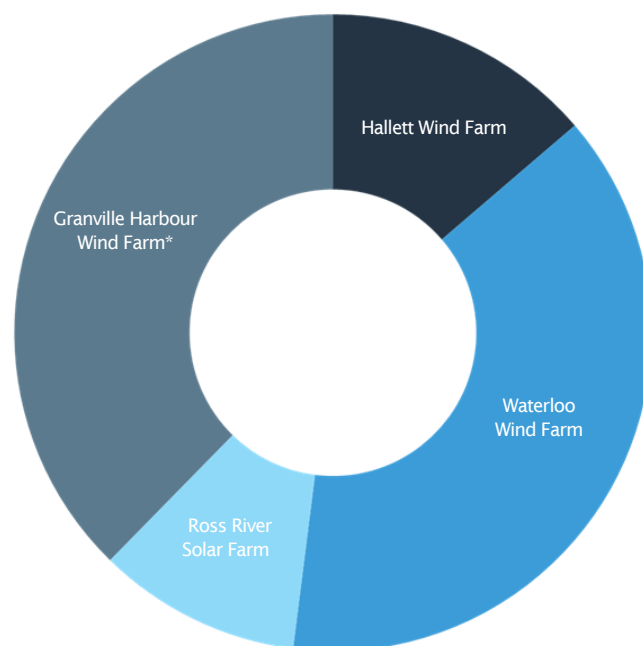
# Palisade's Renewable Energy Fund (PREF)

## PREF Capital Commitments



\* Estimated commitments relating to Granville Harbour Wind Farm

## PREF Portfolio Overview

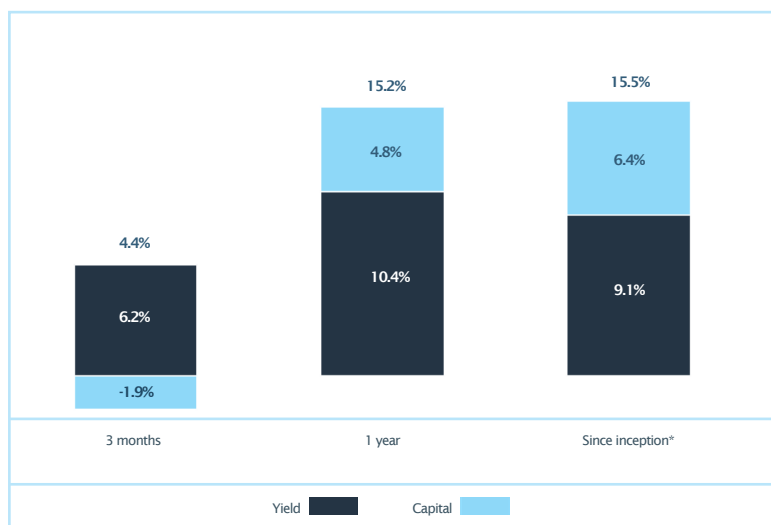


Portfolio composition as at 30 June 2019  
\* Includes expected deferred equity commitment

## FY19 Key Highlights

- Refinancings completed for Hallett Wind Farm and Waterloo Wind Farm with 13 year and 11.5 year debt respectively
- Construction completion was achieved on Ross River Solar Farm, with the facility now exporting its full output to the grid
- Financial Close reached on the Granville Harbour Wind Farm and partial divestment to John Laing, and the acquisition of a further 20.5% interest in Waterloo Wind Farm

## PREF Portfolio Performance



Gross Performance as at 30 June 2019  
Distribution in relation to the sale of Granville Harbour Wind Farm has been included in capital returns  
Returns for periods greater than 12 months have been annualised  
\* Inception date September 2016

Palisade Investment Partners

“ Winner ”

Hawaiki



INFRASTRUCTURE INVESTOR  
**AWARDS 2018**

Telecoms and Broadband  
Investor of the year  
Asia Pacific



## FOR MORE INFORMATION CONTACT US

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