ELEVATION CAPITAL
GLOBAL SHARES FUND

REFINING NZ
Your Energy Hive

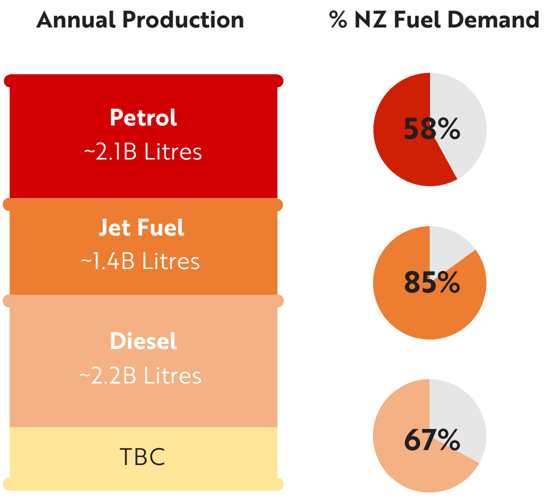
(Channel Infrastructure NZ)

In 1956, the New Zealand Government - in an effort to control oil prices and boost fuel security - investigated the viability of building its first refinery on New Zealand soil. Marsden Point, near Whangarei, was subsequently chosen because of its convenient deep-water harbour close to the main North Island markets, low earthquake risk and the availability of land adjacent to the site. Since then, Refining NZ (to be renamed Channel Infrastructure NZ) has been a key player in New Zealand's energy market operating New Zealand's only oil refinery. Today, the Marsden Point Oil Refinery is capable of processing enough oil to meet a majority of domestic demand. Refining NZ has supplied around 70% of New Zealand's fuel demand and also operated a multi-product pipeline, transporting refined product from the refinery to Auckland, New Zealand's largest market. The refinery processes crude oil and condensate for the 3 biggest oil companies active in New Zealand — BP, Mobil and Z Energy. These companies all have a shareholding - Mobil owns 17.2%, Z Energy owns 15.3% and BP owns 10.1%.

On 8 August 2021, shareholders voted overwhelming at a Special Meeting to approve the transition to an import terminal and rebrand as Channel Infrastructure NZ, bringing an end to almost 60 years of refining operations at Marsden Point. The move to only importing refined petroleum products followed a dismal business record over the past decade, exacerbated by a collapse in profitability as COVID-19 hit demand for all fuels. COVID-19 only served to affirm the notion that Marsden Point could no longer compete with the proliferation of more efficient refineries which have surfaced across Asia. Longer-term viability was always in question, with Refining NZ's customer shareholders paying approximately $118 million to subsidise the company over the past 18 months, with much of that figure due to low margins and the collapse in demand for aviation fuel.

Overview of Legacy Infrastructure

Production Capabilities



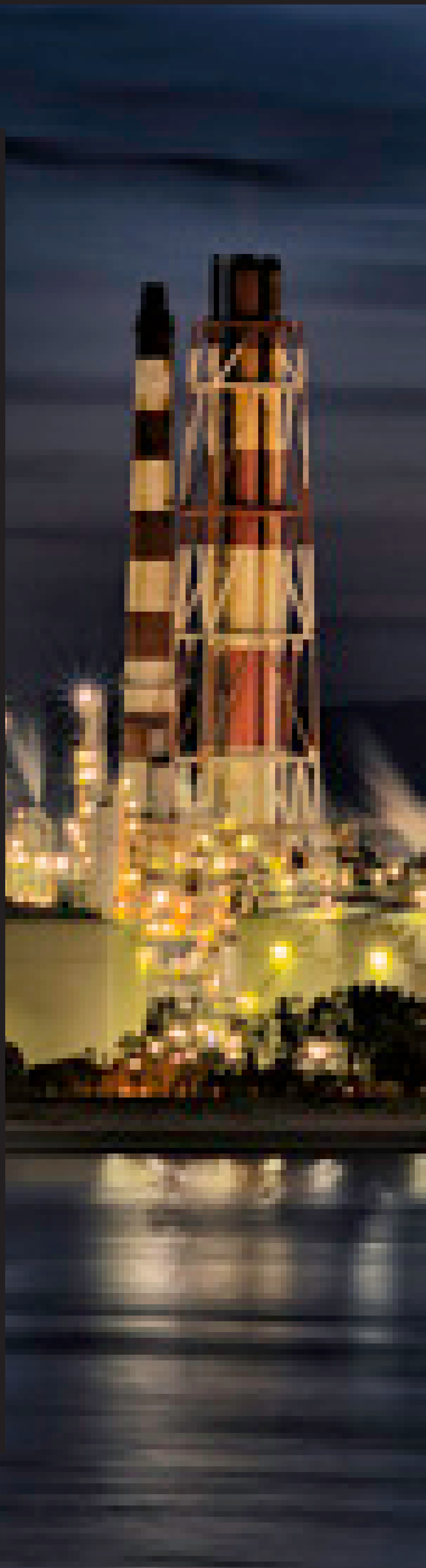
6.5B Litres
Annual Output

70%
Annual Supply of NZ Fuel Demand

Operates a key Pipeline + 10 Terminals throughout NZ

Company Highlights

1961	The New Zealand Refining Company is formed to establish an oil refinery at Marsden Point
1962	The company is listed on the New Zealand Stock Exchange
1981	Following the oil shocks of the 1970s, Refining NZ commences an expansion project for the refinery
1985	The ~170km Refinery Auckland Pipeline (RAP) is completed
1988	The refinery is deregulated, meaning shareholding customers could import directly or refine at Marsden Point
1995	A new structure is implemented that moved the processing fee to a market-related import parity fee based on the Gross Refining Margin (GRM)
2005	The Future Fuels project is completed, allowing the refinery to produce cleaner fuels by removing benzene and sulphur
2009	The Point Forward project is completed, increasing the capacity of the refinery's principal Crude Distillation Unit
2015	The Te Mahi Hou project is completed, increasing petrol production by around two million barrels and reducing CO_2 emissions by ~120,000 tonnes, per annum
2021	Shareholders approve conversion into a fuel import terminal and to cease operations as a toll oil refinery, and listed company to be renamed "Channel Infrastructure NZ", to better reflect its future operations



Strategic review brings major pivot

In April 2020, the Board initiated a strategic review to determine the optimal operating model for the Refining NZ business to maximise "through the cycle" returns to shareholders and deliver a secure, competitive fuel supply for New Zealand. The context included a significant fall in gross refining margin (GRM) at the end of 2019 which was further exacerbated by the impacts of COVID-19 from early 2020 and below cost of capital returns from the refinery over the previous 10 years. The strategic review presented two options for the Board to consider: (i) maintain refinery operations under a simplified model, or, (ii) convert to an Import Terminal System (ITS). On 8 August 2021, on the recommendation of the Board, the shareholders voted to approve the conversion to an ITS.

Conversion Proposal

The new business would utilise Refining NZ's highly strategic infrastructure, including the Refinery to Auckland Pipeline (RAP), to receive, store, test and distribute transport fuels imported by Refining NZ's customers primarily to the Northland and Auckland markets. Refining NZ would be renamed Channel Infrastructure NZ and its ITS would:

- Supply all of the jet fuel distributed to Auckland International Airport; and
- Provide New Zealand's largest transport fuels storage capacity.

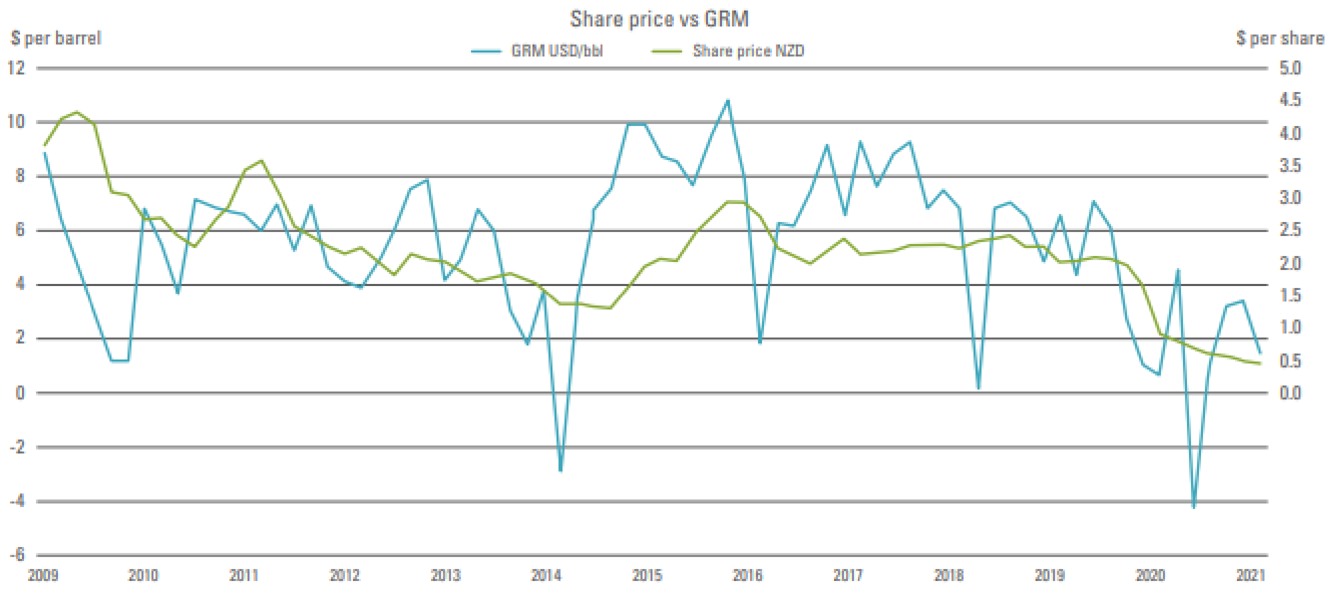
This 'pivot' is forecast to generate significantly more stable earnings compared with the inherent volatility of oil refining, deliver superior "through the cycle" returns to shareholders, and position the company to meaningfully participate in the decarbonisation of the New Zealand energy market.

Conversion Rationale

Relative to other refineries, the Marsden Point refinery had a high cost of production and required a high Gross Refining Margin (GRM) to be economically competitive with imported transport fuels. This was due to the smaller scale and age of the refinery, making it less efficient than the newer and much larger scale exporting refineries and integrated refinery facilities in the Asia-Pacific region, coupled with the high energy costs in New Zealand, principally electricity and natural gas. The high cost of coastal shipping required to transport refined fuel from Marsden Point to New Zealand's regional terminals further eroded Refining NZ's competitiveness outside of the Northland and Auckland regions.

A structural change in refining markets arising from the increased supply of refined product and a lower than expected growth in demand for transport fuels in the Asia-Pacific region further resulted in a reduced outlook for refining margins. The global drop in demand triggered by COVID-19 and the expectation of a slow recovery in oil and refined products demand, particularly jet fuel, had further exacerbated the oversupply in the global refining market. This resulted in very weak refining margins and significant uncertainty regarding refining margins in the future. Historically, as the GRM has weakened so did Refining NZ's share price; this is reflected in the chart below which illustrates that there is a high degree of correlation.

Refining NZ share price versus GRM



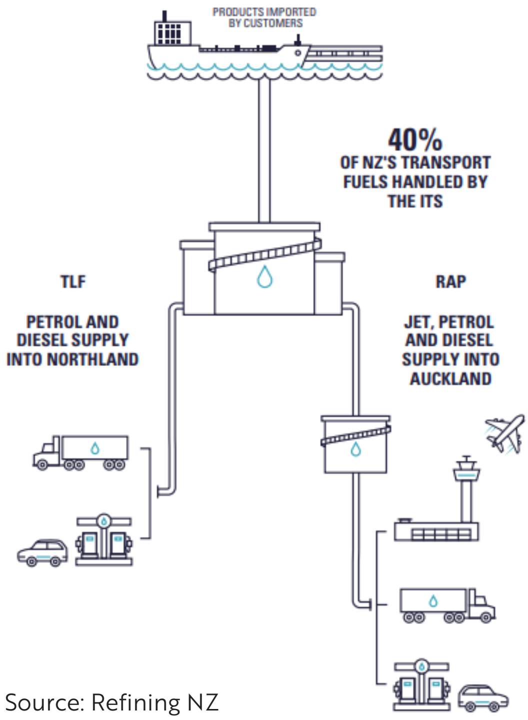
Channel Infrastructure is value-enhancing for shareholders

Overview of the Import Terminal System

The ITS is expected to handle between 3.0-3.5 billion litres of transport fuels annually. It will utilise the network of existing infrastructure assets that Channel owns. The conversion will result in New Zealand's transport fuel requirements being met wholly through the import of refined fuel products. The adjacent diagram depicts the ITS and the flow of imported product through the system.

The ITS will be highly cost competitive relative to the current alternative for delivering transport fuels to the core Auckland and Northland markets, which is via importing fuels into Mt Maunganui and then trucking it over 200 kilometres by road. The Mt Maunganui fuel terminals currently only have capacity to handle a portion of Auckland's ground fuel requirements, and would require significant new capital investment to be a viable economic proposition long-term.

In time, Channel could become the natural owner of oil and gas infrastructure assets across the sector currently owned by the downstream companies. Wiri terminal assets that are jointly owned by Mobil, BP and Z Energy would be the most obvious consolidation candidate.



Source: Refining NZ

Channel Infrastructure compared to Refining NZ

	Earnings Volatility	Sustainable Earnings	Operational Risk	Capital Intensity	Carbon Exposure
Refining NZ	High earnings volatility	Larger scope for upside / downside	Higher operational risk	High capital intensity	Higher carbon exposure
Channel Infrastructure	Relatively stable expected earnings	Limited upside / downside	Lower operational risk	Moderate capital intensity	Lower carbon exposure

Operating Marsden Point as an import terminal will likely lead to less volatility in earnings than if it continued to operate as a simplified refinery, particularly over the first six years when take-or-pay arrangements are in place. This is primarily due to the removal of exposure to the GRM, which is highly volatile (annual average ranging between US$1.63 and US$11.30 per barrel over the last 15 years). Further, the operational refining risk is comparatively higher due to the more complex processes and equipment which requires significant ongoing investment (capital and technical skills) to effectively manage those risks.

The simplified refinery is also very capital intensive, with estimated sustaining capital investment of circa $50 million to $60 million per annum until the refinery is forced to convert to an import terminal in the future. This cost reflects the large asset base (processing equipment and associated tanks and linework).

Channel Infrastructure has indicated customers are looking at procuring additional private storage facilities of up to ~100m litres. Import terminal storage capacity has been scoped to 180m litres. The additional private storage will enable customers to bring in larger shipments of refined product, taking advantage of freight economics. The additional storage is estimated to incur capex of ~NZ$60m, but deliver annual revenue of ~NZ$10m per annum.

Positioned for future growth opportunities

The Marsden Point site is strategically important, with a recently confirmed 35-year industrial resource consent, deep water jetty access, industrial utility connections, extensive infrastructure, and proximity to Auckland. Following the initial focus on a safe and planned transition to an import terminal, a strategic priority will be to grow and diversify its asset base. The ITS will only utilise approximately 35% of useable land at Marsden Point and approximately 20% of existing tank capacity, giving rise to a range of potential growth opportunities through repurposing of the Marsden Point site.

Strategic fuel storage

Converting to an import terminal would significantly reduce New Zealand's inventory coverage for fuel demand, along with providing Channel Infrastructure surplus tank capacity for refined oil. If New Zealand adopted fuel security measures, Channel Infrastructure would be well positioned to support these requirements with their existing tankage.

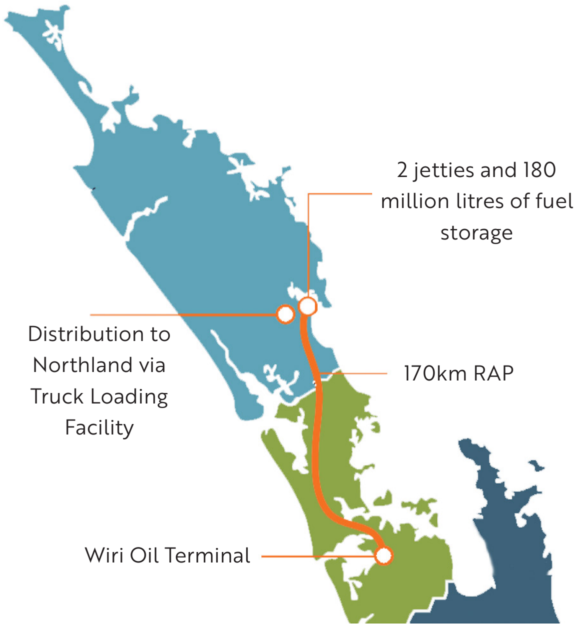
Optimisation of fuels supply chain

Channel Infrastructure would be able to leverage its expertise as a specialist infrastructure owner and operator across other shared fuel infrastructure assets. Management anticipates that a reduced cost of capital and operational synergies could provide the opportunity for earnings growth.

Transition to future fuels

Channel infrastructure would be positioned to play an active role in supporting a future transition to alternative fuels. This could include the import or production of biofuels, including aviation fuel and hydrogen.

Key Components of Supply Chain



Supporting decarbonisation of New Zealand's economy

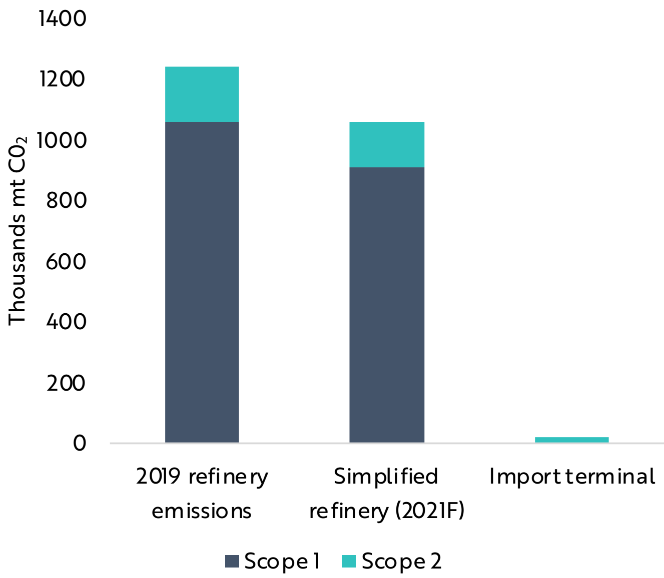
The conversion to an ITS is a significant contribution to New Zealand's decarbonisation, through the following:

1. Circa 98% reduction in Scope 1 and 2 CO2 emissions of over 1 million tonnes per annum;
2. Approximately 85% reduction in required electricity supply and no natural gas requirements.

This will result in a significant reduction in New Zealand's direct emissions - equivalent to approximately 5% of New Zealand's total emissions reduction target for 2030.

There is also potential to develop the proposed *'shovel ready'* Maranga Ra solar project, a 26MW development adjacent to the main refinery site. In combination with a battery solution, the project could have the potential for Marsden Point to become a self-sufficient and wholly renewable source of electricity and reduce or remove its exposure to electricity supply, transmission and distribution costs.

Scope 1 and 2 emissions



Source: Refining NZ Independent Appraisal Report

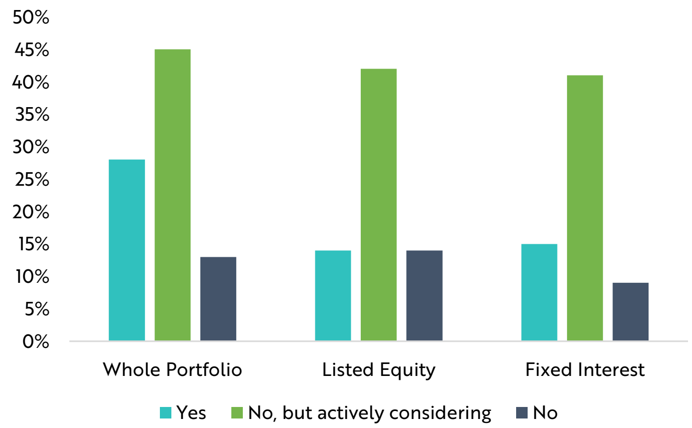
ESG driving investment markets

The way New Zealanders think about environmental and sustainability issues has changed in the past decade dramatically, and success decisions by policy makers reflects this. In 2019, the Climate Change Response (Zero Carbon) Amendment Act 2019 was passed with bi-partisan support, setting a target for New Zealand to reduce its net emissions of all greenhouse gases (except biogenic methane) to zero by 2050. This increased the momentum in transforming New Zealand's carbon-intensive assets towards more environmentally-sustainable alternatives.

There is also broad private sector support for action on climate change. with 101 executive directors, including the CEOs of 16 NZX listed companies, pledging that their respective organisations will take voluntary action on climate change. In March 2020, the New Zealand Government announced that from June 2021 default KiwiSaver providers will be required to exclude fossil fuel production from their default fund investment portfolios, as well as to disclose on their websites a responsible investment policy.

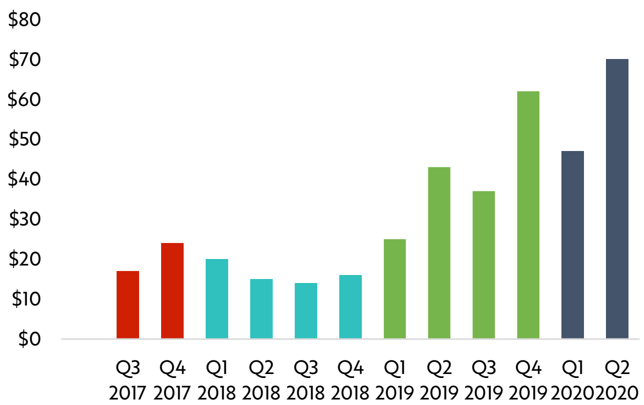
Internationally, the flow of funds has also shifted green. The global investment universe with an SRI mandate was estimated to have AUM (assets under management) of US$30 trillion in 2019, or over one third of global AUM. Yet ESG investing is not just growing, it is also changing. Particularly so within the environmental aspects of ESG investing. The three fastest growing issues being screened for in New Zealand relate to emissions and almost 50% of Australasian investors surveyed stated that they were "actively considering" net zero whole portfolio targets by 2050.

Investors setting net-zero targets



Source: Forsyth Barr Research

Global sustainable fund flows[6]



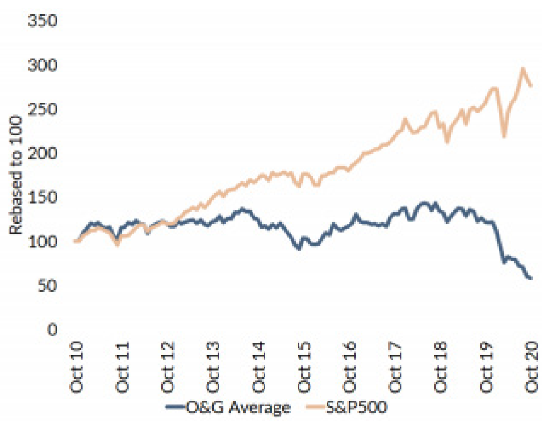
Source: McKinsey Insights

Channel Infrastructure to benefit from ESG-inclusion

As a refinery, Refining NZ was a significant carbon emitter, which would have made refinery operations increasingly challenging and costly as Refining NZ's exposure to the ETS increased over time. Refining NZ was also exposed to electricity and gas price increases with increasing carbon and supply costs. Further, as referenced earlier, the market has placed a significant discount on carbon-intensive stocks.

The creation of Channel Infrastructure avoids these costs and creates a low carbon emitter, that will ultimately, post-transition, be eligible for investment consideration by ESG funds. Channel has significant alignment with the Climate Change Response Act 2002, with a circa 98% reduction in Scope 1 and 2 CO_2 emissions of over 1 million tonnes per annum. Channel will also have opportunities to participate in the decarbonisation of transport fuels and energy through existing infrastructure and repurposing of the Marsden Point site.

Oil & Gas discount relative to S&P500[7]

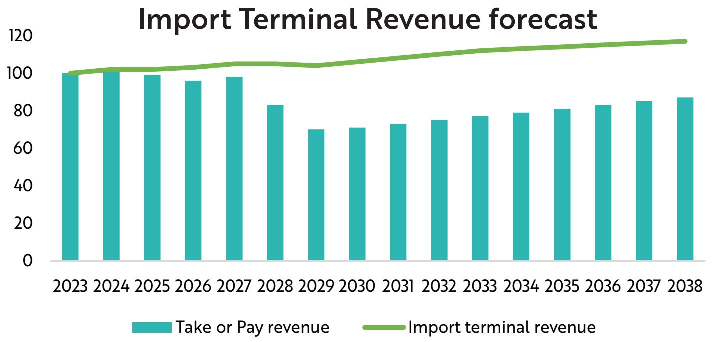


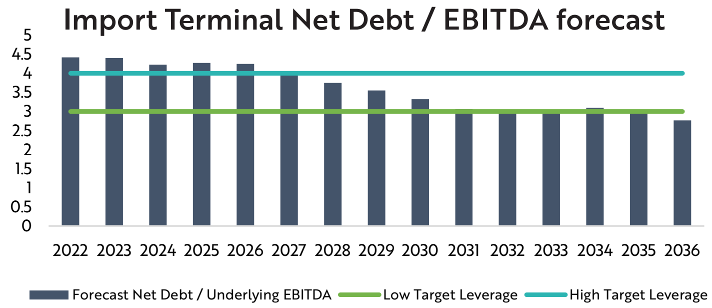
Source: Forsyth Barr Research

Strong balance sheet enables transition

Revenue from the proposed ITS operation will be dependent on future demand for transport fuels. However, revenue is expected to be more stable than historical earnings as a toll refiner. The growing trend in ITS revenue (seen in the graph to the right) largely reflects the impact of indexation on the prices charged to the shareholding customers over time.

The ITS is expected to have a relatively simple and stable infrastructure-like revenue model. Operating expenses are expected to be largely fixed resulting in stable EBITDA forecasts. This, coupled with Channel Infrastructure having access to significant tax losses, should result in high conversion to free cash flow. It is expected that Channel Infrastructure intends to pay dividends of between 60-70% of free cash flow, and expects to resume the payment of regular dividends 1-2 years after terminal operations commence, subject to deleveraging. The conversion and decommissioning costs associated with the shift to an ITS are expected be funded by debt, leading to an overall increase in gearing in the near-term.





Source: Refining NZ Independent Appraisal Report

"Channel Infrastructure Group would be an owner and operator of highly strategic infrastructure and expects to generate relatively stable earnings with a focus on paying out a high proportion of Free Cash Flow as dividends"

- NAOMI JAMES, CHIEF EXECUTIVE OFFICER AT CHANNEL INFRASTRUCTURE

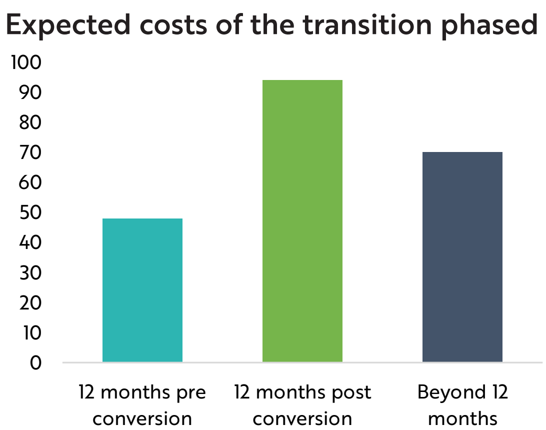
Tax losses provide medium-term earnings shield

As at 31 December 2020, Refining NZ had tax losses of $54.9 million, with an expectation for a similar amount to be generated in the 2021 financial year. The write-off of refining assets is expected to generate tax losses of $300-350 million, meaning Channel Infrastructure could have tax losses amounting to $400-450 million which will be available to offset against future taxable income. At this stage, Channel Infrastructure does not know whether it will be able to fully utilise its losses as this depends on being able to meet the shareholder continuity test. However, the only instance where shareholder continuity would not be met is under a take-over situation, in which case we would expect shareholders to be compensated for the present value of tax losses via a premium.

How much will it cost?

One-off transition and conversion costs are estimated at $200-220 million over five to six years, with 25% of this occurring before commencement of the import terminal operations. The one-off transition costs for the conversion are expected to be primarily debt-funded, with plenty of current gearing capacity. There is also an anticipated $50-60 million in demolition costs, with the timing of this to be confirmed.

Maintenance capital expenditure requirements for the ITS will be significantly lower than the current refinery operations. Post-conversion capital expenditure is expected to be $5 million to $10 million per annum (70-85% less than current expenditure).



Source: Refining NZ Independent Appraisal Report

Attractive M&A Opportunity

Channel Infrastructure, with its pipeline and terminal assets is an attractive acquisition target for strategic and financial buyers. The M&A environment in Australasia - particularly for infrastructure - is extremely active at present, and a takeover offer for Channel Infrastructure cannot be ruled out in the future. Pipeline and terminal assets are very attractive to large scale Superannuation Funds and Sovereign Wealth Funds, due to their low cost of capital versus pipeline / terminal asset yields which are very stable and attractive relative to bonds. With the continued low interest rate environment at the global macroeconomic level, the yields on offer in the infrastructure sector are attractive to institutional investors and limited partners alike. Superannuation funds in particular are attracted to infrastructure's defensiveness, consistent returns (yield), and diversification benefits. McKinsey estimates global demand to invest in infrastructure assets from these sources alone at US$21 trillion.

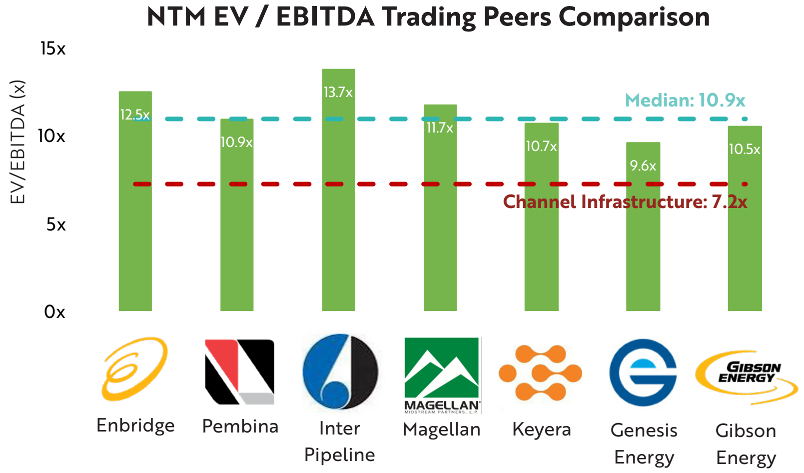
There has been a notable increase in the involvement of superannuation and pension funds in Australasian public company M&A in 2020/21. For example, Aware Super sought to take ASX-listed company OptiComm (a fibre infrastructure company) private by itself, rather than joining a consortium including private equity, but was ultimately out bid by Uniti (a telecommunications company) in the contested bidding. In 2021, AustralianSuper also made a non-binding indicative offer for NZX-listed infrastructure company Infratil. Private equity funds are also expected to be more active in the region in 2021-2022, with many having keeping their powder dry in 2020. For example, New York-based firm KKR closed its first fund focused on infrastructure investment across Asia-Pacific in January 2021. The US$3.9 billion fund, a record size for the region, will invest in sectors such as waste, renewables, power and utilities, telecommunications and transport infrastructure.

The enduring appeal of infrastructure assets has seen deals continue to be tabled in 2021, despite the unprecedented global disruption caused by the Pandemic. The Pandemic has accelerated the global effort to shift to less carbon-intensive energy sources, as companies come under increasing pressure from investors and activists to build a more sustainable economy. Investment in infrastructure projects looks set to be a key focus for government stimulus packages aiming to rebuild global economies post-pandemic.

Private capital is hunting aggressively for undervalued infrastructure companies. The recent bid for Sydney Airport is a clear signal of funds interest in deploying capital into infrastructure investments. Bank of America predicts that increasingly, companies with similar characteristics to Sydney Airport will find themselves on the receiving end of M&A bids. We believe post-transition, Channel Infrastructure may well become attractive to infrastructure investors given its earnings will be more stable and highly predictable due to the monopolistic nature of the underlying assets.

Valuation

We have assessed Channel Infrastructure's value two ways: (i) comparing earnings multiples against other pipeline companies; and, (ii) based on M&A multiples in the infrastructure sector. As seen in the chart to the right, Channel Infrastructure trades at a 33.9% discount to the Next-Twelve-Months (NTM) EV/EBITDA peers median of 10.9x. For potential M&A transaction multiples, we utilised Midstream M&A deals in North America and applied a 10% discount to account for geographic and size disparities. **Utilising industry average EV/EBITDA trading multiples and M&A transaction multiples, we arrive at a valuation range for Channel Infrastructure of $1.19 to $1.43 per share, presenting potential upside of between +36.24% to +64.68% from the 16 November 2021 share price.**



Conclusion

We believe that Channel Infrastructure continues to trade at a sizeable discount to its intrinsic value, and believe it offers attractive upside in the medium-term for the patient investor. Channel Infrastructure is an example of why you allocate a percentage of your portfolio to an active manager, and the value of the Elevation Capital Global Shares Fund in identifying unconventional opportunities. A March sell-down by index tracking (hugging) funds resulted in a share price trading well below intrinsic value by even the most conservative measures. This is when Elevation Capital's Global Shares Fund acquired the bulk of its current investment, at 41c per share. A lack of institutional investor interest due to no dividends (in the short-term) and ESG concerns creates an opportunity for investors with a longer-than-next-quarter time horizon. Channel Infrastructure is a compelling long-term investment for the Elevation Capital Global Shares Fund, with vital infrastructure that New Zealand Inc. requires to operate its economy and a new business model which will reposition the company for the future, both in terms of profitability yet also sustainability (via decarbonisation).

Channel Infrastructure Potential M&A Valuation Summary

EBITDA		**Low**	**High**
FY24F EBITDA* (NZ$m)		72	72
EV/EBITDA Multiples (x)		9.8	10.9
Implied Enterprise Value		**$702**	**$780**
FY24F Net Debt* (NZ$m)		323	323
FY24F Leases* (NZ$m)		9	9
Total Equity Value		**$370**	**$448**
Shares Outstanding (m)		313	313
Implied SOTP Share Price		**$1.19**	**$1.43**
Current Share Price	$0.87		
Forecast Upside		+36.24%	+64.68%
Elevation Capital Cost Basis**	$0.57		
Forecast Upside		+108.67%	+152.24%

*Grant Samuel Independent Report as at July 2021
**As at 16 November 2021

This summary report was written during the period August 2021 - November 2021.
Any data not referenced was sourced from Refining NZ Annual Reports, Earnings Conference Calls, and the Independent Appraisal Report for the conversion proposal.

1 Forsyth Barr Equity Research (2021). ESG Market.
2 KKR & Co (2021). KKR Announces New Fund.
3 Australian Financial Review. (2021). Infrastructure M&A Heating Up.
4 Capital IQ as at 16 November 2021.

ELEVATION CAPITAL
GLOBAL SHARES FUND

Independent Thinking
Disciplined Investing

[In-de-pend-ent Think-ing] indəˈpendənt THiNkiNG verb
Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you’re several thousand miles away from Wall Street in a different nation, it’s easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] disciplinəd inves’ting verb
The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.

MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2017, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2013, NEW ZEALAND

NOMINEE - MORNINGSTAR INTERNATIONAL EQUITIES CATEGORY FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

NOMINEE - FUNDSOURCE INTERNATIONAL EQUITY SECTOR FUND MANAGER OF THE YEAR 2012, NEW ZEALAND

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