

14 October 2020

The Shareholders
NZ Local Government Funding Agency

Dear Shareholder

You have recently received papers from the LGFA for its Annual General Meeting (AGM) on 19 November 2020. The Shareholders' Council has considered this material and wishes to make recommendations to help with your decision making prior to the AGM.

Our role (as per the Shareholders' Agreement) includes requirements to:

- Make recommendations to Shareholders as to the appointment removal, re-election, replacement and remuneration of Directors.
- Make recommendations to Shareholders as to any matters which require the approval of Shareholders.

Our recommendations on the AGM resolutions are as follows:

Resolution 1 – Financials

The financial statements and Auditor's report for the company for the year ended 30 June 2020 will be presented for consideration and discussion.

The Shareholders/ Council recommends this resolution is approved.

Resolution 2 – Appointment of Directors

Earlier this year the Shareholders' Council met to consider Board representation. At that time we formed the view that there was no pressing need to change the Board composition and we would therefore support the re-appointment of the incumbent retiring directors.

This support was conditional upon:

- a review being conducted in 2020/21 of the current Board's performance
- determining the skills and experience needed going forward
- an assessment of the incumbent Board against this matrix
- a review of succession planning for the Board Chair and Audit & Risk Chair roles.

As a result of this decision the Shareholders' Council did not actively seek additional nominations for the Director roles.

However, a nomination was subsequently received from Kapiti Coast District Council for the appointment of their CEO, Wayne Mawell, as a Non-Independent Director. The incumbent Non-Independent Director, Mike Timmer, is seeking re-election, meaning this position is contested.

Philip Cory-Wright, as the retiring Independent Director, seeks re-election, with no other nominees for this position.

Yesterday the Shareholders' Council interviewed the two nominees for the Non-Independent Director role. The unanimous view of those members present was that Mike Timmer should be re-appointed as:

- Given the uncertainty and volatility in financial markets forecast over the next year, there was a strong case for Board continuity
- He has been a strong performer within a highly competent Board
- He was able to demonstrate an awareness of issues facing all stakeholders i.e shareholders, guarantors, borrowers and investors

While Wayne also has strong credentials and offers a fresh perspective, it was felt that any new appointments should only be made after completing the review of the required composition and skills outlined above.

The Shareholders' Council recommends Philip Cory-Wright and Mike Timmer are re-elected.

Resolution 3 – Election of Nominating Local Authorities

This issue is not specified as being within the role of the Shareholders' Council, and while it falls within "matters which require the approval of Shareholders" we feel there is conflict of interest and it would be inappropriate to make a recommendation as two of the three candidates are already Shareholders' Council members.

Shareholders are therefore requested to make their own determination on this matter.

The Shareholders/ Council abstains from making a recommendation on this matter.

Resolution 4 – Changes to Foundation Policies

The proposed changes have been discussed in depth with LGFA management, and we agree that they are sensible adjustments that reflect the ongoing development and maturity of the company and in particular the changing nature of the lending portfolio.

In supporting the changes, we have requested LGFA complete a comprehensive review of the Treasury Policy within the next twelve months and continue to monitor relevant borrowing parameters, regardless of whether they are specified covenants.

The Shareholders/ Council supports the changes to the foundation policies.

I trust you find this information helpful. Please contact me or your Shareholders' Council liaison should you wish to discuss any matter relating to this letter or any other aspects of LGFA operations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Alan Adcock', written in a cursive style.

Alan Adcock
Chair, LGFA Shareholders' Council

cc. Mark Butcher, Chief Executive LGFA