



MEDIA RELEASE

20 NOVEMBER 2008

EBET CRITIC WIDE OF THE MARK

An article in the Weekend Herald (November 15) by columnist Brent Sheather that criticised the investment strategy of the Eastern Bay Energy Trust was wide of the mark for a number of reasons.

Not the least of his shortcomings was the fundamental fact that he appears to have missed the purpose for which the trust was set up in the first place, which was to have some ownership of our local electricity company (now known as Horizon Energy Distribution Ltd)).

One of the criticisms he makes is that the trust has not diversified its investment portfolio enough. The Horizon shareholding excluded, there is not a lot available for a large diversified portfolio. Mr Sheather suggests a prudent investment portfolio would include 50 stocks. That would mean the amount available outside the Horizon shares would equate to around \$120,000 in each stock, meaning each would be a very small investment indeed.

It should also be noted at this point that EBET did have some funds invested through Mr Sheather's company, Private Asset Management. This investment performed poorly and it was decided to withdraw these funds from Mr Sheather's company. Upon withdrawal, this investment realised a loss of \$50,731. One wonders if Mr Sheather would still have attacked EBET had these funds still been invested with his company.

I cannot recall Mr Sheather coming to an annual general meeting of EBET where he would certainly gain a better understanding of the purpose of the Trust and more of a feel of what other beneficiaries' expectations of EBET are.

The trustees recognise that there are some long term issues with the Horizon investment, with much of Horizon's income being price controlled by the Commerce Commission and limited to an annual increase of CPI minus 1% while costs will continue to rise. But the Eastern Bay Community are prepared to accept that there will be an ongoing decrease in value of this investment on the basis they want to see continued local ownership of a local asset.

While it is accepted that the EBET Trust Fund did decrease in value to the tune of \$13.7m during the 2008 year, this was caused by a decrease of \$14.4m in the value of the Horizon shares, meaning the other investments did, in fact, add to the Trust Fund.

Consideration should also be given to the performance of EBET since it was formed some 14 years ago. When EBET was first set up it was vested with 25% of the shares in what was then BOP Electricity. This equated to 5,000,000 shares which had a value then of \$2.25 each, making the original Trust Fund worth \$11,250,000. At March 31, 2008 the Trust Fund had a value of \$70 million and this is after EBET has made grants to the Eastern Bay community over this 14 year period of in excess of \$21 million. This equates to a compounding annual return of 14% after tax and grants, a much better long term result than many diversified funds.

Mr Sheather also erred in comparing EBET with both the BOP Community Trust and the Rotorua Energy Trust.

The BOP Community Trust was set up from the sale of Trust Bank to Westpac some years ago. It has never had a specific purpose of owning a particular asset like the EBET has, so has been able to operate with a good diversified portfolio of investments. The BOP Community Trust's annual report for 2008 shows an operating loss of \$7 million and paid community grants of \$4 million, resulting in a decrease in the Trust Fund for the year of \$11 million.

The Rotorua community made the decision some years ago that they would sell their electricity assets and become a community trust rather than a consumer trust as EBET is, and their trust now has completely different purposes. The RECT Annual Report for 2008 shows this trust had a reduction in its Trust Fund of \$15 million during that year.

The Tauranga Energy Trust is much closer in purpose to EBET, with its Trust Fund being almost entirely shares in TrustPower Limited. Unfortunately, its 2008 Annual Report shows its Trust Fund decreased in value by a whopping \$72 million during the year as a result of a decrease in the value of the TrustPower shares.

Kevin Hennessy
Chairman
Eastern Bay Energy Trust