


Imperatives for attracting investment and capital into the regions

Changing Rural Economies - The Future for Regions





Solving tomorrow's large scale environmental and social challenges requires a new way to partner and collaborate across sectors and technical disciplines. It requires purposeful transformation strategies, new forms of governance, and new instruments of finance. Inclusive Growth Partners provides these capabilities to governments, investors and industries, enabling partnerships that can address the world's most pressing challenges.

Our discussion today aims to explore the fundamentals of inclusive economic growth, place-based approaches and considerations for investors

Key concepts in today's discussion



Inclusive Economic Growth

Inclusive Growth is an approach to economic development that considers aspects of sustainable economy, participation, capacity building and multi-party investment.



Place-based Approach

Place-based investment is one approach to driving greater impact and economic outcomes from both public sector and private investment.

Place-based investment builds on inclusive growth and delivers financial returns through optimisation of local resources and creation of economic ecosystems.



Investment Considerations

Institutional investors place capital either directly or through asset managers, in public and private markets. Investor considerations include portfolio fit, exit options and other factors such as scale of capital and operational risk.

Income and wealth inequality in Australia was rising before COVID-19 with the top 20% having 90x wealth and 6x income of the bottom 20%

Income Inequality

2017

- The top 20 per cent of households have nearly six times the income of the lowest 20 per cent (increasing)
- The average household disposable income for people in the highest 20 per cent of households is \$4166 per week, more than twice the income of the middle 20 per cent (\$1884 per week) and nearly six times that of the lowest 20 per cent (\$753 per week)
- The main household income source across all households is wages and salaries
- Households in the highest 20 per cent receive almost two-thirds of all investment income (65 per cent), while those in the lowest 20 per cent receive over one-third (38 per cent) of all social security income

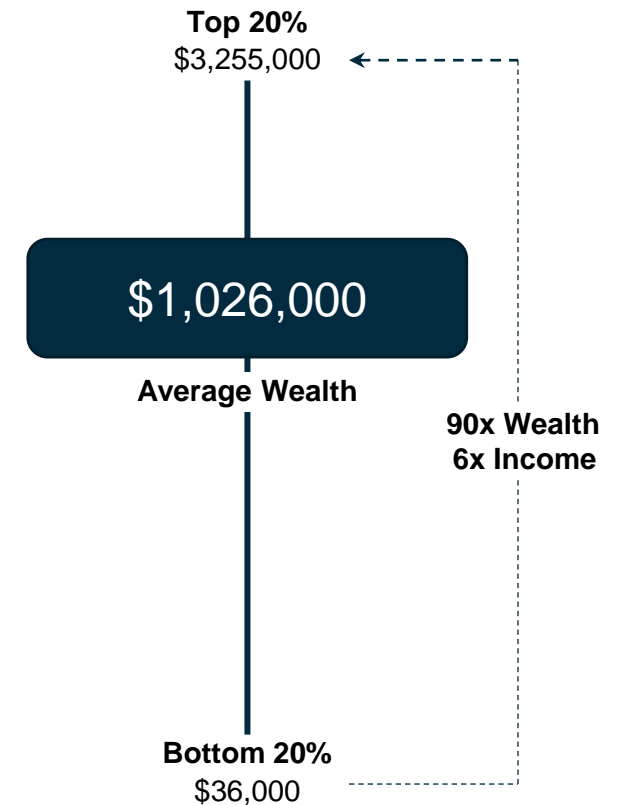
2020

- The industries most affected by the pandemic were twice as likely to employ workers with less than high school qualifications than the least affected industries
- Average weekly wages in the most affected industries were less than half (46 per cent) of those in least affected industries

Wealth Inequality

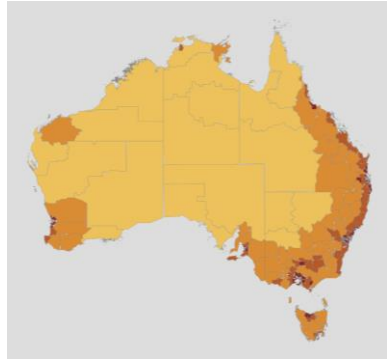
2017-2018

- Average wealth is \$1,026,000 and is distributed extremely unequally
- The average wealth of the top 20 percent of wealth-holders is \$3,255,000 – over 90 times the wealth of the lowest 20 per cent with just \$36,000
- From 2003 to 2017, the average wealth of the highest 20 percent **grew by 68 percent** compared with 6 percent for the lowest 20 percent
- The average superannuation of the top 20 percent is \$496,000 – nine times that of the lowest 20 percent at \$58,000



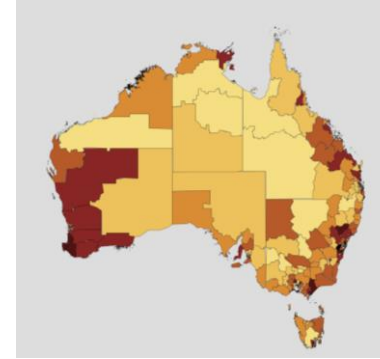
Population density, employment and demographics vary across Australia which create challenges for inclusive economic development that are specific to places

Context in 2016-2017, SA3 level, darker represents higher values



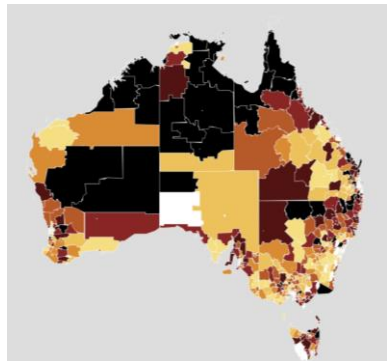
Population Density

Australia's population is concentrated in the major cities and surrounding suburbs



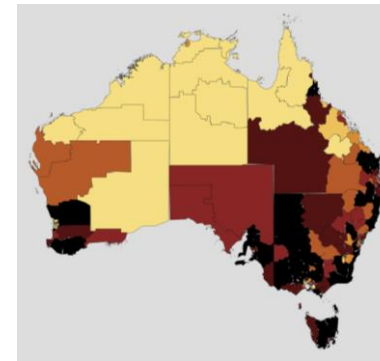
Inequality

Areas with high incomes tend to be the most unequal



Unemployment Rate

Both cities and regions have pockets of high unemployment



Age Distribution

Regional NSW and regional Victoria have older populations than the rest of the country

Investing in economic growth considers the approach, balance of local and 'global' market participation, as well as balance of diversification with growth

Common considerations for investment in economic growth

NOT EXHAUSTIVE

1

Top-down vs
bottom-up planning
approach

A top-down approach establishes a strategy without being encumbered by what is present today e.g. Abu Dhabi.

A bottom-up approach considers natural endowments first and approaches the challenge from the perspective of what can be done with what we have e.g. Latrobe Valley.

2

Balance of local
economy with
participation in other
markets

Local economic activity requires a critical mass of demand and supply across one or more commodities, goods or service areas.

Participation in other markets requires a focus on access to market (considering e.g. know-how, physical, economic and regulatory barriers).

3

Balance of
diversification with
growth

Balance of dependence on a key actor or industry, with development of an eco-system or cluster of mutually reinforcing activities; considering rate of growth and constraints of capital, depth of labour market and supporting enablers such as local professional services.

What is inclusive economic growth?

***Inclusive growth enables equitable distribution
of the benefits of economic growth to investors,
society and the environment***

Inclusive Growth is an approach to economic development that considers aspects of sustainable economy, participation, capacity building and multi-party investment

Overview of the key factors for inclusive economic growth



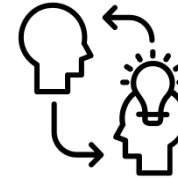
Sustainable Economy

- Is focused on economic activity and investment with financial returns
- Involves innovative finance including environmental finance, catalytic capital participation, and innovative ownership and distribution mechanisms
- Measures value across non-financial metrics
- Introduces means for productivity enhancement over time e.g. through innovation or technology



Governance

- Provides means for inclusive and democratic participation in planning and priority setting
- Links to physical place and its governance
- Enables precinct or master planning of place so investors can optimise land use against investment parameters
- Includes metrics, mechanisms, incentives and penalties around inclusion
- Provides opportunities for participation at all levels from employment to service provision to investment to decision making



Capacity Building

- Involves integrated capacity building in the economic activity
- Includes a structured approach to supply chain and SME participation in the eco-system
- Includes mechanisms for increased financial capacity and capital accumulation
- May include transition arrangements and skilling



Multi-party

- Involves more than two key economic actors (e.g. not bi-lateral)
- Government is not the dominant actor
- Considers environment as a key actor in the structure
- Focus is at an eco-system level

How can a place-based approach benefit regions?

“Edenville” is an Australian town with the potential to be an exemplar model of economic transition; from a coal mining and coal-fired energy producer, to a renewables-led, diversified and inclusive economy. Edenville aims to become an important node in Australia’s energy and transport system.

Edenville will leverage its natural endowments to achieve an economic and social transition using a place-based approach. The town’s geographic location and existing infrastructure will form the basis of an investment attraction program, that will link investment in real assets with services, coupled with a human capital development and transition program.

Leveraging rail and road infrastructure, Edenville can be a zero-carbon logistics hub for the entire eastern half of Australia. Sharing the benefits of this new investment with other local businesses, farmers and communities, the City of Edenville will be the exemplar of sustainable and just transition.

Place-based investment is one approach to driving greater impact and economic outcomes from both public sector and private investment

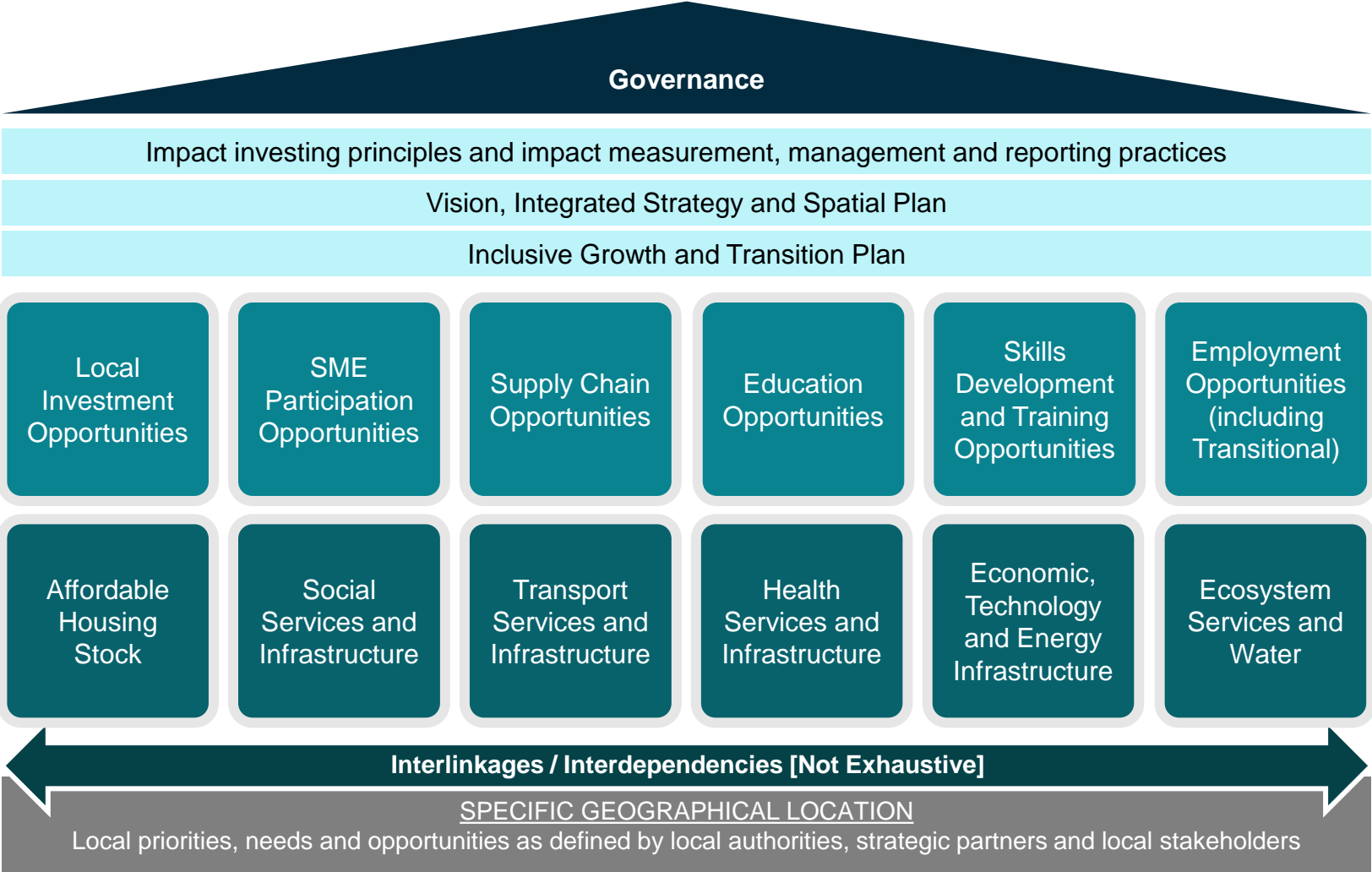
Overview of a place-based approach

- Shifts from **portfolio to outcome focus**
- Develops an **integrated decision making approach** allowing for holistic solutions and encouraging horizontal linkages and cross-sectoral responses
- Provides a **platform for partnership, funding and financing coordination**
- Captures **economies of scale** through aggregation
- Incorporates a deep **understanding of local context** in priorities and resourcing
- **Empowers local communities**, building human capital and ensuring that local people are agents of change



Place-based investment builds on inclusive growth and delivers financial returns through optimisation of local resources and creation of economic ecosystems

Framework for place-based investment



Agreed Geographic Area



Community Engagement



Shared Vision and Commitment to Outcomes



Integrated Governance (e.g. City / Regional Deals)



Collaborative Working



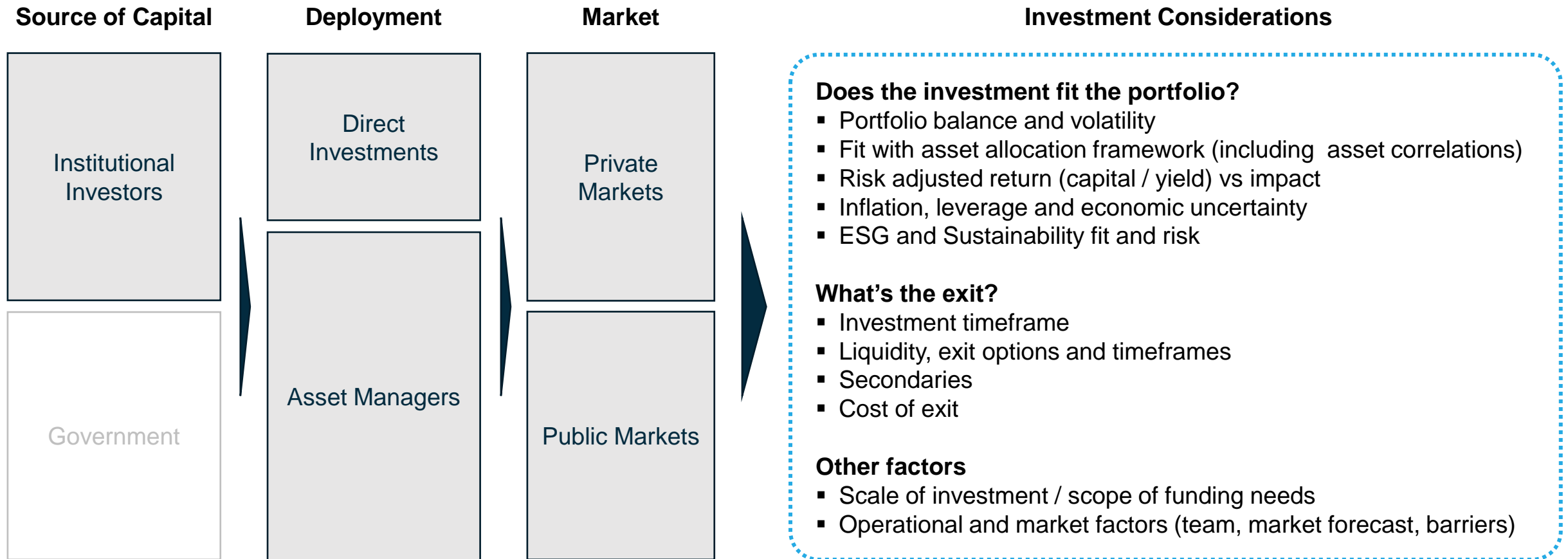
A Cycle of Integrated Learning

What are some of the investment considerations?

Institutional investors place capital directly and through asset managers through public and private markets - considerations include portfolio fit, exit options and other factors

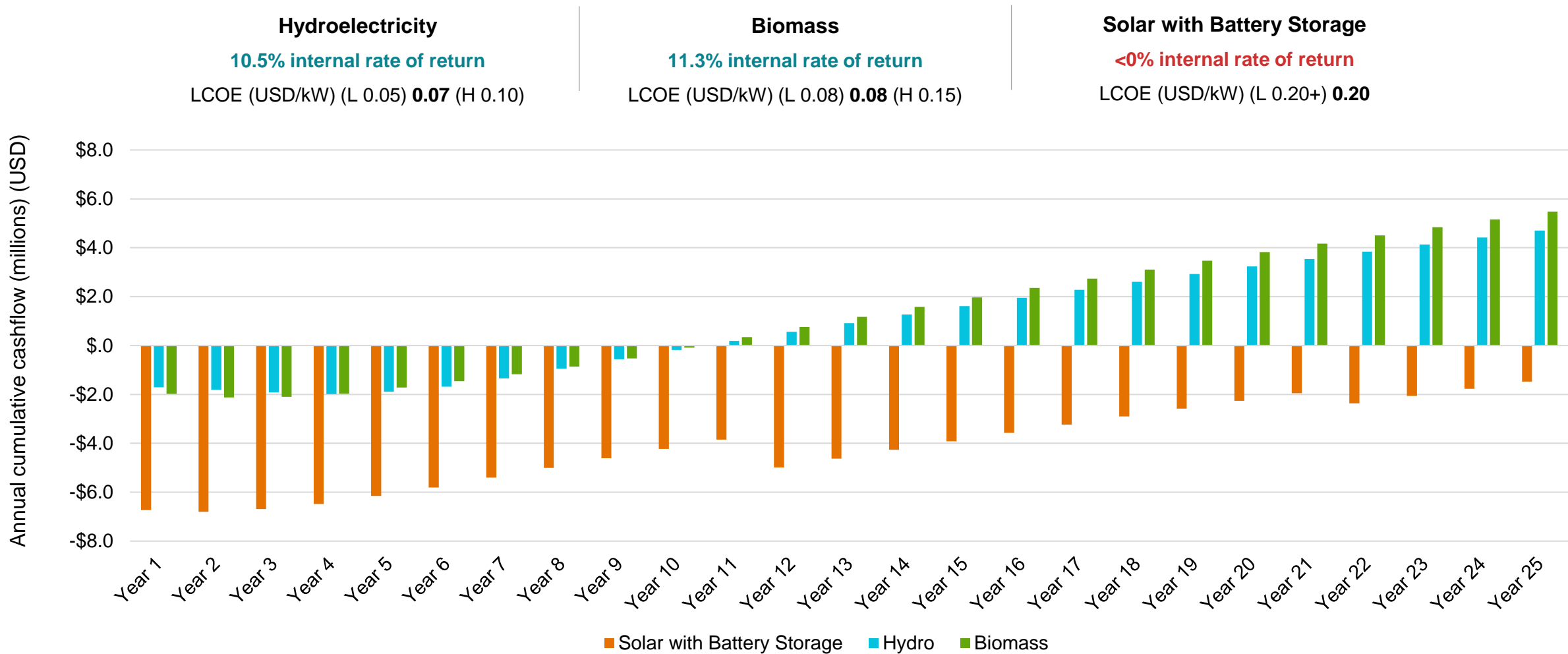
Considerations and barriers to investment

NOT EXHAUSTIVE



Funding is provided by customers or governments through an agreement, financing is used to address the mismatch in timing of cash flows; capital needs to be returned

Example free cash flow evaluation of an investment case for renewable energy plant options in a small town, 2018

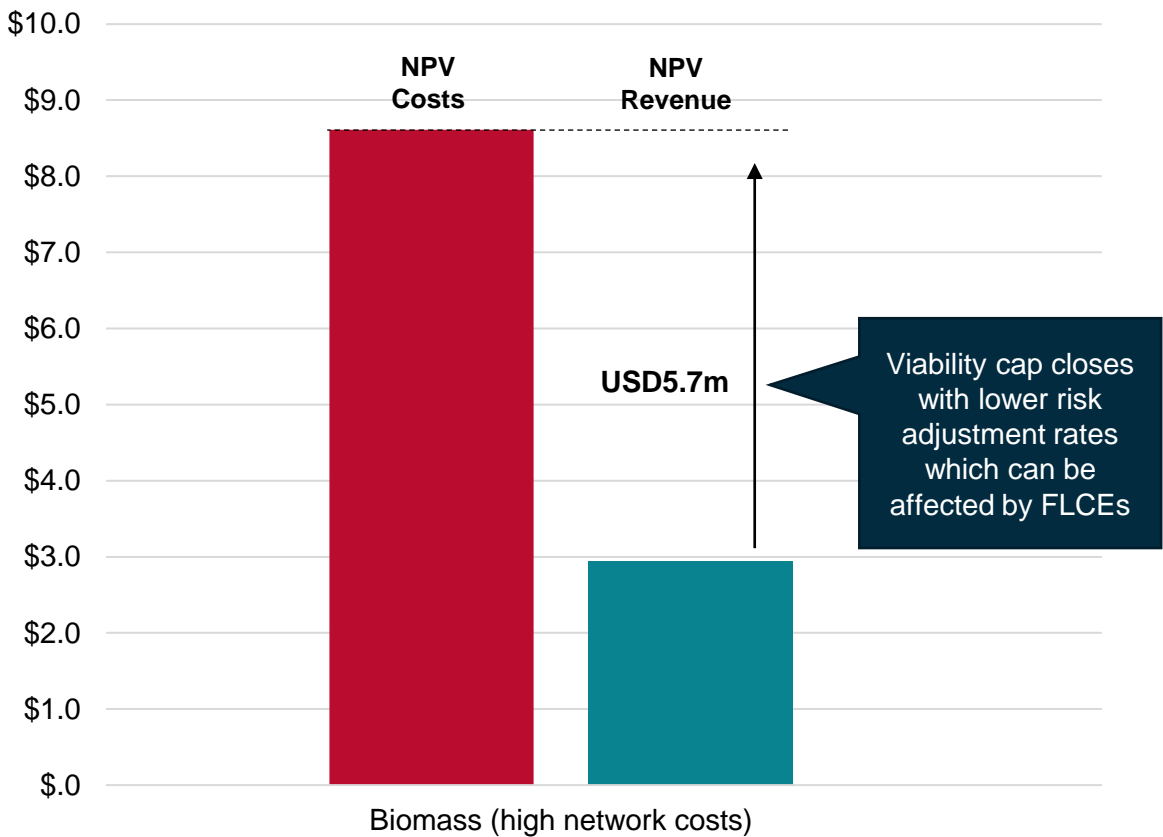


Government and philanthropists have been exploring first loss credit enhancements as a means to reduce risk for investors and catalyse capital flows into projects and markets

Credit enhancement approach

NOT EXHAUSTIVE

Example of viability gap under 15% risk rate, in USD\$m



First Loss Credit Enhancement (FLCE)

Instrument	Description
Equity	By taking the most junior equity position in the overall capital structure, the Provider takes first losses (but perhaps also seeks risk-adjusted returns); this includes common equity in structures that include preferred equity classes
Grants	A grant provided for the express purpose of covering a set amount of first-loss
Guarantees	A guarantee to cover a set amount of first-loss
Subordinated Debt	The most junior debt position in a distribution waterfall with various levels of debt seniority (with no equity in the structure)

Blended services and infrastructure through hub and spoke operating models is an interesting opportunity for regions

Example areas of investment that institutional and asset managers are exploring

EXAMPLES ONLY

Sustainable Affordable Housing

- Affordable and sustainable housing projects linked to regional industrial investment

Health Precincts

- Hospitals and clinics
- Telehealth hub and spoke
- Aged care linked with in-home and disability services

Climate Adaptation Infrastructure and Natural Capital Assets

- Coastal protection assets
- Water infrastructure including river and catchment assets and management
- Forestry assets and management



We work in partnership

Our team is collaborative and identifies appropriate ways to share risk in partnership with our clients



We build on evidence

Our community engagement is complemented by a focus on quantitative methods, and use of data



We adapt to change

Our approach enables flexibility and change as new insights are revealed and priorities set



We understand context

Our solutions draw on and integrate the broader resources of an ecosystem to create enduring impact



Thank You

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