SHAKERHILL PARTNERS

DATE: **AUGUST 31, 2015**
TO: **FILE**
FROM: ALAN HIBBEN
CC: **DENIS DESAUTELS**

SUBJECT: **SYNDICATE SELECTION PROCESS**

This memorandum summarizes the syndicate selection process undertaken as part of the Hydro One IPO and the results of that selection process.

1. The Province and Restructuring Secretariat assembled a selection panel consisting of Alan Veerman (Secretariat for the Premier's Advisory Council on Government Assets), Gadi Mayman (Ontario Financing Authority), Mike Vels (Hydro One), Alan Hibben (Restructuring Secretariat), Scott Nelms (Ministry of Energy), the active bookrunners RBC and BNS, and Tom Rahilly and Sharon Ranson as independent evaluators to make the final determination on the syndicate.

   The selection panel was assembled to ensure a balance between the specialized financial expertise required to provide advice on the syndicate selection process and ensure input was available from areas of the provincial government that have an on-going role in the Hydro One IPO: the Ministry of Energy, the Ontario Financing Authority, and the Secretariat for the Premier's Advisory Council on Government Assets. The selection panel was also supported by two additional independent evaluators, in order to further diversify the backgrounds and experiences of the selection panel members.

   i. Denis Desautels, as the Special Process Advisor to the Minister of Energy, continued his role in overseeing the development of materials associated with the syndicate selection process, as well as in observing the selection panel meeting, to ensure that the process was completed fairly and professionally.

   ii. For reference, the two independent evaluators have previously been reviewed by legal counsel for the Province and the Special Process Advisor to the Minister of Energy to ensure they have no actual or perceived conflict of interest in participation on a selection panel.

2. In assembling materials for the selection panel's review and at the request of the Province, the active bookrunners drew details from detailed proposals received by the province from BMO, CIBC, TD, National Bank, Goldman Sachs, and Barclays, as part of

the active bookrunner selection process. The level and type of information provided as part of the competitive process to be one of the active bookrunners also provides more than sufficient detail to evaluate each of these banks for participation in the syndicate; therefore, it was concluded that no further information would be needed from each of these banks to reach a recommendation on their position in the syndicate.

3. To gather data on additional banks that could be included in the syndicate, the active bookrunners RBC and BNS provided a template (attached as Appendix A) that provided an overview of the principal international banks of interest. The overview also included all of those banks that had approached the Restructuring Secretariat over the last six months to express interest in a transaction involving Hydro One.

    i. For reference, the Restructuring Secretariat was announced via press release (attached as Appendix B) on December 12, 2014 and explicitly invited any interested party to contact the Restructuring Secretariat in support of the work on Hydro One and the Premier's Advisory Council on Government Assets.

4. The active bookrunners RBC and BNS identified 44 additional Canadian investment banks (above and in addition to the international banks and other large remaining Canadian banks) that they believe could be potential participants in the Hydro One IPO as part of the syndicate.

    i. At the request of the Province, the 44 banks considered for inclusion was higher than would reasonably be considered for inclusion in the syndicate – a significant number of these banks would not have been substantial participants in any previous transactions of the complexity and size of Hydro One.

       However, in order to help demonstrate to the financial services industry that the Province was being inclusive and transparent, and on the advice of the Special Process Advisor to the Minister of Energy to have a written record of the invitation to each bank to be considered for inclusion in the syndicate, the list of potential participants was expanded to larger than was necessary or recommended – largely to mitigate any potential future criticism that the Province had excluded any interested party from the opportunity to participate.

5. All 44 of these additional investment banks received an invitation letter (see attached as Appendix C) to provide details of their firms, their retail business, their experience and their research profile. At the expiry of the invitation letter, replies were received from 33 of these investment banks, with an additional 2 indicating an interest only at the selling group level.

    i. The 75 per cent response rate to the invitation letter is consistent with the list of additional Canadian investment banks being larger than was considered reasonably necessary – it may have been that some banks did not respond on the basis that they did not see themselves as qualified to participate in a syndicate of this complexity and size.

   ii. For reference, all unsuccessful participants will receive an invitation to participate in the selling group where additional Canadian retail orders will be accumulated.

6. After the expiry of the invitation letter, the active bookrunners RBC and BNS provided a summary of the responses that were received from point 5 above, (see attached as Appendix D) and this summary, together with the material under points 2 and 3, were circulated to the selection panel along with other background material from RBC and BNS.

7. All of the selection panel members filled out an assessment of the potential syndicate on a provided template (see Appendix E) to help facilitate discussion and recommendations on a syndicate structure, which included an option for specifying economics for each individual investment bank and different tiers within the syndicate.

   i. Each member of the selection panel included recommendations on placement within the syndicate, and all but two of the panel members indicated relative economics for each of the investment banks - the other two panel members simply indicated participation at a level in the syndicate structure.

   For reference, the selection panel made these initial recommendations individually without group consensus or discussion, and provided them to the Restructuring Secretariat in advance of the meeting on August 17, 2015. This approach is consistent with the approach taken during the active bookrunner selection process – that each panel member fully reviewed the assembled information independently prior to attending the selection panel meeting.

8. At a meeting on August 17, 2015, all of the selection panel members met, under the observation of Mr. Desautels, to discuss the recommended composition of the syndicate.

   i. The Restructuring Secretariat analyzed all of the responses received from the selection panel and presented a summary table indicating the banks that received recommendations from the panel and averaged the proposed economics from those panel members that provided syndicate participation percentages.

   ii. For reference, this summary was not provided to selection panel members until the day of the actual meeting, so there was no opportunity for individual participants to discuss their recommendations in advance of having to discuss and defend their recommendations as a group.

9. The selection panel met for about two hours on August 17, and there was a spirited discussion over the position of each potential bank in the syndicate. All investment banks that received recommendations from panel members were discussed, including coverage of the banks that were not recommended for inclusion in the syndicate.

   In addition, there was a discussion concerning syndicate economics that involved a consideration of the position and titles of the bookrunners, co-lead managers and co-managers in the entire syndicate economics.

i. For reference, despite holding the role of active bookrunners and being members of the selection panel, the active bookrunners RBC and BNS specifically did not recommend or vote on any matter or point that influenced their own economics. This procedural point was both requested by the Province and Restructuring Secretariat and agreed to by the active bookrunners under the supervision of Mr. Desautels.

10. In coming to their consensus, selection panel members considered a wide range of factors and weighted factors based upon their individual financial experiences and professional judgment. However, the following principles appeared to be most critical during decision-making, based upon the discussion of panel members:

    a. Providing a fair allocation of fees to the global coordinators (i.e., active bookrunners) commensurate with the effort that was being expended, which the selection panel believes is consistent with the reduced fee structure for the Hydro One IPO recommended by the Advisory Council.

       For reference, the active bookrunners did not make recommendations or vote on these points.

    b. Providing a level of economic participation to the other large Canadian banks that are expected to be the largest traders and researchers for the shares in the after-market, which the selection panel believes to be helpful in achieving on-going value for the Province.

    c. Rewarding those firms that showed one or both of; good retail distribution in Canada, and research coverage of peer companies in the industry, which the selection panel believes will help the Province achieve its intended retail allocation and on-going value.

    d. Providing support to a sufficient number of international banks such that subsequent U.S. or global distribution could be enhanced, which the selection panel believes will help the Province's long-term strategic position and better achieve value in subsequent offerings.

    e. Providing a resulting syndicate size that was manageable and consistent with precedent large privatizations in Canada, which the selection panel balances the competing needs to be comparable with other IPOs, large enough to achieve its intended retail allocation, and practical to both the value of the IPO and long-term strategic value of the Province.

11. The unanimous consensus of the selection panel members and the final syndicate position and economics is attached as Appendix F.