

Product Disclosure Statement

for an offer of Units in
pmg Direct Office Fund

Issued by PMG Property Funds Management Limited
Dated: 22 May 2020

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer at <https://disclose-register.companiesoffice.govt.nz>. PMG Property Funds Management Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can also seek advice from a financial adviser to help you to make an investment decision.

1. KEY INFORMATION SUMMARY

1.1 What is this?

This is an offer of Units in the PMG Direct Office Fund (the **Fund**). Your money will be pooled with other investors' money and invested. PMG Property Funds Management Limited (the **Manager**) invests the money in assets, such as commercial real estate, and takes fees. The assets and fees are described in this document. By investing in this scheme, you are relying on the investment decisions of the Manager and returns from the assets that the scheme invests in. There is a risk that you may lose some or all of the money you invest.

1.2 Who Manages this Scheme?

The Manager manages this Fund. Section 10 of this Product Disclosure Statement (**PDS**) contains further details about the Manager and others involved in this Fund.

The Manager is licensed under the Financial Markets Conduct Act 2013 (**FMCA**) as a manager of Managed Investment Schemes, (excluding managed funds) ("schemes") which invest in, or own, real property in New Zealand.

1.3 What are You Investing in?

The Fund is a managed investment scheme.

Investment Objectives and Strategy

The investment objective of the Fund is to provide Unitholders with a stable monthly income stream combined with the potential for capital growth in the value of Units. To this end, the primary objectives of the Manager are to:

- (a) achieve a regular and reliable gross distribution level of 6.50 cents per Unit or above for the year ending 31 March 2021, increasing to 7.55 cents per unit or above for the year ended 31 March 2022 and beyond; and
- (b) grow the value of the portfolio of properties within the Fund.

The intention of the Fund is to continue to invest and grow a portfolio of quality commercial properties (principally office buildings) to achieve greater diversification and resilience of income with scale.

Property Portfolio

Existing Properties

The Fund was established on 1 November 2016, in accordance with the Master Trust Deed and the Establishment Trust Deed (together, the **Trust Deeds**), and currently holds the following seven properties (together, the **Existing Properties**):

- (a) 65B Main Highway, Ellerslie, Auckland
- (b) 410 Victoria Street and 12 Alma Street, Hamilton
- (c) 5 Short Street, Newmarket, Auckland
- (d) 2 Robert Street, Ellerslie, Auckland
- (e) 8 Rockridge Avenue, Penrose, Auckland
- (f) 127 Durham Street, Tauranga
- (g) 143 Durham Street, Tauranga.

Acquisition Property

The Fund will be purchasing the property at 213 Tuam Street, Christchurch, tenanted by Vodafone New Zealand Limited (the **Acquisition Property**).

The Existing Properties plus the Acquisition Property form the Property Portfolio - a total of eight properties across Auckland, Christchurch, Tauranga and Hamilton. Further information about the Fund's Property Portfolio can be found at Section 2.2 [The Fund's Property Portfolio](#).

Borrowings

The Acquisition Property will be purchased with funds raised through the issue of Units under this Offer and borrowings. The Manager has received a formal offering of funding from ASB Bank (**ASB**) primarily for this purpose. Further details about the Fund's borrowings are set out in Section 2.7 [Borrowings](#).

1.4 Key Terms of the Offer

| | |
|----------------------------|--------------------|
| Managed Investment Product | Units in the Fund. |
| Offer Opening Date | 30 May 2020. |
| Offer Closing Date | 29 June 2020. |
| Offer Price per Unit | \$1.18 per Unit. |

| | |
|------------------------------|--|
| Minimum Equity Raised | \$35,400,000 (30,000,000 Units). The Fund must meet this minimum subscription amount for the Offer to proceed. |
| Maximum Equity Raised | \$40,120,000 (34,000,000 Units). The Fund will not take subscriptions over this maximum amount. |
| Subscriptions | The minimum initial Unit subscription per Unitholder is 10,000 Units, and multiples thereafter of 5,000 Units. For existing investors, additional investment must be in multiples of 5,000 Units. |
| Scaling | If the Fund receives valid applications for more than \$40,120,000 (34,000,000 Units), being the Maximum Equity Raised, then scaling will apply. The Manager's discretion on scaling is absolute. |
| Minimum Holding | Transfers and redemptions will not be processed if these will result in an investor holding a number of Units that is below 10,000, unless the investor is selling or transferring its entire holding. |
| Underwrite | The issue of 22,500,000 Units is underwritten by the Manager ¹ . |
| Cash Distributions | Monthly, on the 25th day of each month. See Section 4.4 <i>Distributions</i> for more details. |

The full terms of the Offer are set out in Section 4 *Terms of the Offer*.

1.5 How You Can Get Your Money Out

Under the Trust Deeds, the Manager has discretion to provide a redemption facility for Units, but otherwise Units are not redeemable. To date, a redemption facility has not been provided to investors as the Fund is focussed on growth. The Manager does not intend to offer redemptions in the 2020 calendar year, due to the proximity of the Offer date. The Manager intends, subject to certain limitations, to provide redemptions of Units on an annual basis between 1 July and 31 July in future calendar years.

If the Manager provides a redemption facility for the Units at the commencement of each redemption period, the Manager will set a redemption price for Units. The redemption price will be based on the Net Asset Value (**NAV**) of the Fund, adjusted as described in Section 4.2 *How Can I Withdraw My Investment in the Fund?* The Manager is entitled to charge a fee equal to 1% plus GST of the gross value of the Units redeemed. The funds available for redemption of Units will be limited to 3% of the Fund's NAV (unless the Manager decides otherwise).

Your investment in these Units can be sold but there is no established market for trading these financial products. This means that you may not be able to find a buyer for your investment.

The Manager may operate a sales facility for Units from time-to-time. Further information about Unit redemption and the sale facility are set out in Section 4.2 *How Can I Withdraw My Investment in the Fund?*

1.6 Key Drivers of Returns

The aspects of the Fund that have, or may have, the most impact on its financial performance will be:

Income from the Property Portfolio – The Fund's primary source of income is the rental income from each of the properties in the Fund's Property Portfolio.

Capital value of the Property Portfolio – The value of Units will be influenced by the value of the Property Portfolio. The value of these investments, in turn, will be primarily influenced by the state of the property market, the level of rental income from each property, and the remaining terms of the leases of the properties.

The Manager's key strategies and plans in relation to these aspects of the Fund are set out in Section 2.5 *Aspects of the Fund With the Most Impact on Future Performance and the Key Strategies and Plans to Address Them*.

1.7 The Fund's Financial Information

Key Financial Metrics

| Period length | Financial year | Actual | | | Prospective | |
|---------------|---|------------|------------|------------|-------------|------------|
| | | Year | Year | Year | Year | Year |
| | | 2018 | 2019 | 2020 | 2021 | 2022 |
| \$ | Gross distribution per Unit ² | 7.50 cents | 7.50 cents | 7.50 cents | 6.61 cents | 7.55 cents |
| \$ | Gross cash distribution return on Offer Unit price ³ | N/A | N/A | N/A | 5.51% | 6.40% |
| 📊 | Gearing ratio ⁴ | 33.8% | 36.1% | 35.6% | 36.7% | 37.1% |
| 📈 | Interest cover ratio ⁵ | 2.5 | 2.3 | 2.8 | 3.4 | 3.8 |

¹ The Manager is expected to, but not required to, arrange sub-underwriting commitments for some or all of the underwritten amount. The cost of sub-underwriting is at no additional cost to the Fund or its investors. It does not impact the total underwriting fees charged to the Fund as a result of this Offer.

² Gross distribution per Unit is annualised, and in cents per Unit, before tax.

³ Gross cash distribution return for the prospective periods to 31 March 2022 are annualised and applicable only to Units issued under this Offer, expressed as a percentage of the Offer unit price of \$1.18 per Unit.

⁴ The Gearing Ratio equals the Fund's total interest-bearing liabilities as a proportion of the Fund's total assets at a point in time.

⁵ The Interest Cover Ratio is a multiple of the Fund's EBITDA (less unrealised gains, plus unrealised losses) compared to the Fund's interest expense. The higher the ratio, the greater the ability of the Fund to pay interest on bank loans.

The metrics include actual results from the Fund's historic financial information, plus forecasts based on the assumptions in the Fund's prospective financial information. It is presumed that 34,000,000 Units are issued under the Offer.

The Fund's prospective financial information includes an estimated provision for rental relief to tenants. This is in addition to further allowances for potential rental income reductions as a result of current economic circumstances known at the date of this PDS, related to the recent Coronavirus disease 2019 (COVID-19) pandemic.

For specific information on the current economic circumstances as they relate to the Fund, and the strategies the Fund already has in place to account for and adapt to these circumstances, see Section 7 *Risks to Returns From the PMG Direct Office Fund*. For associated impacts on the Fund's distributions, see Section 4.4 *Distributions*.

Further details about the Fund's financial information, including the impact of current economic circumstances, may be found in Section 6 *PMG Direct Office Fund's Financial Information*.

Valuations

The Manager has obtained recent independent valuation reports in relation to all properties in the Property Portfolio in anticipation of this Offer. All property valuations included in this PDS are stated as at dates within two months of the date of this PDS, reconfirmed by valuers within 3 weeks of the date of this PDS based on the current economic environment.

A brief description of the valuation of the Acquisition Property is set out below:

| Property | Valuation | Valuer | Valuation as at Date | Purchase Price ⁶ | Settlement Date |
|-----------------|--------------|--------------------|----------------------|-----------------------------|-----------------|
| 213 Tuam Street | \$58,400,000 | Jones Lang LaSalle | 5 May 2020 | \$58,650,000 | 30 June 2020 |

The basis for the valuation of the Acquisition Property, and the relevant assumptions underlying that valuation, are set out in Section 2.2 *The Fund's Property Portfolio* under the sub-heading *Notes on Valuation* in respect of the Acquisition Property.

Recent valuations have also been undertaken on the Existing Properties in the Fund. A summary of these properties can be found in Section 2.2 *The Fund's Property Portfolio*, under the sub-heading *Existing Properties*.

1.8 Key Risks Affecting this Investment

Investments in managed investment schemes are risky. You should consider whether the degree of uncertainty about the Fund's future performance and returns is suitable for you. The price of these Units should reflect the potential returns and the particular risks of these Units. The Manager considers that the most significant risk factors that could affect the value of the Units are as follows.

This summary does not cover all of the risks of investing in Units in the Fund. You should also read Section 7 *Risks to Returns from the PMG Direct Office Fund*.

- (a) **Rental Income and Tenant Default Risk** – The Fund is reliant on rental income from the Property Portfolio. Rental income from any property could stop or decrease for several reasons, including if a lease is terminated, expires without being renewed, or the rent under a lease decreases following a rent review. A risk of increased vacancy may present, particularly in properties with a lower Weighted Average Lease Term (WALT). There may be difficulty obtaining a replacement tenant and/or rental rates may be at a lower level than previously received. An existing tenant may also default on their obligations under a lease. A default by a large tenant, or several small tenants, may materially impact the financial performance of the Fund. A loss or reduction in rental income may have a significant detrimental impact on the Fund's ability to make distributions to Unitholders or on the value of Units. A significant drop in rental income, or increase in tenant defaults, could also result in a breach of banking covenants.

In the current economic environment, as a result of COVID-19, the Manager has already provided rental relief to tenants and has further allowed for the Manager's best estimate of reduced rental income likely for the remainder of the prospective periods. This includes the risk of leases not renewing, or taking longer to renew, which is more likely in properties with lower WALTs. As a direct result, the Manager has proactively reduced forecast distributions to investors for the year to 31 March 2021 to manage the Fund's exposure to these actual and expected rental income reductions.

- (b) **Valuation Risk** – Property market conditions, the economic environment and fluctuations in supply and demand for commercial (primarily office) properties will affect the value of the Property Portfolio. The value of the Property Portfolio directly impacts the value per Unit held in the Fund, the Offer Unit Price, and the Gearing of the Fund amongst other metrics.

The Manager has obtained independent valuation reports on the Existing Properties, and the Acquisition Property, dated within 2 months of the date of this PDS. The current economic environment, as a result of COVID-19, has been factored into the valuations as at the date of the valuation reports. These valuations have since been reconfirmed, in May 2020, by each independent valuer as remaining appropriate in the current economic environment. The valuation reports have been prepared on the basis of material valuation uncertainty. Less certainty, and a higher degree of caution, should be applied when relying on these valuations than is normally the case. Values may change more rapidly and significantly than under normal conditions.

- (c) **Interest Rate Risk** – The Fund is reliant on interest bearing bank borrowings from ASB, which generate a material expense to the Fund. Interest rates on the Fund's borrowings are not fixed. Movements in interest rates will affect returns to Unitholders and changes in interest rates are unable to be predicted with certainty. The Fund utilises interest rate swap arrangements to mitigate against unexpected interest rate changes.

⁶ The purchase price excludes any costs associated with acquisition that may be capitalised into the carrying value of the Acquisition Property.

1.9 What Fees Will You Pay?

The table below summarises the fees and expenses that you will be charged to invest in the Fund. Further information about fees is set out in Section 8 *What are the Fees?* All fees and expenses are stated exclusive of GST unless otherwise indicated.

Offer Costs

| | |
|---|--------------------|
| Manager and associated persons' Offer Costs charged to the Fund (estimated) | \$2,468,150 |
| Other Offer Costs charged by others to the Fund (estimated) | \$460,000 |
| Total Offer Costs charged to the Fund (estimated) | \$2,928,150 |

Offer Costs include fees and expenses charged by the Manager (property acquisition fees, underwriting commitment fees and brokerage fees), by associated persons of the Manager (deposit fee), and by other persons (legal fees, marketing costs, due diligence fees, accounting fees, Supervisor's fees, and other administrative and contingency costs). For further detail, see Section 8.1 *Offer Costs*.

The Offer Costs charged to the Fund are included in aggregated fees and expenses in the table below, in the year ending 31 March 2021. Previous offer costs have also been included in the table below where applicable.

Aggregated Fees and Expenses

| Financial year | Actual | | | Prospective (estimated) | |
|---|--------------------|--------------------|--------------------|-------------------------|--------------------|
| | Year 2018 | Year 2019 | Year 2020 | Year 2021 | Year 2022 |
| Fees and expenses charged by the Manager and associated persons | \$811,277 | \$702,205 | \$2,754,774 | \$3,442,606 | \$1,086,803 |
| Fees and expenses charged by the Manager and associated persons as a percentage of NAV: | 2.63% | 2.25% | 5.02% | 3.75% | 1.18% |
| Fees and expenses charged by other persons | \$3,412,441 | \$4,289,545 | \$5,692,318 | \$6,981,297 | \$6,678,740 |
| Fees and expenses charged by other persons as a percentage of NAV: | 11.06% | 13.72% | 10.38% | 7.61% | 7.28% |

In addition to the Offer Costs, the aggregated fees and expenses include ongoing fees and expenses charged by the Manager and by other persons. Prior periods also include prior offer related costs (relevant to the year ending 31 March 2019 and 31 March 2020).

The estimated Manager and associated persons fees are based on assumptions (set out in Section 6.4 *Principal Assumptions for Prospective Financial Information*). Specifically, the performance fee and termination fee are only payable in certain circumstances and, for the purposes of all prospective periods, have been assumed to not be payable and are therefore nil.

The estimated fees and expenses charged by other persons' specifically exclude distributions to investors and the purchase price of properties. The fees are disclosed in further detail in Section 8.2 *Aggregated Fees and Expenses*.

Fees Charged to Individual Investors

- Redemption Fee: The Manager is entitled to charge a break fee on redemption of any Units. Currently, the break fee is 1% of the gross value of the Units redeemed, plus GST.
- Sale of Units: Units are freely transferable, and no fee is payable by a Unitholder on transfer of their Units to a third party. However, if Units are sold through the sales facility operated by the Manager (as described in Section 4.2 *How Can I Withdraw My Investment in the Fund?*), the Manager may charge a fee of 1.5% plus GST for this service.

1.10 How Will Your Investment be Taxed?

The Fund is a portfolio investment entity (PIE). The amount of tax you pay in respect of a PIE is based on your prescribed investor rate (PIR). To determine your PIR, please see the application form or go to <http://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate>. See Section 9 *Tax* for more information about taxation.

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LETTER FROM THE BOARD

Dear Investor,

We are pleased to present you with the opportunity to invest in the Offer of Units in the PMG Direct Office Fund (the **Fund**). The Fund is managed by PMG Property Funds Management Limited (the **Manager** or **PMG**), an experienced and trusted property funds manager with a 28-year track record of successfully managing property funds.

PMG Direct Office Fund is a core investment fund for PMG investors among PMG's suite of funds. With a successful history dating back to 2016, the Fund is one of the most established and geographically diverse unlisted office property funds in New Zealand.



From Left to Right: Wayne Beilby, Scott McKenzie, Nigel Lowe, Daniel Lem and Denis McMahon

Our strategy for the Fund is to actively improve the quality of the portfolio through proactive asset management, improving existing properties, and acquiring higher quality properties to achieve greater robustness with scale.

Funds raised from the Offer will be used to acquire the Acquisition Property, a premium grade office property called Vodafone Innov8, located in the heart of Christchurch's CBD at 213 Tuam Street. Leased to Vodafone New Zealand, a national telecommunications provider operating from Vodafone's South Island headquarters, this property is a 5-star rated 'green building'.

This acquisition meets PMG's strict criteria regarding quality and will further enhance the overall quality of the PMG Direct Office Fund portfolio, ensuring we continue to deliver resilient and reliable cash distributions and value growth over time to investors.

The Fund currently has seven office properties, which are home to a diversified mix of 52 tenants and has a total value of \$90 million. Following the successful capital raise and acquisition of the Acquisition Property, the projected value of the Fund's Property Portfolio will be \$149 million, with a portfolio of eight properties and 53 tenants.

Rental income from Government, telecommunications, technology, and professional services tenants will increase to over 75% of the total income of the portfolio, which is likely to improve the Fund's overall resilience during economic events like we are seeing currently. The Offer is largely underwritten so investors can have comfort the required funds can be raised during the Offer period and the acquisition of the Acquisition Property is likely to be successful. While the negative effects of the COVID-19 pandemic on New Zealand's economy are yet to become clear, PMG Direct Office Fund's portfolio is well placed to weather the storm with conservative bank borrowings, resilient tenants, quality properties and a Manager with proven track record of managing property funds through multiple economic cycles. The acquisition of the Acquisition Property will only enhance the Fund's robustness.

The Fund's performance to date has exceeded our expectations, with a total annualised return before tax, from the perspective of an original investor, of around 11.4% per annum to 31 March 2020⁷. The Fund is forecasting a gross cash distribution return of 6.50 cents per Unit for the period 1 June 2020 to 31 March 2021 (5.5% equivalent cash yield⁸), increasing to 7.55 cents per Unit for the full financial year to 31 March 2022 (6.4% equivalent cash yield⁸). The Fund has lowered the projected cash return for the 2021 financial year as a conservative response to account for the possible short term impact to rental income as a result of COVID-19, with a view to ensuring cash returns remain sustainable for the long term.

We invite you to join us as we continue to execute our strategy and goal of building a diversified portfolio to provide sustainable returns and growth in value over time to investors.

This PDS contains important information about the Fund and the Offer. We encourage you to read this PDS carefully and consider in particular Section 7 *Risks to Returns from the PMG Direct Office Fund* before making your investment decision.

Yours faithfully,

Denis McMahon
Chairman & Director

Wayne Beilby
Independent Director

Scott McKenzie
Director

Daniel Lem
Director

Nigel Lowe
Director

⁷ Presumes investor paid \$1.00 per unit and has held the unit from Fund establishment to 31 March 2020. The total return includes both total gross distributions received (24.56 cents per unit), plus the expected increase in price per unit from inception to the Offer unit price of \$1.18 (18.00 cents per unit).

⁸ Equivalent cash yield on Unit purchase price of \$1.18 per Unit.

2. WHAT PMG DIRECT OFFICE FUND INVESTS IN

2.1 SIPO Summary

The Fund has an updated Statement of Investment Policies and Objectives (SIPO). The summary is as follows:

- (a) **Purpose:** To continue to invest and grow a portfolio of quality commercial properties (principally office buildings) to achieve greater diversification and resilience of income with scale.
- (b) **Investment Objectives:** The investment objective of the Fund is to provide Unitholders with a stable monthly income stream combined with the potential for capital growth in the value of Units.

To this end, the primary objectives of the Fund are:

- (i) to achieve regular and reliable gross distribution levels of 6.50 cents per Unit or above for the year ending 31 March 2021, increasing to 7.55 cents per Unit or above for the year ending 31 March 2022 and beyond; and
- (ii) to grow the value of the portfolio of buildings in the Fund.

The performance benchmark for the Fund is the average 10-year Government bond yield (as published by the Reserve Bank of New Zealand), plus 4% measured by the annual capital and income returns to Unitholders (**Fund Performance Benchmark**).

- (c) **Investment Philosophy:** The Manager believes that high-quality commercial properties (principally office buildings), held over the medium to long term, provide Unitholders with the opportunity for income and capital growth in excess of inflation.
- (d) **Investment Strategy:** The investment strategy of the Fund is:
- (i) to invest directly in office buildings across major metropolitan centres of New Zealand; and
- (ii) to grow the value of the property portfolio by leasing the remaining vacant space, maintaining the properties and finding opportunities to add value to the properties.

(e) **Permitted Investments:**

| | |
|----------------------------|---|
| Asset Classes | <ul style="list-style-type: none">· Direct investments in commercial property· Interest rate swaps (for hedging purposes)· Other assets associated with property ownership; and· Cash. |
| Sectors | <ul style="list-style-type: none">· Commercial property (principally office buildings). |
| Geographic Location | <ul style="list-style-type: none">· Major New Zealand metropolitan centres. |

(f) **Target Asset Allocations:**

| Asset Class | Target Allocation |
|---|--------------------------|
| Direct investments in commercial property | 70% - 100% |
| Interest rate swaps | 0% - 10% |
| Other assets associated with property ownership | 0% - 10% |
| Cash | 0% - 10% |

(g) **Target benchmarks for investment property**

- (i) Weighted Average Lease Term not less than two years
- (ii) Property occupancy greater than 80%; and
- (iii) Loan-to-value ratio no greater than 50%.

(h) **Distribution Policy**

It is the Manager's policy to distribute 100% of the surplus net distributable income of the Fund to Unitholders. Distributions may be reduced where cash reserves are required to pay for planned capital expenditure on a directly owned property.

(i) **Investment Strategy Review:** The Board of Directors of the Manager (the **Board**) will, on an annual basis, review the key metrics for the Fund's property investments and assess if any of the property investments should be sold. The key metrics to be considered include:

- (i) Macro-economic conditions: the underlying macro-economic conditions that may influence the Fund's future performance
- (ii) Forecast major capital expenditure: whether any works are due on the properties, how this will be funded, and the impact it may have on cash distributions
- (iii) Lease expiry profile: whether leases are expiring at a similar time and whether it is likely that the tenants will renew their leases
- (iv) Weighted average lease term: the average length of time that the leases have to run
- (v) Annual return against benchmarks: a measure of how the Fund is performing against the Fund Performance Benchmark
- (vi) Property market conditions: the future prospects for office buildings in the Fund's target geographic areas
- (vii) Property valuations: a review of annual property revaluations and, where necessary, examination of why there are value differences to the prior year
- (viii) Forecast net income: whether the current cash distributions are sustainable; and
- (ix) Forecast compliance with banking covenants: whether the Fund is at risk of breaching its banking covenants in the future.

If the Manager believes that a property investment should be sold, it will prepare a report to the Board for its consideration. If the Board approves the recommendation, the Manager will endeavour to sell the property. Any decision by the Board to sell a property is subject to the terms of the Master Trust Deed, the Establishment Deed and the FMCA. This means that the Manager must notify the Supervisor about the proposed sale, and the Supervisor is entitled to refuse to sell the property if, in the Supervisor's opinion, the transaction is manifestly not in the interests of Unitholders or is in breach of the Trust Deeds or any law.

If the review by the Board identifies a material and sustained change in conditions, then the investment strategy may be amended by the Manager. This amendment in the investment strategy may involve an amendment to the SIPO, in which case the SIPO review process will be triggered.

(j) **SIPO Review:** The Board will formally review the SIPO on an annual basis, or as required, in relation to market conditions and regulatory requirements. If a change to the SIPO or investment strategy is proposed, the Board must follow the procedure in its charter to amend the SIPO.

If the SIPO is amended or replaced, the Manager will notify Unitholders and the Supervisor in accordance with the FMCA and the governing documents of the Fund.

The SIPO may be found in the scheme register at <https://disclose-register.companiesoffice.govt.nz> under Scheme Number **SCH10921**.



2.2 THE FUND'S PROPERTY PORTFOLIO

Property Portfolio Overview

| | Portfolio Before Settlement Date ⁹ | Portfolio After Settlement Date ¹⁰ |
|--|---|--|
|  Target Distribution per Unit¹¹ | 6.50 cents per unit | 6.50 cents per unit (to 31 March 2021) 7.55 cents per unit thereafter |
|  Properties Owned | 7 | 8 |
|  Number of Unique Tenants¹² | 52 | 53 |
|  Occupancy¹³ | 97% | 98% |
|  WALT | 3.9 years | 5.6 years |
|  Gearing ratio | 37% | 36% |
|  Portfolio Valuation¹⁴ | \$90.25m | \$148.65m |

⁹ All items in this column are stated pre acquisition of the Acquisition Property. Unless otherwise stated, information in this column is stated as at the day prior to Settlement Date, based on information available up to the date of this PDS.

¹⁰ All items in this column are stated post acquisition of the Acquisition Property, following 34,000,000 Units being issued from the Offer. Information is as at Settlement Date unless otherwise stated.

¹¹ For further information, see Section 4.4 *Distributions*.

¹² Number of unique tenants is less than the ultimate number of leases, as some tenants are party to more than one lease. This also excludes lessees of solely car parking spaces.

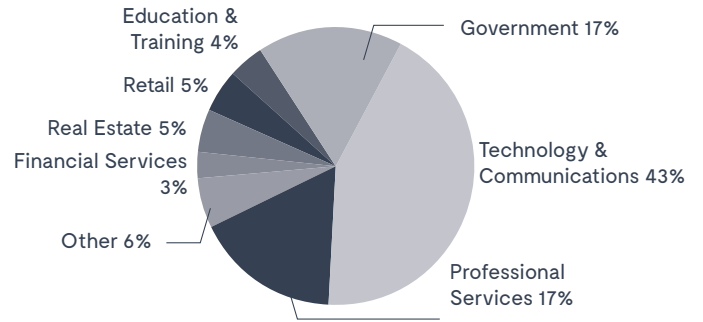
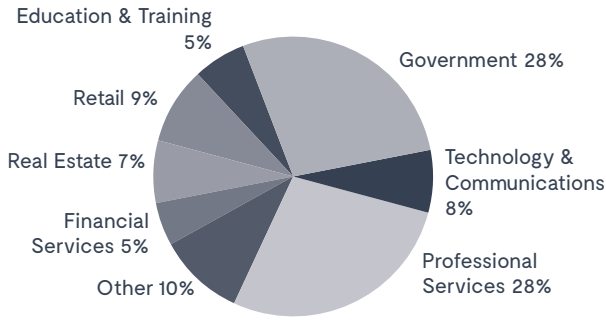
¹³ Occupancy is based on sqm net lettable area projected as occupied before and after acquisition of the Acquisition Property on Settlement Date, based on current facts and circumstances at the date of this PDS. This excludes any car parking vacancy.

¹⁴ The Property Portfolio valuation is stated as per the value on the most recent independent valuation report held by the Fund per property. The valuation excludes future forecast capital expenditure, or capitalised property acquisition costs.

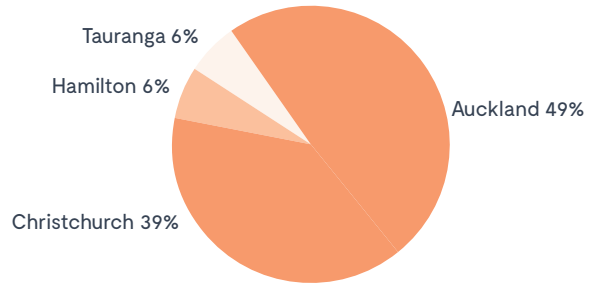
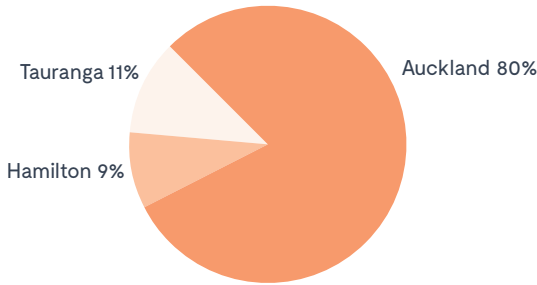
**Portfolio Before
Settlement Date⁹**

**Portfolio After
Settlement Date¹⁰**

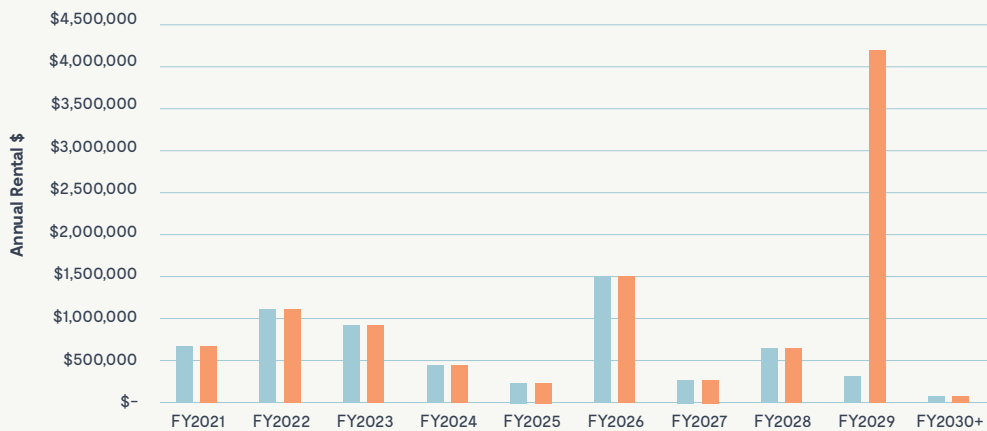
Rental Income by Tenant Industry¹⁵



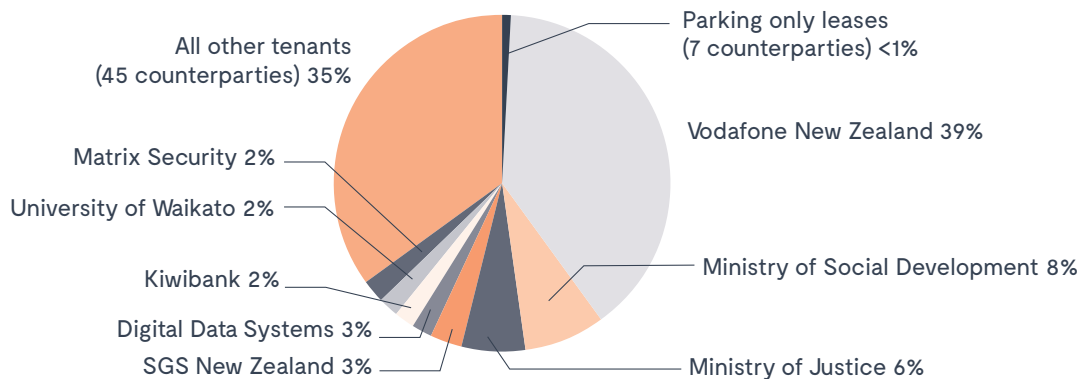
Rental Income by Region



Portfolio annual lease rental expiry profile



Forecast Rental Income by Tenant as at Settlement Date



¹⁵ Tenant Income by Industry allocates the prospective revenue per annum from the Fund's Property Portfolio by tenant operating sector defined by the Manager.



213 Tuam Street, Christchurch

Property Portfolio Strategy

The Fund's primary purpose is to grow a portfolio of quality commercial properties with diversification and resilience of income at scale. The Manager intends to deliver this ongoing increase in diversification and resilience by exposing the Fund to higher-quality properties and tenants, new geographic regions, and a focus on tenant industry sectors that traditionally, or prospectively, are considered likely to be more resilient through market cycles.

The Fund will specifically achieve this by increasing the proportion of rental income the Fund generates from larger, blue chip organisations (typically having a national reputation for quality, reliability and the expected ability to operate profitably in good and bad market cycles).

In direct pursuit of the above purpose and strategy, the Manager has sourced the Acquisition Property, which it believes delivers on this strategy. It is a high-quality office property located in a new region for the Fund that is tenanted by a major national organisation.

Acquisition Property - 213 Tuam Street, Christchurch

The purpose of this Offer is to raise capital to help fund the acquisition of the Acquisition Property. Copies of the independent valuation report and the Sale and Purchase Agreement for the Acquisition Property are available on the offer register at <https://disclose-register.companiesoffice.govt.nz>, Offer Number **OFR12881 (Offer Register)** and may be inspected free of charge during normal business hours at the office of the Manager located as set out in Section 14 **Contact Information**. Details about the Acquisition Property and the surrounding market in Christchurch is set out below.



213 Tuam Street, Christchurch

| | | | | |
|--|---|--|---|--|
| <p>Commercial Offices plus Retail Property Type</p> | <p>8,941 sqm Net Lettable Area</p> | <p>\$58,400,000 (See notes below) Valuation</p> | <p>100%* Occupancy (as of date of PDS)</p> | <p>8.1 years WALT (as at Settlement Date)</p> |
|--|---|--|---|--|

* The occupancy rate is based on net lettable area, with 100% of the 8,941 sqm net lettable area of the building being fully leased to Vodafone. It does not consider the number of associated leasehold car parking spaces with vacancy, which are to be let on a casual basis, and amount to approximately 4.5% of the Acquisition Property's market rental income.

| | |
|--|---|
| Address: | Building - 213 Tuam Street, Christchurch Leasehold car and bike parks - 2/160 Lichfield Street, Christchurch |
| Purchase price: | \$58,650,000 (based on a valuation in December 2019 of \$58,650,000). In light of current market sentiment and COVID-19, the valuation stated above (as at 5 May 2020) is \$250,000 (0.4%) lower than the originally negotiated purchase price. |
| Vendor: | Tuam Street West Limited |
| Key tenants: | Vodafone New Zealand Limited |
| Rental Income from Settlement Date: | \$3,758,494 (Building) \$150,092 (Car and bike parks) per annum |
| Seismic rating: | At least 100% NBS (as stated by Kirk Roberts Consulting) ¹⁶ |

¹⁶ A copy of the letter confirming this technical seismic information is available on the Disclose Register for this offer under OFR12881.

The Market

The Acquisition Property marks the first investment by PMG Direct Office Fund in the Canterbury region.

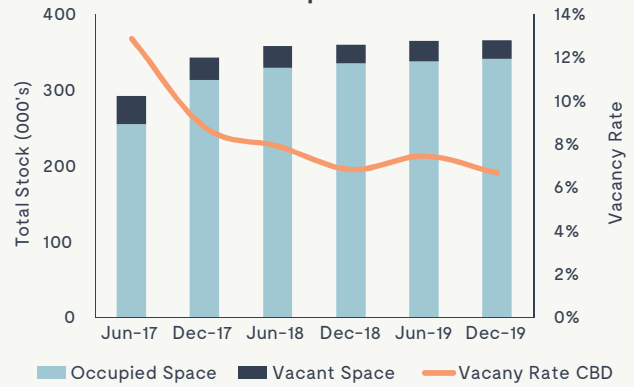
As the hub of the South Island, Christchurch is well positioned to benefit the surrounding regions, while also ensuring local opportunities for innovation and growth. As the CBD has undergone rapid development, Christchurch has become one of the most modern cities in New Zealand. World class design practices have ensured that the future of the city will thrive with modern amenities and a revitalised CBD. Key areas of activity continue to drive engagement within the city, with further large-scale civic projects set to be complete in the coming years. Heavy investment in civic assets in the CBD continues to draw residents and occupiers alike. Projects which are still to be delivered include a new convention centre, stadium and indoor sports arena.

Christchurch's attractiveness as an investment destination is enhanced by the yields obtainable from prime CBD office property (between 6-7%) when compared to current interest rates (90-day rates and 10-year bond yields below 1%). The difference between the two in relation to Christchurch is significant, creating opportunity for strong investor returns.

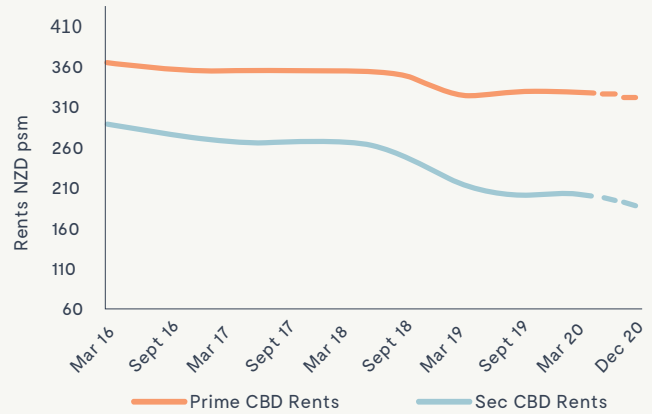
CBD office vacancy declined throughout 2019 and declining vacancy rates are expected to continue as CBD absorption is supported by occupier relocation from the suburbs. Throughout 2020 and beyond, the development pipeline of prime office buildings is expected to continue to taper off which will help underpin occupancy rates and rental rates. Occupier demand within Christchurch remains strong, with localised demand drivers balanced between cost and amenities, including parking. Centralised premises are likely to continue to prove to be an attractive offering as dated suburban stock can no longer compete with the emerging CBD. Vacancies that do exist typically enable tenants to move up the property grade spectrum.

Following stabilisation of prime CBD office rents per sqm during 2019, at around \$360 - \$400 per sqm, the declining level of new supply and shift to quality is expected to support prime CBD office rents in the face of a slight downward trend in prime CBD office rent during the COVID-19 pandemic.

Christchurch CBD Vacancy Rate and Occupied Stock



Christchurch CBD Office Rents (\$/m²)



Source: Jones Lang LaSalle valuation report dated 5 May 2020.

Why Christchurch?



New Zealand's Second Largest City

Christchurch is the second-most populated city in New Zealand with an estimated population of over 390,000 in 2019.



Median Age

37.1 years (Statistics NZ, 2018 census).



A Strong Economy

With a low unemployment rate, high levels of economic activity and solid employment opportunities, the Christchurch economy is strong.



World Class Education

Two universities and one public tertiary institute. Plus the \$1 billion investment in local schools is well underway.



Rebuild & Recovery Investment

Estimated \$40 billion (Canterbury Employers Chamber of Commerce).



Internationally Connected

Christchurch has New Zealand's second largest international airport and a state-of-the-art seaport in Lyttelton Harbour.



House Prices

The median Christchurch house price was \$450,000, nationally it was \$597,000 (June 2019). (Source: Real Estate Institute of New Zealand).



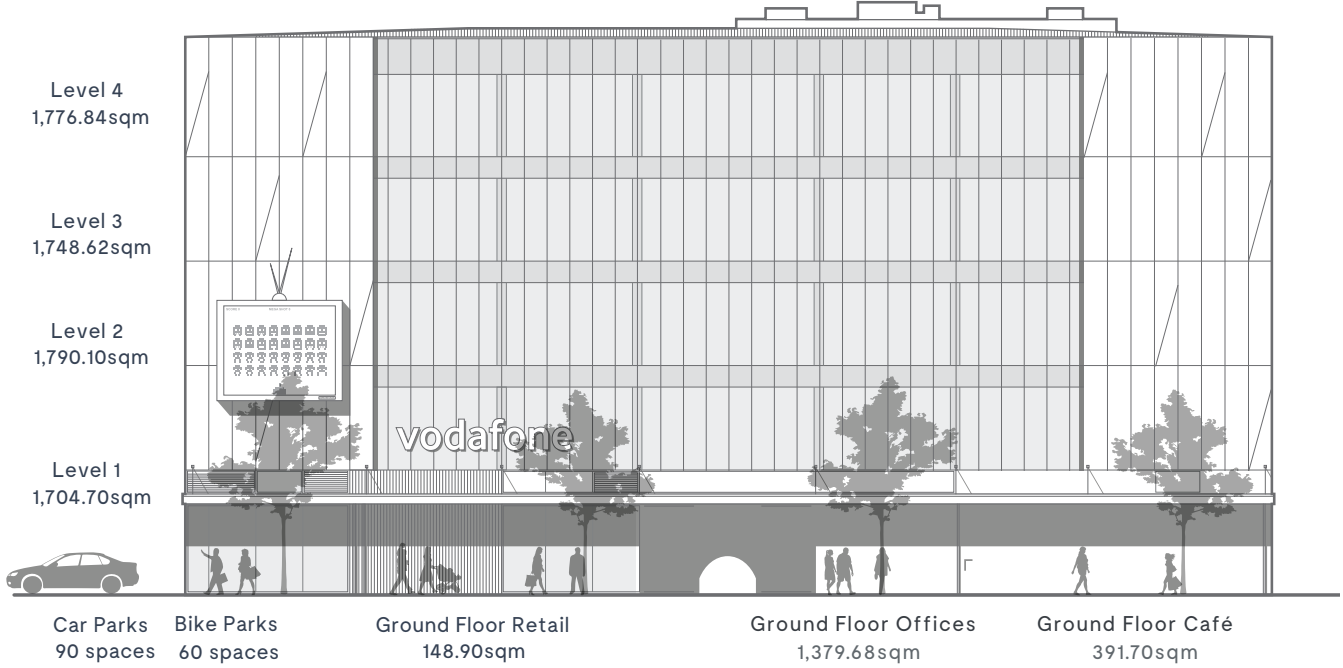
Transport

Estimated \$900m spent on motorway infrastructure to improve connectivity and reduce travel times.

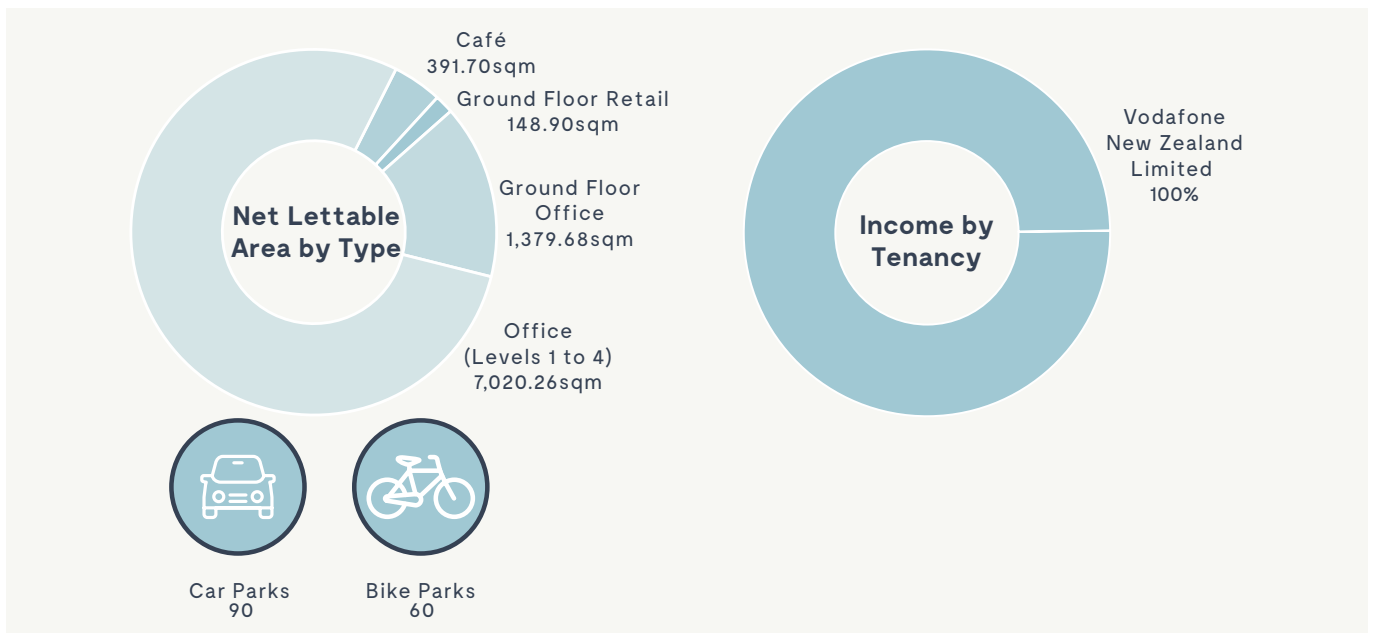
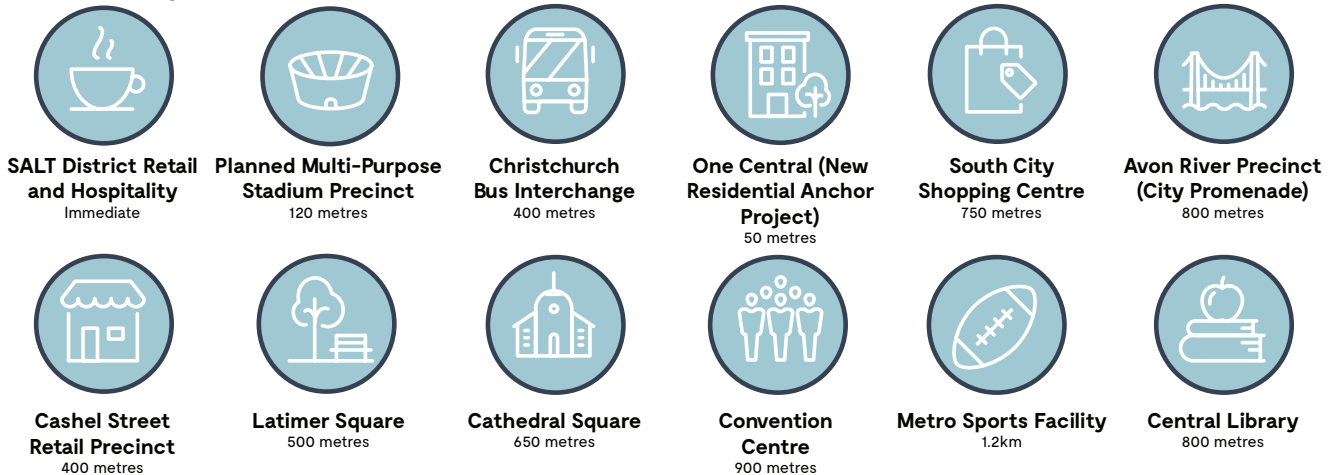
The Property

Stack Plan

Large efficient floor plates with excellent natural light and panoramic views of the Port Hills and the Southern Alps.



Distance to Key Amenities



The Acquisition Property comprises a five-level, 'A-grade' office building occupying an inner-city land holding of 2,024 sqm, with frontage to Tuam, Poplar and Ash Streets in the South Eastern portion of the CBD. The property is zoned for commercial central city (south frame), enabling the building to be multi-use in nature. Surrounding the property is office/retail to the south, residential developments by Fletcher Building to the north, and land earmarked for Christchurch Stadium to the east. The property is a short distance from the Bus Exchange, with a proposed tram line extension through the CBD to better utilise existing tram routes. The main location characteristics include:

- Good transport links and one-way roading
- Prominent exposure, good frontage, and dual access from both Tuam and Poplar Streets
- Mixed offerings with retail and office space
- Further population growth expected within the CBD with further residential areas being developed
- Key infrastructure to be developed with the stadium to be built in the next five years.

Completed in 2016, the building has achieved a 5 Green Star Office Design rating, incorporating a passive solar design, high performance façade to maximise daylight, integrated fit-out to reduce waste, and an efficient ventilation system that brings fresh air into the space (50% above the required building code).

While the building does not have dedicated internal parking, the sale and purchase agreement for the property enables the Fund to lease 90 car and 60 bike parking spaces on a 999-year lease term (in perpetuity) at 2/160 Lichfield Street, to the north west of the building. The lease is with Innovation Car Park Limited, at an estimated cost per annum (annualised as at Settlement Date) of \$324,000.

The Tenant

The building is fully leased by a single tenant, Vodafone New Zealand, who operate in a telecommunications market in New Zealand exceeding \$5 billion. The business was purchased from Vodafone Group PLC by a consortium including Infratil and Brookfield Asset Management for \$3.4 billion in 2019, following revenue of \$2.0 billion and underlying EBITDA of \$463 million for the year to 31 March 2019. The acquisition value implied an enterprise value EBITDA multiple of 6.9x – 7.4x, and Vodafone New Zealand is expected to deliver strong cash flow to support current and future growth opportunities¹⁷.

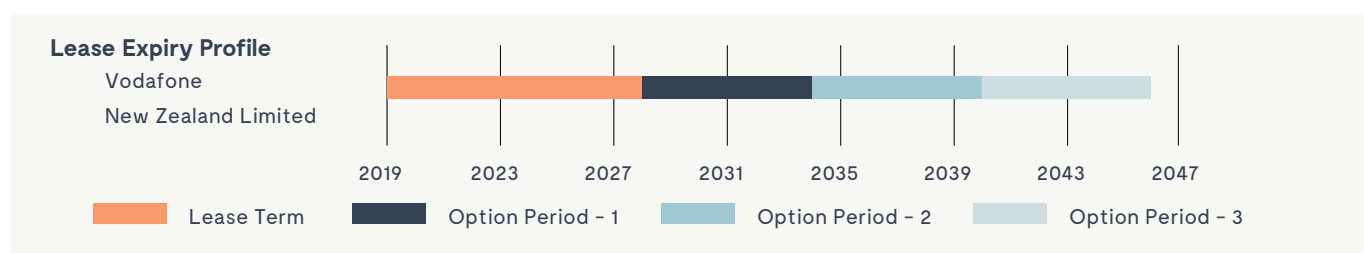
Vodafone is New Zealand's largest mobile phone operator, and employs over 3,000 people with operations covering 98.5% of the country. Vodafone New Zealand offers more than 3 million mobile and broadband connections to consumer and business customers with an estimated 41% market share. The main offices are spread across Auckland, Wellington and Christchurch. Vodafone New Zealand are a market partner in the Vodafone Group, one of the world's largest telecommunications companies. As a result of the above, the Manager has no concerns over Vodafone's ability to meet the terms of its lease agreement from Settlement Date.

The Lease

The Manager considers the lease relating to this property to be material information. A summary of this lease is set out below.

| | |
|-------------------|--|
| Tenant Details | Vodafone New Zealand Limited |
| Term of the Lease | Twelve years, initially expiring 16 August 2028 |
| Rights of Renewal | Three rights of renewal, each for a term of six years |
| Rent Reviews | Market rent review to be conducted on 17 August 2022 and on each of the renewal dates, with rent payable restricted to within 90-110% of the rent payable in the year preceding the review. In all other years, the rent from the prior year will automatically increase by 2.25% per annum. |

If Vodafone New Zealand takes up all rights of renewal, the lease could be extended to August 2046.



While Vodafone lease the entire property, the ground floor retail space (149 sqm) and level four office space (1,777 sqm) are currently unoccupied. It is possible Vodafone may sublet these areas to third parties in the future.

A significant amount of investment has been made by the tenant with a superior quality building fit-out. The previous landlord contributed \$2,478,600 as a tenant incentive to enable this fit-out. This contribution has been added to the tenant's lease obligation and is amortised over the lease term. Operating expenditure is payable by the tenant, and both the existing annual rental and operating expenditure are believed to represent market value. The lease also includes rental of 40 car and 60 bike parking spaces from the Fund's total complement of leasehold parks near the property. The remaining 50 car parking spaces are to be leased by the Fund to other parties on a casual basis.

A copy of the lease is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR12881.

¹⁷ <https://www.scoop.co.nz/stories/BU1905/S00398/infratil-announces-nz34-billion-acquisition-of-vodafone-nz.htm>

The Manager does not have access to all financial information related to the tenant. However, the Manager has carried out due diligence on the financial standing of the tenant and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

Property Strategy

As the property is modern, well maintained and the net lettable area of the building is 100% let to Vodafone, the Manager's strategy is to ensure the existing tenant is satisfied in the building as part of an ongoing tenant retention strategy. The rent review mechanism within the lease includes fixed annual rental increases of 2.25% per annum that the Manager will capitalise upon. The Manager also aims to achieve positive results from periodic market rent reviews in due course over the lease term and at initial expiry. The Manager intends to hold proactive lease and rental negotiations at the appropriate time with Vodafone, while also seeking to lease as many of the vacant adjacent car parking spaces as possible, to further improve revenue achieved from the overall property.

Should there be demand from smaller companies to share space currently unutilised by Vodafone New Zealand, the Manager would consider splitting floorspace for multiple tenants.

Notes on Valuation

The Tuam Street property was independently valued by Jones Lang LaSalle on 5 May 2020.

The valuation was carried out in accordance with the latest International Valuation Standards 2020, the Australia and New Zealand Valuation and Property Standards, and was undertaken using a combination of the following approaches:

- The Capitalisation of Net Income Approach – the direct capitalisation of passing and market income
- The Discounted Cashflow Approach – utilising cash flow projections, combined with discount rates, growth rates, sustainable rental levels, vacancy allowances, capital expenditure, outgoings, and terminal yields.

The valuation is on the basis of plus GST (if any) and reflects the following:

| | | | |
|----------------------|---------|---------------------------------------|-------------|
| Value per sqm of NLA | \$6,532 | Weighted Average Remaining Lease Term | 7.89 years* |
| Initial Yield | 6.07% | Yield on Net Market Income | 6.06% |

*The valuers assessment of future rental income beyond the prospective financial information period includes assumptions that differ from PMG, and thus the valuer has estimated a different WALT term to that stated by the Manager. The Manager's assessment ultimately aligns with the actual lease term of the property, expiring 8.1 years after Settlement Date.

In preparing the valuation, the critical assumptions include:

- The valuation is reported on the basis of material valuation uncertainty as a result of COVID-19 and the related economic environment. The valuer presumes COVID-19 Alert Level 4 or Alert Level 3 restrictions are temporary and will be lifted in a short period of time, and as such will not have a material impact on valuation. Despite this, the valuation assumptions were made on 5 May 2020, and therefore take into account the independent valuers best estimate of the impact of the current economic environment related to COVID-19.
- In addition to the above, due to the restrictions in place at the time of the report, a full site inspection was not possible. This was last undertaken on 17 December 2019 and the valuer considers themselves familiar with the property and the location.
- An underlying rental obligation to Innovation Carpark Limited for leased parking spaces.
- Casual car parks are vacant, fully leased up after six months of ownership.
- In the Capitalisation of Net Income Approach, the building's capitalisation rate applied is 6.00% for office area, and 6.75% for retail area (weighted average of 6.05%).
- In the Discounted Cashflow Approach, a discount rate of 7.70% is applied and average applied rental growth is 1.85%.
- Other income from fit-out rental receivable at \$206,550 per year, valued at \$1,347,062.
- The valuation presumes all remediation work in relation to historic storage tanks or drums for fuel, chemical or liquid waste on site has been carried out to satisfy the requirements for commercial development, which has occurred since a site inspection in August 2014.

For further assumptions, see a copy of the valuation report, which is available on the Offer Register at www.business.govt.nz/disclose under Offer Number **OFR12881**.

Existing Properties

The valuation reports referred to in this section are available on the Offer Register at www.business.govt.nz/disclose under Offer Number **OFR12881**.

All valuation reports referred to in this section have been prepared on the basis of 'material valuation uncertainty' due to the impact of the COVID-19 outbreak.

This matter has been emphasised in the Auditor's report attached to the Fund's audited financial statements for the year ending 31 March 2020, which can be found on the Offer Register.

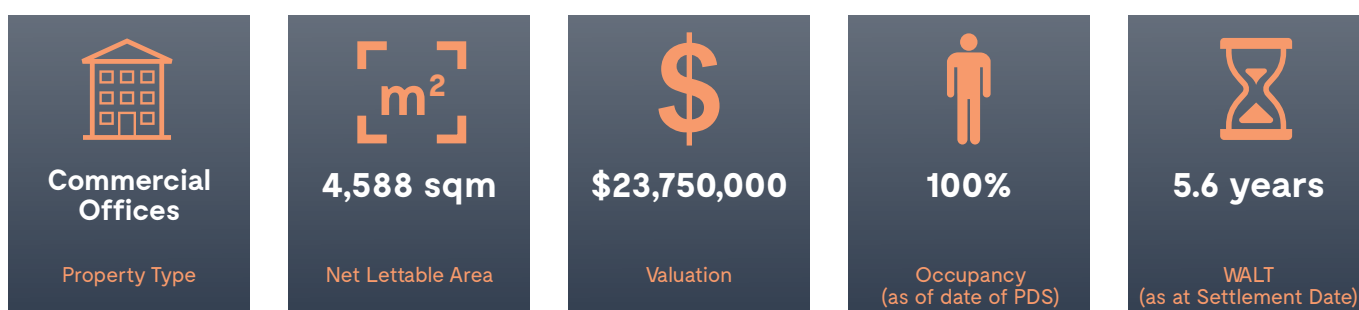
Consequently, less certainty – and a higher degree of caution – should be applied when relying on valuations than is normally the case. Values may change more rapidly and significantly than under normal circumstances. The valuation assumptions in relation to the Existing Properties take into account the independent valuers best estimate of the impact of the current economic environment related to COVID-19 as at the date of the valuation reports, which has been reconfirmed by each valuer during May 2020.

Throughout this sub-section, Expected Rental represents the expected annualised rental income as at Settlement Date, stated before lease incentives, based on the contractual arrangements in place at 31 March 2020 plus any prospective period assumptions up to Settlement Date related to lease renewals, vacancies and rent reviews.

65B Main Highway, Ellerslie, Auckland



65B Main Highway, Ellerslie, Auckland



The building was constructed in 2003 and comprises a free-standing four-level office building of above average specification. It is in the popular southern corridor area of Ellerslie, Auckland, with the Ellerslie train station approximately 100 metres away. The property is located alongside another almost identical building and together they are structured as a Stratum in Freehold title, on a 4,780 sqm underlying parent site. The property has access to a total of 159 car parks, primarily located underground. The property is currently 100% occupied, with contracted rent from the office space and car parks. The rental income is underpinned by two committed Government tenants that contribute over 80% of the property's total rental income. The Ministry of Justice (**MOJ**) have a lease running to July 2027, and The Ministry of Social Development (**MSD**) have a recently renewed lease, now running through to February 2026.

Property Strategy

The Manager successfully upgraded the property to a seismic rating of 100% NBS within the first twelve months of acquisition in April 2019. Furthermore, the Manager has extended the lease term with MSD by six years, with an additional 15 car parks, and intends to undertake agreed upgrade works related to the MOJ tenancy and the building's main ground floor lobby estimated at \$500,000, as part of executing the Manager's ongoing strategy to retain existing tenants.

As the property remains 100% occupied, the Manager's strategy is to continue with its ongoing tenant retention strategy, seeking further rental growth through proactive lease and rental negotiations at the appropriate time with existing tenants.

| | |
|--------------------------------|--|
| Address: | 65B Main Highway, Ellerslie, Auckland |
| Purchase price: | \$21,743,000 (17 April 2019) |
| Current Independent Valuation: | \$23,750,000 (by Aim Valuation, as at 31 March 2020) |
| Seismic rating: | 100% NBS |
| Expected Rental: | \$1,604,556 per annum |
| Key Tenants: | Ministry of Justice, Ministry of Social Development |
| Key Tenant Industry Exposure: | Government |

Notes on Leases

A summary of material leases is set out below:

| | |
|-------------------|--|
| Tenant Details | Ministry of Justice |
| Expected Rental | \$571,804 per annum |
| Term of the Lease | Nine years, expiring 30 June 2027 |
| Rights of Renewal | None remaining |
| Rent Reviews | Three-yearly from commencement date |
| Key Information | The tenant has a rent holiday incentive totalling \$217,158 applied from 1 January 2019, utilised net against tenant payables across 24 months. At Settlement Date, 75% of this incentive will have been provided to the tenant. |
| Tenant Details | Ministry of Social Development |
| Expected Rental | \$769,212 per annum |
| Term of the Lease | Six years, expiring 31 January 2026 |
| Rights of Renewal | None remaining |
| Rent Reviews | Market rent review three-yearly from commencement date. The market rent review effective as at the renewal date of 1 February 2020 is currently under negotiation. The next market rent review following this is due 1 February 2023. A Consumer Price Index rent review will occur on 1 February every year that is not subject to a specific market rent review. |

Copies of the leases (which are considered to be material information) are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number **OFR12881**.






The property is also tenanted by Digital Data Systems Limited, with car parking leased to several other parties.

The Manager does not have access to all financial information related to the tenants. However, the Manager has carried out due diligence on the financial standing of the tenants and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

5 Short Street, Newmarket, Auckland



5 Short Street, Newmarket, Auckland

| | | | | |
|---|--|---|---|---|
|  <p>Commercial Offices</p> <p>Property Type</p> |  <p>4,286 sqm</p> <p>Net Lettable Area</p> |  <p>\$20,500,000</p> <p>Valuation</p> |  <p>100%</p> <p>Occupancy (as of date of PDS)</p> |  <p>2.0 years</p> <p>WALT (as at Settlement Date)</p> |
|---|--|---|---|---|

Recently refurbished, this is a 1970's eight-level commercial office building providing a rentable area of some 4,286 sqm with two ground floor retail tenancies, 29 car parks, and situated on a 1,037 sqm freehold site. Located in the heart of Newmarket, and only a short distance from Broadway and Khyber Pass Road, the 5 Short Street property is in a well-positioned inner-city location with convenient access to both State Highway 1 and downtown Auckland. The property has been moderately upgraded, predominantly provides office space, and is suited to small and medium sized business occupiers seeking a fringe city occupancy cost that is lower than that offered by the CBD. The Manager occupies one of the tenancies.

Property Strategy

There are several tenants within the property who have upcoming rights of renewal or rent reviews. To improve the WALT and rental income from the property in the prospective periods, the Manager has proactively agreed an unconditional 10-year lease of signage space on the exterior of the property, commencing September 2020. This lease will replace an existing lease with a term of less than one year from Settlement Date, and increases the income from leasing space on the exterior of the property by \$238,685 per annum to \$285,000 per annum. In isolation, this will increase the WALT of the property from 2.0 years, as quoted above, to 3.5 years and will make the lessee the largest source of rental income from this property.

The leasing strategy continues to be retention of the existing tenants within the property, and, where necessary, relocating tenants to alternative floors within the property to accommodate their growth requirements and space needs should vacant space arise. The Manager's strategy is to proactively engage tenants early to negotiate and, where required, incentivise the renewal of their leases in order to increase the property's WALT and grow the rental income from the property over time.

Related to extending tenancy agreements, the Manager is currently considering the refurbishment of the property to improve the façade and replace the original joinery throughout the building, amongst other items of capital expenditure. The prospective financial information currently allows for a total of \$1,315,343 in capital expenditure related to the property, the majority of which relates to these property improvement works. This is the minimum spending the Manager believes is required should this work commence. An architect will be engaged to provide design advice and the Manager will undertake a more in-depth review of the requirements and benefits of the upgrade works before proceeding.

| | |
|--------------------------------|---|
| Address: | 5 Short Street, Newmarket, Auckland |
| Purchase Price: | \$14,200,000 (on Fund establishment) |
| Current Independent Valuation: | \$20,500,000 (by Jones Lang LaSalle as at 14 May 2020) |
| Seismic rating: | 80% NBS |
| Expected Rental: | \$1,347,576 per annum |
| Key Tenants: | Summerset Management Group Ltd and NZ Family Planning Association Inc. (JCDecaux from September 2020) |
| Key Tenant Industry Exposure: | Social Services |

Notes on Leases

There are no individual leases at Short Street considered to be material to the Fund.

A summary of the tenants is set out below:

| | |
|---|---|
| Summerset Management Group Ltd | Patel Pike & Associates Ltd |
| PMG Property Funds Management Limited | Wing Kong Wong |
| Outpost Central Limited | NZ Family Planning Association Inc. |
| S W Morris & Associates Limited | Sun & Moon Limited |
| Reynolds and Associates Limited | Accountancy Insurance General Partner Limited |
| Foodfirst Limited | Forsite Limited |
| Ashley & Martin (NZ) Limited | Oakland Apartment Limited |
| English Language Partners New Zealand | De Lacey & Associates Limited |
| SMEtric Consulting Group Limited | Anail Limited |
| Pacific Islands Trade Commission | Saturn Group Limited |
| APN Outdoor Limited (new lease with JCDecaux from September 2020) | |

The Manager does not have access to all financial information related to the tenants (other than the Manager). However, the Manager has carried out due diligence on the financial standing of the tenants and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

8 Rockridge Avenue, Penrose, Auckland



8 Rockridge Avenue, Penrose, Auckland

| | | | | |
|--|---|--------------------------------------|---|---|
| Commercial Offices Property Type | 3,149 sqm Net Lettable Area | \$13,500,000 Valuation | 100% Occupancy (as of date of PDS) | 2.1 years WALT (as at Settlement Date) |
|--|---|--------------------------------------|---|---|

The 8 Rockridge Avenue property was built by Fletchers in 1997 to accommodate their forestry division and comprises a four-level purpose-built office property. There is a ground level annex and covered ground floor car parking under the general building footprint and a further three floors of office accommodation above. The rentable area is 3,149 sqm including a 41 sqm ground floor deck. This is all situated on a 4,900 sqm freehold front site in the industrial dominated precinct of Penrose, Auckland.

The property is of an attractive and above average specification comprising a full height atrium and lobby. Circulation areas on each floor are generous and well-lit, with glass balustrades facing the atrium on each level. The property is leased at market rent. The property is subject to five building leases and has a total of 145 carparks, with a projected WALT of 2.1 years as at Settlement Date, over a staggered expiry profile.

The Penrose office precinct is a fringe city location popular with tenants looking for a lower price point than what the CBD offers. The area benefits from close access to the motorway and walking distance to Penrose train station. The area is improving with better amenities including restaurants, cafes and gyms.

Property Strategy

The Manager's strategy is to retain the existing tenants within the property through proactively engaging with tenants and building relationships with all key tenants to seek ongoing rental growth through proactive lease and rental negotiations at the appropriate time. Where required, the Manager will incentivise tenant renewals in order to increase the WALT of the property and to grow rental income and property value over time.

| | |
|--------------------------------|--|
| Address: | 8 Rockridge Avenue, Penrose, Auckland |
| Purchase Price: | \$12,150,000 (10 July 2018) |
| Current Independent Valuation: | \$13,500,000 (by Aim Valuation, as at 31 March 2020) |
| Seismic rating: | 90% NBS |
| Expected Rental: | \$1,016,352 per annum |
| Key Tenant: | SGS New Zealand Limited |
| Key Tenant Industry Exposure: | Professional Services |

Notes on Leases

There are no individual leases at Short Street considered to be material to the Fund.

A summary of the tenants is set out below:

SGS New Zealand Limited

Ipsos Limited

Managed Hosted Applications Limited

Matrix Security Group Limited

Advance Retail Technology Limited

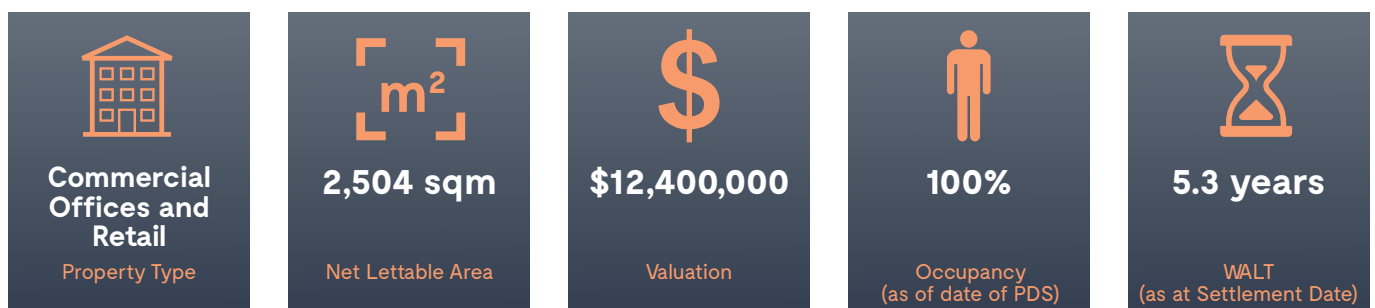
Car parking for several parties

The Manager does not have access to all financial information related to the tenants. However, the Manager has carried out due diligence on the financial standing of the tenants and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

2 Robert Street, Ellerslie, Auckland



2 Robert Street, Ellerslie, Auckland



The 2 Robert Street property is a modernised 1980s suburban development located in the centre of the Ellerslie suburb in Auckland, two minutes' walk from the Ellerslie train station. The property is a mixed-use commercial building, which was renovated in the mid-2000s to provide ground floor retail and food tenancies in addition to the commercial office spaces above. As a mixed-use zoned corner site that borders the Southern Motorway next to the motorway footbridge, the property's strong location takes advantage of pedestrian traffic walking to and from the train station.

The building consists of two levels that are fronting 2 Robert Street. The ground level is retail, while level 1 consists of office spaces and car parks. The indicative rentable area includes 75 covered car parks at a favourable ratio of one space per 33.4 sqm of nett lettable building area.

Property Strategy

The Manager anticipates continued interest from existing and new tenants in the property. Ellerslie is favoured by residents due to its proximity to the city and high level of amenities, including restaurants, bars, fast-food restaurants and cafes. The area has gentrified in recent years, with a demographic demanding an increased volume of quality retail offerings.

The Manager's strategy is to progressively improve the calibre of tenants at the property while increasing net rental income. The Manager's strategy is to retain the existing tenants, while seeking ongoing rental growth through proactive lease and rental negotiation at the appropriate time.

| | |
|--------------------------------|--|
| Address: | 2 Robert Street, Ellerslie, Auckland |
| Purchase Price: | \$8,850,000 (on Fund establishment) |
| Current Independent Valuation: | \$12,400,000 (by Jones Lang LaSalle, as at 14 May 2020) |
| Seismic rating: | The older portion of the property has a seismic rating of 39% of NBS with the newer part of the property having a seismic rating of 92% of NBS |
| Expected Rental: | \$861,240 per annum |
| Key Tenant: | Animates NZ Holdings Limited |
| Key Tenant Industry Exposure: | Retail |

With respect to the seismic rating of the property, the Manager has carried out a feasibility assessment to upgrade the building's overall seismic rating to greater than 67% NBS. At this time, the cost of this work is not considered to provide an appropriate level of benefit to the Fund. As a result, no seismic upgrade works are planned in the short term. All tenants are aware of the current seismic rating of the property.

Notes on Leases

The Manager considers none of the leases on the 2 Robert Street property to be material information in isolation. A summary of the tenants is set out below:






| | |
|-------------------------------|-------------------------------------|
| Vodafone New Zealand Limited | Little Lamb NZ Limited |
| BF Lease Company No 6 Limited | Andrew Lemalu Lawyer |
| Animates NZ Holdings Limited | Westferry Property Services Limited |
| Ad-Vantage Media Limited | Mexikelli Limited |
| Subway Real Estate Limited | JSPR Limited |
| Team Talk Limited | Dental Solutions Limited |

The Manager does not have access to all financial information related to the tenants. However, the Manager has carried out due diligence on the financial standing of the tenants and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

410 Victoria Street & 12 Alma Street, Hamilton



410 Victoria Street & 12 Alma Street, Hamilton

| | | | | |
|---|---|---|---|--|
|  <p>Commercial Offices and Retail Property Type</p> |  <p>1,912 sqm Net Lettable Area</p> |  <p>\$8,500,000 Valuation</p> |  <p>90% Occupancy (as of date of PDS)</p> |  <p>2.5 years WALT (as at Settlement Date)</p> |
|---|---|---|---|--|

410 Victoria Street (more commonly known as 'the Kiwibank Centre') was completed in 1983 and comprises a four-level office building, occupying a prominent corner site on the main commercial street in Hamilton. The property is C-Grade and occupied by a number of reputable commercial tenants; in particular Kiwibank, who operate their Hamilton retail branch from the building. Situated in the core of the Hamilton CBD, on the corner of Victoria Street and Alma Street, the property comprises three adjoining allotments of land with a total area of 596 sqm. The property has good exposure to vehicular and pedestrian traffic and is close to central amenities. The property comprises ground level retail space, as well as three levels of office accommodation above. The floors have been refurbished over the last few years and provide good quality office space. The property includes two on-site car parks.

12 Alma Street (more commonly known as 'The Stack') comprises a 32-park mechanical car stacker on a 255 sqm regular shaped site. The car parking is used by tenants of 410 Victoria Street and other surrounding office tenancies.

Both properties named above have separate legal titles and are capable of being sold separately. However, the assets are collectively referred to as the Victoria Street property, with the additional parking provided by 12 Alma Street being critical to the operation of 410 Victoria Street as a commercial asset.

Property Strategy

The property is a well-located CBD office building. The strategy is to retain the existing tenants by seeking early renewal of leases where possible. In addition, there is an opportunity to negotiate the extension of renewal terms for certain tenants within the building.

The Manager has already leased additional space within the building to Kiwibank, leaving 181 sqm of vacant space on Level 2. The Manager considers this space to be attractive for a small business seeking a presence at an excellent address in Hamilton's CBD. The Manager is actively marketing this space through key real-estate agents within Hamilton.

| | |
|--------------------------------|---|
| Address: | 410 Victoria Street, Hamilton and 12 Alma Street, Hamilton |
| Purchase Price: | \$8,100,000 (17 April 2019) |
| Current Independent Valuation: | \$8,500,000 (by Telfer Young, as at 24 March 2020) |
| Seismic rating: | 70% NBS at 410 Victoria Street and 100% NBS at 12 Alma Street |
| Expected Rental: | \$584,520 per annum |
| Key Tenant: | Kiwibank Limited |
| Key Tenant Industry Exposure: | Financial Services |

Notes on Leases

The Manager considers none of the leases in the Victoria Street property to be material information in isolation. A summary of the tenants is set out below:

Kiwibank Limited

Her Majesty the Queen acting by and through the Secretary for Internal Affairs

Quotable Value Limited

Te Rito Maioha Early Childhood New Zealand Incorporated

Westpac (NZ) Investments Limited

Jacobs (NZ) Holdings Limited

Te Tumu Paeroa Maori Trustee






Car parking for several parties

The Manager does not have access to all financial information related to the tenants. However, the Manager has carried out due diligence on the financial standing of the tenants and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

127 Durham Street, Tauranga



127 Durham Street, Tauranga

| | | | | |
|---|--|--|--|--|
|  Commercial Offices Property Type |  1,003 sqm Net Lettable Area |  \$4,000,000 Valuation |  100% Occupancy (as of date of PDS) |  8.8 years WALT (as at Settlement Date) |
|---|--|--|--|--|

127 Durham Street is a two-level office building located on Durham Street within the central business district of Tauranga. The property is 100% leased to the University of Waikato, and the lease has recently been extended to 31 March 2029.

Property Strategy

The Manager has successfully executed its strategy to extend the lease to this tenant. The Manager's ongoing strategy is to continue to maintain a strong relationship with the tenant and retain the tenant beyond the lease term expiry.

| | |
|--------------------------------|---|
| Address: | 127 Durham Street, Tauranga |
| Purchase Price: | \$2,340,000 (on Fund establishment) |
| Current Independent Valuation: | \$4,000,000 (by Preston Rowe Paterson, as at 31 March 2020) |
| Seismic rating: | 131% NBS |
| Expected Rental: | \$224,748 per annum |
| Key Tenant: | University of Waikato |
| Key Tenant Industry Exposures: | Education |
| Other Tenants: | None |

Notes on Leases

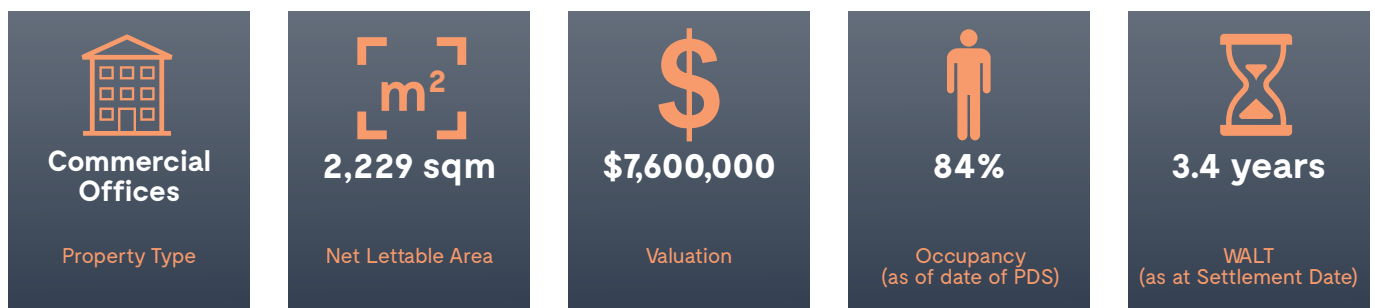
The Manager does not consider the lease of the 127 Durham Street property to be material information in isolation.

The Manager does not have access to all financial information related to the tenant. However, the Manager has carried out due diligence on the financial standing of the tenant and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

143 Durham Street, Tauranga



143 Durham Street, Tauranga



The adjacent 143 Durham Street property is a commercial zoned property that was developed as a three-level commercial complex in the 1980's. There is on-site parking provided both to the front of the building, part of which is set back from the road, and to the rear of the building. Several tenancies in the property have been recently upgraded to a high standard. The Manager occupies one of the tenancies.

Property Strategy

With Tauranga City Council's recent improvement of Durham Street, including quality landscaping and improved pedestrian areas, as well as the development of modern office buildings, the area is now a desirable office and retail precinct. The Manager's strategy is to capitalise on the progressive gentrification of the area while proactively engaging with tenants to leverage better rental and lease outcomes, retaining the existing tenants within the property. There is currently 348 sqm of vacant space within the building across two tenancies. The Manager is actively marketing this space for lease and the Manager is also in dialogue with an existing tenant within the building, who is considering leasing one of the currently vacant spaces.

| | |
|--------------------------------|--|
| Address: | 143 Durham Street, Tauranga |
| Purchase Price: | \$4,850,000 (on Fund establishment) |
| Current Independent Valuation: | \$7,600,000 (by Telfer Young, as at 31 March 2020) |
| Seismic rating: | 90% NBS |
| Expected Rental: | \$420,132 per annum |
| Key Tenant: | PMG Property Funds Management Limited |
| Key Tenant Industry Exposures: | Real Estate |
| Other Tenants: | The Property Group Limited |
| | Fire and Emergency New Zealand |
| | Vision Consulting NZ Limited |
| | BONZ Limited |

Notes on Leases

The Manager considers none of the leases in the 143 Durham Street property to be material information in isolation.

The Manager does not have access to all financial information related to the tenants (other than the Manager). However, the Manager has carried out due diligence on the financial standing of the tenants and is satisfied with its findings. Such enquiries included searches of the Insolvency Register, financial information provided by the tenant and publicly available information where it is available.

2.3 Management of the Fund

The Manager has been appointed under the Trust Deeds to manage and administer the Fund on behalf of the Unitholders. The Manager's responsibilities include managing the investments of the Fund in accordance with the SIPO (including seeking to identify future acquisition opportunities for the Fund), administering distributions and unit redemptions, communication with Unitholders, and ensuring compliance with the Trust Deeds and all applicable legal requirements. Any related party benefits derived by the Manager are included Section 5.2 [Related Party Benefits](#).

The Manager is currently responsible for the day-to-day property management of the buildings of the Fund. This role includes finding tenants, dealing with tenancy issues, ensuring that the properties are properly maintained and meet all legal requirements. The key personnel of the Manager responsible for managing the Property Portfolio are:



Denis McMahon, Chairman of the Board

Denis began his career in the public sector and held several property management positions with Auckland and then Bay of Plenty territorial authorities. In 1992, he joined a leading commercial realty company in Tauranga and, at the same time, formed PMG. Denis wanted to offer a specialised, professional service in the area of managing industrial, retail and commercial property.

Denis successfully built PMG up over the following 28 years to date, to a company now managing a portfolio with a value in excess of \$450 million. In 1994, Denis syndicated his first property in Tauranga and has overseen in excess of a further 30 investment offerings over the 28 years since. Denis is a member of the Property Institute and was the Chairperson of the Property Council (Bay of Plenty Branch) from 1996-2000.



Dr Wayne Beilby, Independent Director

Dr Wayne Beilby joined the Board of PMG as an Independent Director in September 2017. He brings extensive management and governance experience in the financial services industry, both in New Zealand and throughout the Asia Pacific region, to PMG.

His experience includes professional appointments such as chairman, company secretary, director and chief executive for several companies, including NZX listed companies and local government entities. Wayne is managing director of Pacific Advisory Services, a company which provides governance, and risk and asset management advice to its clients.

Wayne has a Doctorate in Corporate Governance, a Master of Business Administration in Finance and Risk, Bachelor degrees in Law and Arts, and is a lawyer by profession. Wayne is a fellow and mentor of the Australia New Zealand Institute of Insurance and Finance (ANZIIF) and a fellow of the Institute of Management New Zealand (IMNZ).



Scott McKenzie, Chief Executive Officer & Director

Scott has a wealth of commercial and leadership experience in diverse businesses across New Zealand and the United Kingdom, including ASB Bank in New Zealand, the Royal Bank of Scotland in London and the Bank of New Zealand. As Director and CEO of PMG, Scott is responsible for leading and overseeing operations across the management and investment arms within the Manager. Scott's leadership experience plays a key role in the determination and implementation of innovative strategy for PMG. Scott holds a Bachelor of Commerce in Valuation and Agribusiness Management, a Post Graduate Diploma in Management and holds several personal directorships. Scott is vice-president of the Property Council Bay of Plenty, Board Member at Priority One, and is a member of Enterprise Angels BOP and the Institute of Directors. Scott is the largest indirect shareholder in the Manager.



Daniel Lem, Head of Investment & Director

Daniel is a real estate professional with over 20 years' experience in asset and project management, commercial leasing and structured property finance. A previous Director and Head of Tenant Representation for Jones Lang LaSalle, Daniel represented tenants including Microsoft, IBM, Unisys and the New Zealand Government. Between 2006 and 2010, Daniel was the joint Fund Manager of Danube Property Funds I and II, where he acquired and managed 100 million Euro worth of commercial office assets across eastern Europe. Prior to this, Daniel worked for a listed property fund based out of London, acquiring and managing retail assets across central and eastern Europe, including the re-development of a major shopping mall in Warsaw, Poland.

Daniel joined the team in 2015 following the merger of his property management company with PMG Property Funds Management Limited. Daniel's role is to source new investment opportunities, as well as project manage the repositioning and redevelopment of specific assets. Daniel holds a Bachelor of Science from Otago University and is a Member of the Royal Institute of Chartered Surveyors.



Nigel Lowe, Chief Financial Officer & Director

Nigel joined the PMG team in August 2016 after spending 13 years at accounting firm KPMG. At KPMG, Nigel's role was to lead a team in the Private Enterprise division looking after a significant number of small to medium business, with a focus on compliance and business transactions.

Nigel's role within the Manager is to strengthen and provide additional capability to the senior management team with a focus on financial reporting, compliance and assistance with future property acquisitions within the Group.

Nigel is a Chartered Accountant and holds a Bachelor of Commerce from the University of Canterbury.



Matt McHardy, Head of Investor Relationships

Matt joined PMG in April 2015 to develop the sales and investor relationship team for the business. He has extensive experience in business development and relationship management, finance and compliance after a banking career for BNZ.

Matt holds a Bachelor of Commerce and Administration from Victoria University, is licensed under the Real Estate Agents Act 2008 and certified as an Authorised Financial Adviser under the Financial Advisers Act 2008.

Alongside the wider Investor Relations team, Matt focuses on building and maintaining strong personal relationships with all of PMG's investors and is the key point of contact for those across the central and lower North Island regions. The team is also responsible for promoting new investment opportunities to investors and improving PMG's secondary market across all of the company's existing funds.



Vodafone building interior - 213 Tuam Street, Christchurch

2.4 Purpose of the Offer

The purpose of this Offer is to raise the funds necessary to assist with the purchase of the Acquisition Property. The purchase of the Acquisition Property is part of the Manager's investment strategy of investing directly in commercial properties (principally office buildings) across major metropolitan centres of New Zealand.

The funds raised by the Offer, along with bank financing, will be allocated as follows:

| | |
|--|---------------------|
| Purchase Price of Acquisition Property | \$58,650,000 |
| Offer Costs | \$2,928,150 |
| Total Cost | \$61,578,150 |
| Funded by: | |
| Unit subscriptions | \$40,120,000 |
| Debt | \$21,458,150 |
| Total | \$61,578,150 |

- Unit subscriptions above assumes the Maximum Equity Raised under the Offer is achieved, based on an issue price of \$1.18 per Unit. At least \$35,400,000 (30,000,000 Units) must be raised before the Offer can proceed. Of this amount, 22,500,000 Units (\$26,550,000) is underwritten by the Manager.
- Debt above represents the additional net debt to be drawn to purchase the Acquisition Property, assuming the maximum number of Units are issued under the Offer amongst other factors. A new bank facility of \$26,500,000 is to be established with ASB in relation to the Offer. Should only the minimum number of Units be issued from the Offer, sufficient debt facility headroom is available in this facility to enable the settlement of the Acquisition Property. For further details on the Fund's borrowings, see Section 2.7 *Borrowings* and Section 6.3 *Financial Measures of the Fund's Borrowings*.

2.5 Aspects of the Fund With the Most Impact on Future Performance and the Key Strategies and Plans to Address Them

The current and future aspects of the Fund that have, or may have, the most impact on the Fund's financial performance, and the key strategies and plans to mitigate those impacts, are set out below:

| Factor impacting on financial performance | Strategy or plan |
|--|--|
| Current economic conditions linked to COVID-19 | <p>The Manager has considered the immediate and potential future impacts of the current economic conditions and COVID-19 on the Fund.</p> <p>The Fund's overarching strategy of diversification with scale has created a portfolio with exposure to tenants in resilient industries and essential services, including material Government tenants and, post-acquisition, a large national telecommunications provider in Vodafone New Zealand. Combined, these tenants will represent over 60% of the Fund's rental income. In the current economic environment related to COVID-19, this is expected to be beneficial for protecting Fund and investor returns from sustained reductions.</p> <p>The Manager has also taken a series of specific steps to highlight and address the risk to the Fund from the current economic environment, including:</p> <ul style="list-style-type: none"> - reflecting in this PDS the immediate and potential risks from current economic conditions, on both the Fund and investor returns; - disclosing the specific strategies in place to mitigate these risks, as noted further in this section and discussed in Section 7 <i>Risks to Returns from the PMG Direct Office Fund</i>; and - accounting for the potential impact in the Fund's prospective financial information, based on the Manager's best estimates as at the date of this PDS. |
| Rental income and ability of tenants to meet their obligations to pay contracted rental amount | <p>Rental income will be driven by tenancy occupancy rates, the terms of lease agreements, the renewal of lease agreements, and the ability of tenants to fulfil their lease obligations. The Manager utilises its in-house specialist property management experience to find leasing, maintenance and value-add repositioning opportunities, to increase rental income across the Property Portfolio.</p> <p>Considering the current economic environment, the Manager has performed additional lease reviews combined with tenancy resilience, industry, essential service, and stress testing analysis on the Property Portfolio. The Fund has provided some rental relief to multiple tenants estimated at \$350,000, plus \$83,446 of operating expenditure recoveries, and reduced investor distributions ahead of the Offer as a result. Further allowance for the potential downside risks to rental income associated with the ongoing COVID-19 pandemic have been made throughout the prospective financial periods totalling \$528,212 to 31 March 2022.</p> <p>It is the Manager's ongoing strategy to maintain a close understanding of the specific economic circumstances and lease terms of each of the Fund's 53 tenants. Where required, the Manager will act to minimise any detrimental impact on the Fund's rental income.</p> <p>As at the date of this PDS, the Manager is not aware of any tenant that has material rental arrears of greater than 30 days, nor of any other material breach of lease terms.</p> |
| Renewal of leases and leasing of vacant space | <p>It is possible that existing tenants may vacate premises when their leases expire or are not renewed, which may increase the amount of vacant space that requires leasing. If the actual leasing of space takes longer than assumed, this may have an impact on the Fund's returns. The Manager is experienced in managing existing lease obligations to ensure occupancy and rental growth opportunities are optimised to achieve positive leasing results.</p> <p>In the current economic environment, the potential for tenants not renewing leases on lease expiry is increased, with the potential for increased periods of vacancy as a result. The Manager has specifically reviewed all lease arrangements expiring before 31 March 2022 and considered the likelihood of non-renewal and potential void periods that may occur. This assessment has been factored into the allowance for possible rental income reductions noted above.</p> <p>Further, the Manager has considered alternative rental income accretive strategies and, for example, has recently agreed to a substantially improved lease for part of the exterior façade on the Short Street property to an advertising provider for 10 years. This increases the annual rental income from the current lease of the same space by \$238,685 commencing 1 September 2020, effectively offsetting part of the allowances made related to COVID-19.</p> |

| Factor impacting on financial performance | Strategy or plan |
|---|--|
| Property values | <p>The performance of the Fund will be influenced by the value of the Fund's Property Portfolio. The value of the Property Portfolio, in turn, will be influenced by the state of the property market, the level of rental income from each property, and the remaining terms of the leases of those properties.</p> <p>In the current economic environment, as a result of COVID-19, the level of rental income from each property is expected to temporarily reduce. If the level of rental income reduction is sustained (through increasing vacancy volume, vacancy periods, and reducing WALTs) this may put downwards pressure on property valuations.</p> <p>The property values reflected in the prospective financial information of the Fund are based on independent valuations dated as-at no earlier than 24 March 2020, such values reconfirmed by the valuers of each property during May 2020. The valuation reports have been prepared on the basis of 'material valuation uncertainty' due to the impact of the COVID-19 outbreak. Consequently, less certainty – and a higher degree of caution – should be applied when relying on valuations than is normally the case.</p> |
| Change in interest rates | <p>The Manager manages interest rate risk with a combination of rate swap agreements and/or floating rates. The Manager's hedging/interest rate policy is set out in detail in Section 7 <i>Risks to Returns from the PMG Direct Office Fund</i>.</p> |
| Future capital and operating expenditure | <p>Expenses for repairs and maintenance and operating expenditure not recoverable from tenants will impact performance. These expenses are managed through regular maintenance plans and service contracts. Planned major capital works are included in long-term budgets, and where possible, working capital or bank facility headroom will be utilised to enable future capital expenditure needs to be met. Prior to a property being purchased, a review of likely capital expenditure requirements will also be undertaken and factored into the price paid for a property.</p> |

Further information about the potential risks to Unitholders of investing in Units is set out in Section 7 *Risks to Returns from the PMG Direct Office Fund*, and in Other Material Information disclosed on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number **OFR12881**.

2.6 Nature of Returns and the Key Factors that Determine Returns

The return on Unitholders' investments in the Fund will be driven by the profits from the rental income of the Fund and by the capital value of the Property Portfolio. The key factors determining returns are:

Rental profits – The Fund's primary source of income will be rental income from each of the properties in the Property Portfolio. The amount of income available for distribution to Unitholders will be primarily drawn from the net income of the Property Portfolio, which depends on the rental income and operating expenses of the properties, and the amount of fees paid to the Manager, the Supervisor, the auditor, and other ongoing expenses related to the Fund (further information about the fees paid by the Fund is set out in Section 8 *What Are The Fees?*). The Fund will pay tax on behalf of Unitholders based on the Unitholders' share of the profit of the Fund at their respective notified investor rates (further information about tax that Unitholders will pay is set out in Section 9 *Tax*).

Interest rates – A primary cost of the Fund is interest expense, driven by both the level of borrowings and interest rates. Given the total debt held by the Fund, interest rates are a key factor in determining the overall return of the Fund. A summary of the Fund's borrowing arrangements is set out in Section 7.5 *Interest and Derivative Risk*.

Capital value – The value of Units will be influenced by the value of the Property Portfolio. The value of the Property Portfolio in turn will be influenced by the state of the property market, the level of rental income from each property, and the remaining terms of property leases amongst other property specific information.



Vodafone building interior – 213 Tuam Street, Christchurch

2.7 Borrowings

The Fund has received a formal offer of funding from ASB to primarily help fund the purchase of the Acquisition Property, in addition to three existing funding facilities already in place with ASB. The main terms of the overall funding arrangements are set out below:

| | |
|--|--|
| Facility limit: | Presuming the maximum equity raise amount is achieved, total facility limits with ASB will be \$61,774,000. The facility limits at Settlement Date will be 39.6% of the total assets of the Fund. Included in the above is a new facility associated with this offer, totalling \$26,500,000. Should only the minimum equity raise amount be achieved, the Fund will still be able to settle the acquisition of the Acquisition Property. It is however anticipated that in this circumstance, over time an additional borrowing facility of \$1,200,000 would be required for subsequent capital expenditure requirements across the Property Portfolio. The Manager does not anticipate any difficulty obtaining such an increased facility limit given the current conservative loan to value ratio (LVR), and the Manager's forecast continued compliance with banking covenants, based on the expected valuation of the Property Portfolio and the performance of the Fund. |
| Expected borrowing: | Total borrowings of \$56,715,402 are expected at 30 June 2020 following settlement of the Acquisition Property (being 36.4% of the total assets of the Fund). This includes \$21,458,150 drawn for the purpose of the Offer from the \$26,500,000 facility mentioned above. |
| Establishment fees: | No fees are expected as part of increasing funding facilities associated with this Offer. |
| Term of lending: | Committed Cash Advance Evergreen facilities on a 36-month term, extendable on mutual agreement. With an extendable term, the facilities can be renewed annually and subsequently extended by a further 12 months (to effectively reset the term to 36 months from the extension date). The current expiry profile of the three facilities is summarised in Section 6.3 <i>Financial Measures of the Fund's Borrowing</i> . Any extension of the facilities is subject to ASB's approval (which may or may not be given). If ASB approves an extension, the Bank may re-price the facility lending margin. The current market value price for the further 12-month extension will be combined with the current rate for the remaining term of the initial facility to determine a new lending margin. The Manager would not have to accept the extension if the margin were increased, but, in those circumstances, the loan term would not be extended. |
| Security: | First registered mortgage in favour of ASB over the Property Portfolio (including the Acquisition Property). First ranking General Security Deeds in favour of ASB over all present and after acquired personal property of the Fund and Custodian. |
| Interest rate: | The interest rate under the facility agreement is effectively floating and is based on the current 30, 60, or 90-day BKBM Bid Rate plus the Bank margin (which is subject to change on an extension). To hedge the risk on the floating nature of the interest rate, the Manager may enter into a swap agreement to fix the interest rate for any amount up to the entirety of the Fund's debt. The fixed term may not extend beyond the facility expiry date. An average interest rate of 4.00% has been forecast for the prospective financial periods, averaged across all loan facilities. |
| Conditions after Advance: | Bank covenants applying to the Fund as a whole. |
| Loan-to-value ratio (LVR): | The loan-to-value ratio is to be less than 45% of the value of the security properties, measured annually. |
| Weighted Average Lease term (WALT): | WALT to be maintained at no less than 3.50 years at all times. |
| Interest Cover: | Not less than 2.0 times the interest cost (net rental income / interest expense). |
| Principal Repayments: | The loan facility is interest-only, and no principal repayments are required during the loan term. |
| Insurance: | Full replacement, loss of rental income for not less than 24 months, adequate public risk insurance, with ASB Bank noted as an Interested Party. |

The ASB offer is subject to variation at the time of the loan being drawn and assumes the conditions in the Offer are fulfilled. As the borrowings referred to above will become due before the Fund is wound up, the Manager considers that refinancing is likely to be needed.

The debt owed to ASB and all other liabilities of the Fund, will rank ahead of Units on a winding up of the Fund.

3. KEY DATES AND OFFER PROCESS

Key Dates for this Offer

| | |
|--|--------------|
| PDS registered | 22 May 2020 |
| Opening Date | 30 May 2020 |
| Closing Date | 29 June 2020 |
| Issue Date | 30 June 2020 |
| Settlement Date for the Acquisition Property | 30 June 2020 |

This timetable is indicative only and the dates are subject to change. The Manager reserves the right to vary or extend these dates (including to close the Offer before the Closing Date if acceptances of the Offer are oversubscribed). The Manager may also withdraw the Offer at any time before the allotment of Units, or accept late applications (either generally or in individual cases) at the Manager's sole discretion.

4. TERMS OF THE OFFER

A summary of the key terms of the Offer can be found in the Key Information Summary in Section 1.4 *Key Terms of the Offer*.

The table below sets out the terms of the Offer in detail:

| | |
|---------------------------|--|
| What is the Offer? | This is an offer of Units in a managed investment scheme (constituted as a unit trust) called the PMG Direct Office Fund. See Section 1.1 <i>What is This?</i> for an overview of the Offer. Each Unit confers an equal interest in the Fund and ranks equally in all respects with any other Units issued in the Fund. Each Unit confers an equal right to distributions authorised by the Manager, and to cast votes at meetings of Unitholders, in accordance with the Trust Deeds. |
| Key Dates | See Section 3 <i>Key Dates and Offer Process</i> for more information. |
| Price | The price of each Unit is \$1.18 with a minimum Unit subscription amount per investor of \$11,800 (10,000 Units) and multiples thereafter of \$5,900 (5,000 Units). To ensure compliance with the Fund's PIE status, a Unitholder's total Unit holding in the Fund (combined with Unit holdings of any "associated persons" for tax purposes in the Fund) cannot exceed 20% of the total Units in the Fund (equating to 16,000,000 Units if the maximum equity amount is raised from this Offer), unless the Unitholder is itself a PIE or one of a limited class of other widely-held vehicles. |
| Minimum Raise | The Fund is seeking to raise at least \$35,400,000 (30,000,000 Units) from the Offer to provide it with the money that it needs to purchase the Acquisition Property. |
| Maximum Raise | The Fund has set a maximum raise amount of \$40,120,000 (34,000,000 Units) from the Offer. The Fund has based its prospective financial information on the assumption that this amount of equity is issued from the Offer. |
| Underwrite | A total of 22,500,000 Units (\$26,550,000) is being underwritten by the Manager. |
| Issue | Units will be issued on the Issue Date, which is one business day following the Offer Closing Date (or, if the Manager decides to extend the Closing Date, that later date). The Offer is made on the terms, and is subject to the conditions, set out in this PDS and on the Offer Register. |
| Scaling | If the Fund receives valid applications for more than 34,000,000 Units (being the Maximum Raise) then your application will be scaled, which means that you may receive fewer Units than you applied to subscribe for. Scaling may be pro-rata. If this happens, you will be refunded the difference (without interest) within five Business Days of Settlement Date. |

Unit pricing for the issue of Units is determined in accordance with Clause 4.3 of the Fund's Establishment Deed. In the case of the Offer Price per Unit, this is calculated as the prospective Net Asset Value of the Fund, divided by the total number of units on issue immediately prior to completion of the Offer and settlement of the Acquisition Property.

The Unit price factors in all material facts, events and circumstances known to the Manager as at the date of the PDS, including the most recent independent valuations of each property within the Property Portfolio.

4.1 How Can an Investor Make an Investment in the Fund?

Investors must complete the Application Form correctly. Please read the instructions in the Application Form carefully before sending it to the Manager.

Subscriptions must be made before the Closing Date (or, if the Manager decides to extend the Closing Date, that later date). This is not a continuous offer of Units in the Fund.

4.2 How Can I Withdraw My Investment in the Fund?

Although a holding of Units in the Fund is intended to be a long-term investment, Units are redeemable in accordance with the Trust Deeds. This means that redemptions of Units will be available solely at the Manager's discretion.

Key Dates Relating to Units

Cash distributions: 25th day of each month (with the first distribution for new Unitholders being paid on 25 August 2020, assuming new Units are issued on 30 June 2020)

Annual Redemption Period: 1 July to 31 July, each year (see below)

This timetable is indicative only and the dates may change.

Annual Redemption Period

The current annual redemption period is from 1 July to 31 July in each year. Redemptions are available at the Manager's sole discretion and may be suspended at any time in accordance with the Trust Deeds. The Manager has elected not to provide a redemption period since Fund establishment as the Fund is currently focussed on growth. The Manager intends to elect for no redemption period in July 2020 due to the proximity of this period to the date of this Offer. The Manager currently expects the next redemption period will be 1 July to 31 July 2021.

Redemption Price

For each redemption period, the Manager will set a redemption price in accordance with the Establishment Deed of the Fund. The redemption price is derived from the Fund's NAV, subject to adjustments for the Fund's Establishment Costs as described below, as at 31 March in the relevant financial year.

When determining the redemption price, the Fund's NAV will be adjusted to take into account that:

- the Establishment Costs (all costs, charges and expenses, including legal and valuation fees, incurred in connection with the investigation and negotiation for the acquisition for the Fund of an asset) will be gradually written off on a straight-line basis over five years from the date of the acquisition of the relevant asset; and
- on sale of the relevant asset, any remaining Establishment Costs not written off in accordance with (a) above will be reduced to zero.

The purpose of this adjustment is to ensure that the cost to the Fund of buying and selling assets is spread across Unitholders over time. These adjustments are non-GAAP adjustments and therefore are not reflected in the Fund's financial statements. A reconciliation of the adjustment to GAAP-compliant information is available on the Offer Register under Other Material Information.

The NAV, and thus the Adjusted NAV, is primarily influenced by independent valuations of the properties held by the Fund, revalued no less than once in each financial year. The Fund's liabilities will include accruals for fees and expenses. This means that, given performance fees (described in greater detail in Section 8 *What are the Fees?*) are calculated annually in arrears, if a performance fee is payable, the fee will be accrued in the redemption price for Units at the time it is calculated.

A numerical example of the impact of the non-GAAP adjustments is set out in the table below:

| Adjusted Net Asset Value for the purposes of redemption pricing | 31 March 2021 | 31 March 2022 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Total equity as per prospective statement of financial position | 91,693,413 | 91,777,300 |
| Remaining acquisition costs to be amortised | 2,751,382 | 1,926,739 |
| Adjusted Net Asset Value | 94,444,795 | 93,704,038 |
| Number of Units on issue | 80,000,000 | 80,000,000 |
| Theoretical redemption price per Unit | \$1.18 | \$1.17 |

The information in this table is provided as an example only, and prepared subject to the following key assumptions:

1. The total equity for each period presented only includes the impact of fair valuation adjustments to investment property based on reports received within four months of the date of this PDS, plus prospective capital expenditure. The adjusted NAV takes no account of any future appreciation in capital value beyond those reports held as at the date of this PDS.
2. The remaining acquisition costs to be amortised are based on the costs associated with both this Offer and those unamortised from previous offers. It does not include costs associated with any future offers.
3. The Manager has confirmed that no redemptions will be allowed in the July 2020 redemption period due to proximity to the date of this Offer. As a result, the information for the period to 31 March 2020 is not disclosed above as it may be misleading.

Redemption Fee

Refer to Section 8.3 *Fees Charged to Individual Investors* for more information about fees charged to Unitholders on redemption of units.

Payment of Redemption Price

Payments for redeemed Units will be made prior to the 20th day of the month following the close of the redemption period.

Available Funds

The funds available for redemptions will be limited to:

- (a) 3% of the NAV of the Fund as determined by the Manager at the relevant valuation date for the applicable redemption period; or
- (b) having regard to the future requirements of the Fund, such other amount as determined by the Manager from time-to-time.

If the Manager receives requests for redemptions in excess of the available funds, the Manager will scale the redemption requests such that requests will be satisfied on a pro rata basis up to the limit of the available funds.

Any redemptions will be funded by debt. The Manager will not be maintaining a separate cash facility for redemptions.

4.3 Sale of Units

Units may be sold or transferred but there is currently no established market for trading in Units, nor will the Units be listed on any securities exchange. No fee is payable by a Unitholder on transfer of their Units to a third party if this is not transacted through the sales facility operated by the Manager.

The Manager has a large database of investors and, from time-to-time, the Manager will assist in facilitating secondary transfers of Units from one investor to another. The Manager charges 1.5% of the transaction price as a fee for this service, excluding GST. See Section 8.3 *Fees Charged to Individual Investors* for further information.

The Manager does not represent that there will be sufficient demand or liquidity to enable a Unitholder to sell Units at any given time. The Manager is not an Authorised Financial Adviser (as defined in the FMCA) and does not provide any recommendations in relation to buying or selling Units. For more information, please contact the Manager at the contact address in Section 14 *Contact Information*.

4.4 Distributions

Distributions with respect to the Fund are made at the discretion of the Manager. These are dependent on several factors, must meet the requirements of the Trust Deeds, and will only be declared after meeting applicable solvency requirements. Distributions are therefore not guaranteed.

Distributions are paid monthly (or sometimes more frequently if an equity raise occurs part way through a month). Only those Unitholders registered as holding Units at the end of the preceding month are entitled to receive the distribution payment. The intention is to declare a distribution on the last day of the month and pay the distribution on the 25th of the following month. If these dates fall on a weekend, then the distribution will be made on the following business day.

It is the Manager's policy to distribute 100% of the surplus net distributable income of the Fund to Unitholders. Surplus net distributable income of the Fund is deemed by the Manager to equal approximately 100% of the Fund's adjusted net profit before tax.

The Fund's adjusted net profit before tax is calculated as net profit before tax, after subsequently reversing the following items (if applicable to the relevant period and forming part of profit before tax):

- (a) unrealised changes in the value of investment properties
- (b) unrealised changes in the value of derivative financial instruments
- (c) realised gains on the disposal of investment properties; and
- (d) performance fees payable to the Manager, primarily driven by unrealised changes in the value of investment properties and realised gains on the disposal of investment properties.

A reconciliation from adjusted net profit before tax to GAAP-compliant information is available on the Offer Register in the document titled Other Material Information.

In making distributions, the Manager also considers the Fund's required re-investment in capital expenditure programmes, expected movements in borrowings, and Unit redemptions. Decisions relating to these factors are at the discretion of the Manager.

Whilst distributions are primarily funded by money derived from operations, in periods where money from operations is insufficient to meet distribution payments, distributions may also be funded by money from financing activities – specifically borrowings secured against the value of investment property. These borrowings are from ASB, and distributions made from this source will be required where temporary timing differences in relation to operational cash flow occur. Over the life of the Fund, use of borrowings to support distributions to Unitholders is commercially sustainable, provided the value of investment property continues to rise. Should the value of investment property decrease, in periods where operating cash flow is below that of an intended distribution, the distribution may need to be reduced.

As a result of the above, the actual gross distribution per Unit for a period may vary from the prospective information, and may also be above or below 100% of the Fund's net profit before tax.

Historic distributions

Historically, distributions have been declared by the Fund since December 2016 as follows:

- 7.00 cents per Unit (annualised return) declared for each of the months December 2016 to March 2017; and
- 7.50 cents per Unit (annualised return) declared for each of the months April 2017 to April 2020.

Forecast Distributions

It is expected that distributions will be declared on 31 May 2020 for the month of May (7.50 cents per Unit annualised) and 29 June 2020 for the month of June (6.50 cents per Unit annualised) prior to new Units being issued on 30 June 2020.

Forecast distributions for the prospective period after Settlement Date to 31 March 2021, starting 31 July 2020, are 6.50 cents per Unit per annum before tax, distributed monthly. For new Unitholders participating in this Offer, this equates to a projected annualised gross cash distribution return on Unit issue price of 5.51% per annum.

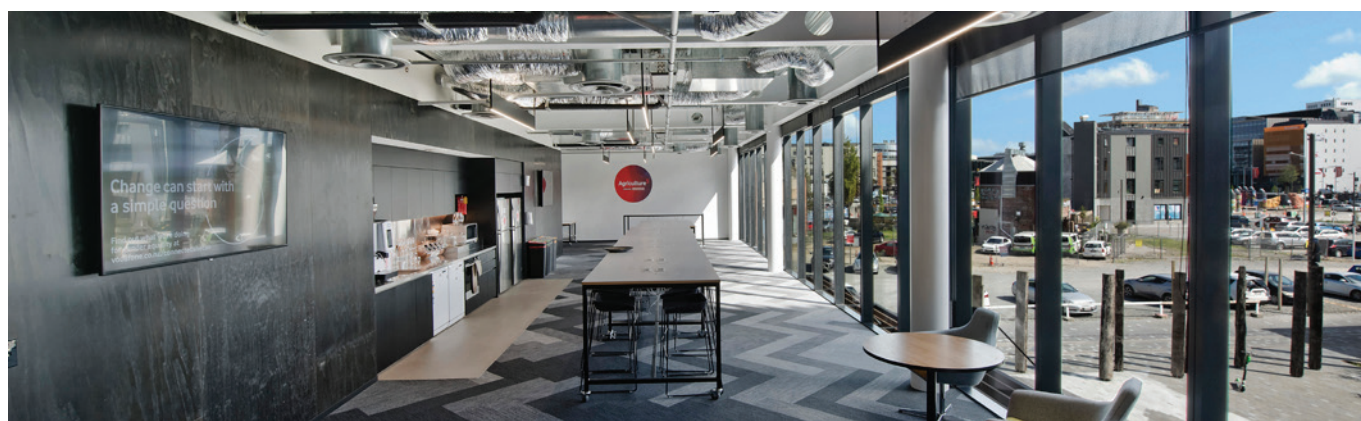
Forecast distributions for the prospective year to 31 March 2022 are 7.55 cents per Unit per annum before tax, distributed monthly. For new Unitholders participating in this Offer, this equates to a projected annualised gross cash distribution return on Unit issue price of 6.40% per annum.

The Fund's forecast distributions have been adjusted downwards for the year to 31 March 2021 to reflect the anticipated impact of the current economic environment on the Fund's return. While the current economic environment may influence the Fund's returns in the year to 31 March 2022, the Fund anticipates it will be able to increase distributions for the year to at least 7.55 cents per Unit. For specific information on the current economic circumstances as they relate to the Fund and the strategies the Fund has in place to account for and adapt to this uncertainty, see Section 7 *Risks to Returns from the PMG Direct Office Fund*. For associated impacts on the Fund's prospective financial information, see Section 6 *PMG Direct Office Fund's Financial Information*.

These returns are not guaranteed. The actual distribution amounts may vary if the actual result varies to the prospective financial information. The stated returns throughout the forecast period are prospective, and do not guarantee that the same or better returns will be achieved in the future under Offer Number **OF12881**. The composition of the Fund has changed over time, as has the Fund's financial performance, position, and ability to make distributions. Specifically, the properties owned by the Fund have changed over time and distributions above are based on the properties held in the period leading up to those distributions.

4.5 Governing Documents

The Fund was established under the Master Trust Deed (dated 28 October 2016) and Establishment Deed (dated 1 November 2016) entered into by the Manager and the Supervisor (the **Trust Deeds**). The Master Trust Deed provides for several separate funds to be established and managed by the Manager pursuant to individual establishment deeds. The Fund was the first such fund established by the Manager. Copies of the Trust Deeds may be found on the Scheme Register (on the Disclose Register) at <https://disclose-register.companiesoffice.govt.nz> under Scheme Number **SCH10921**.



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5. HOW PMG DIRECT OFFICE FUND WORKS

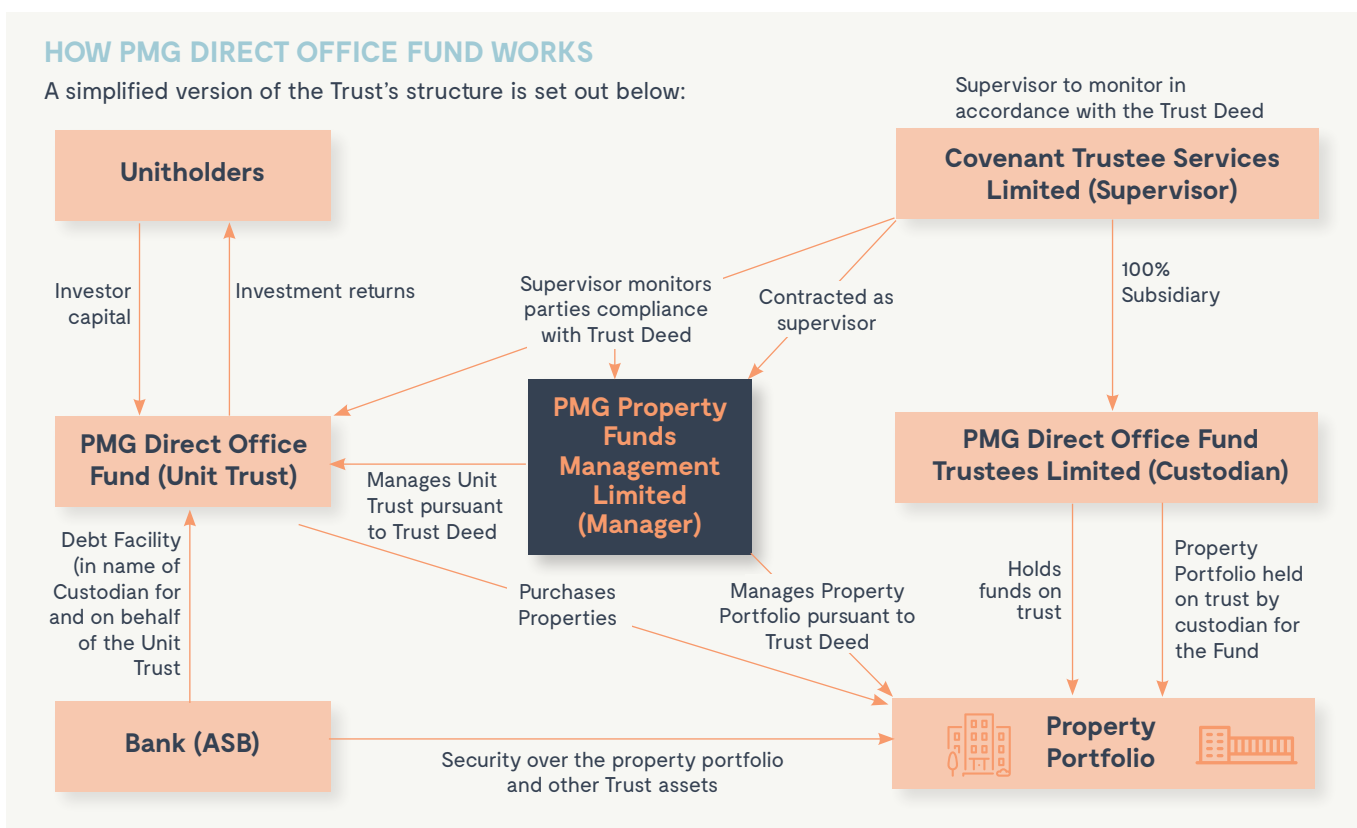
5.1 Key Features of the Fund

The Fund is a managed investment scheme for the purposes of the FMCA. The Fund has been established with the purpose of building a diversified portfolio of commercial office properties. In the future, the Fund may acquire additional properties that satisfy the investment criteria set by the Manager (in which case, the Manager may be required to raise additional capital by issuing new Units under a new PDS). The investment objective of the Fund is to provide Unitholders with a stable income stream, payable monthly, and the potential for future capital growth in the value of Units.

The interests that Unitholders will receive in the Fund are unitised interests in the Fund's property. The Supervisor has been appointed to act as the supervisor of the Fund. The Supervisor will hold the properties in the Fund (through a custodian company wholly owned by the Supervisor called PMG Direct Office Fund Trustees Limited) on trust, on behalf of the Unitholders, subject to the Trust Deeds, the FMCA, and any other applicable legislation.

Each Unit confers an equal interest in the Fund and ranks equally in all respects with any other Units issued in the Fund. Each Unit confers an equal right to distributions authorised by the Manager, and to cast votes at meetings of Unit holders, in accordance with the Trust Deeds.

The Trust Deeds relate to the creation and issue of Units, redemption mechanics, the Manager's powers and duties, the Supervisor's powers and duties, authorised investments, fees and expenses payable from Fund assets, the Fund's borrowing powers, changes to the Manager or Supervisor, and indemnities. The Trust Deeds must meet certain minimum requirements set out in the FMCA.



5.2 Related Party Benefits

The Fund's related parties include the Manager, various other funds or entities managed or controlled by the Manager or its directors, and members of key management personnel of the Manager. The Manager endeavours to ensure all transactions are on normal commercial terms, under normal conditions, at market rates and on an arm's-length basis. Related party certificates are provided to the Supervisor where appropriate.

Pacific Property Fund Limited is a related party of the Fund as Denis McMahon and Scott McKenzie are directors of both Pacific Property Fund Limited and the Manager.

PMG Capital Fund Limited is a related party of the Fund as Denis McMahon and Scott McKenzie are directors of both PMG Capital Fund Limited and the Manager. Denis is also a shareholder of PMG Capital Fund Limited.

Forsite Limited is a related party as Scott McKenzie and Wayne Beilby are directors of both Forsite Limited and the Manager. In addition, Denis McMahon, Scott McKenzie and Nigel Lowe are also shareholders in Forsite Limited.

Operating transactions

Rental income: The Fund has previously received income from the Manager or associated persons for office rentals, and operating expenditure recovered, and rental underwrites as follows:

| Building | Tenant | Lease expiry | Year to 31 March 2019 | Year to 31 March 2020 |
|---------------------|--|----------------|-----------------------|-----------------------|
| 5 Short Street | The Manager | September 2025 | \$61,791 | \$62,489 |
| 5 Short Street | Forsite Limited | October 2023 | \$Nil | \$7,178 |
| 143 Durham Street | The Manager | November 2025 | \$Nil | \$65,845 |
| 410 Victoria Street | PMG Capital Fund (Tenancy Underwrite) | N/A | \$Nil | \$53,807 |
| 8 Rockridge Avenue | PMG Capital Fund (Tenancy Underwrite) | N/A | \$145,173 | \$27,062 |

Fund expenditure: The Manager is entitled to recover other fees and expenses from the Fund in the normal course of business. These fees can be seen in Section 6 *PMG Direct Office Fund's Financial Information* and Section 8 *What are the Fees?*

Investing and financing transactions

Sale and purchase of property: In July 2018, the Fund purchased 8 Rockridge Avenue from PMG Capital Fund Limited. The purchase price was based on an arm's-length valuation by an independent valuation expert.

In April 2019, the property at Victoria Street was also purchased from PMG Capital Fund Limited, with the same process followed as noted above for 8 Rockridge Avenue.

Financing: PMG Capital Fund Limited previously funded the deposit for 65B Main Highway. The deposit and a fee of \$54,358, being 5% of the deposit amount, was paid on settlement.

The purchase of the Acquisition Property is also being funded by a deposit from PMG Capital Fund Limited, and will attract a fee of \$150,000 payable to PMG Capital Fund Limited on settlement (being 6% of the deposit amount).

Underwriting: The Manager has entered an underwriting agreement to underwrite the issue of 22,500,000 Units (\$26,550,000). Fees associated with this agreement are included in Section 8 *What are the Fees?*

Pacific Property Fund Limited and PMG Capital Fund Limited have entered into sub-underwriting commitments in respect of part of the capital to be raised under the Offer. This is on the same terms as all other sub-arrangements with third-party underwriters.

Investing in Units: The Directors and other key management personnel of the Manager may invest in the Fund on the same basis as any other investor. The Fund has previously had investing activity with related parties as follows (related as already noted above, or related by virtue of their relationship to a member of the Manager's key management personnel):

| Party | Year to 31 March 2019 | | | Year to 31 March 2020 | | |
|---|----------------------------|---------------|------------|----------------------------|---------------|------------|
| | Units Purchased/ (Sold) | Distributions | Units held | Units Purchased/ (Sold) | Distributions | Units held |
| The Manager | (100,000) | \$937 | - | 240,000/(240,000) | \$9,106 | - |
| Denis McMahon Family Trust | - | \$14,997 | 200,000 | - | \$15,000 | 200,000 |
| N S & M K Lowe Family Trust (Nigel Lowe) | - | - | - | 70,000 | \$1,625 | 70,000 |
| M & H McHardy (Matt McHardy) | - | - | - | 10,000 | \$375 | 10,000 |
| Piwakawaka Trust (Scott McKenzie) | - | - | - | 20,000 | \$125 | 20,000 |

Distributions payable at year end will be on the same basis as for all other investors.

Balances held with related parties

The balances with related parties at previous year ends are as follows:

| | Year to 31 March 2019 | Year to 31 March 2020 |
|--|-----------------------|-----------------------|
| Trade Payables - Manager | \$208,610 | \$79,776 |
| Performance Fee accrual - Manager | \$18,591 | \$903,425 |
| Trade Payables - PMG Capital Fund Limited | - | \$10,000 |

There are no other transactions or proposed transactions under which the Manager, or any "associated person" (as that term is defined in the FMCA) of the Manager, may be entitled to receive a future benefit that either is given out of the Fund's property or creates an exposure to loss for the Fund. The Manager is entitled to recover further fees and expenses from the Fund. Further information about the fees and expenses is set out in Section 8 *What are the Fees?*

6. PMG DIRECT OFFICE FUND'S FINANCIAL INFORMATION

These tables provide selected financial information about the Fund. Full financial statements are available on the Offer Register <https://disclose-register.companiesoffice.govt.nz> under Offer Number **OFR12881**. If you do not understand this sort of financial information, you can seek professional advice.

The purpose of the prospective financial statements is to assist Unitholders in assessing the viability of, and return on, funds invested. The PDS and the prospective financial information may not be appropriate for any other purpose.

The prospective financial information included in the tables below has been extracted from prospective financial statements prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements (FRS42), which are available on the Offer Register.

The principal assumptions on which the prospective financial information is based are set out in Section 6.4 *Principal Assumptions for Prospective Financial Information*. Full description of accounting policies and assumptions relating to the prospective financial information can be obtained on the Offer Register.

6.1 Prospective Income, Expenses and Returns

| STATEMENT OF COMPREHENSIVE INCOME | Actual | Actual | Actual | Prospective | Prospective |
|--|-------------|-------------|-------------|-------------|-------------|
| Financial Year | Year | Year | Year | Year | Year |
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ |
| Total revenue | 4,309,777 | 4,504,301 | 7,139,934 | 10,433,871 | 12,579,726 |
| Total expenses | (1,976,362) | (1,835,713) | (3,255,568) | (3,454,770) | (3,814,834) |
| Fair value movement on investment property ¹⁸ | 2,711,281 | 1,747,801 | 6,013,620 | (1,127,101) | - |
| EBITDA ¹⁹ | 4,860,053 | 3,792,564 | 9,079,974 | 5,852,000 | 8,764,893 |
| Net financing costs | (864,208) | (1,061,807) | (1,377,739) | (2,277,636) | (2,641,006) |
| Total comprehensive income | 3,995,845 | 2,730,757 | 7,702,235 | 3,574,364 | 6,123,887 |

| STATEMENT OF CHANGES IN EQUITY | Actual | Actual | Actual | Prospective | Prospective |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
| Financial Year | Year | Year | Year | Year | Year |
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ |
| Opening equity | 28,964,243 | 30,860,088 | 31,269,911 | 54,824,865 | 91,693,413 |
| Units issued net of issue costs | - | (220,934) | 19,242,719 | 38,018,350 | - |
| Total comprehensive income | 3,995,845 | 2,730,757 | 7,702,235 | 3,574,364 | 6,123,887 |
| Distributions for the year | (2,100,000) | (2,100,000) | (3,390,000) | (4,724,167) | (6,040,000) |
| Closing equity | 30,860,088 | 31,269,911 | 54,824,865 | 91,693,413 | 91,777,300 |



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¹⁸ Fair value movement on investment property is the difference between book value and valuation of the investment properties as at balance date.

¹⁹ EBITDA is a non-GAAP measure and therefore not reflected in the Fund's financial statements. A reconciliation of the adjustment to GAAP compliant information is available on the Offer Register under "Other Material Information".

| STATEMENT OF FINANCIAL POSITION | Actual | Actual | Actual | Prospective | Prospective |
|---------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| | Year | Year | Year | Year | Year |
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ |
| Assets | | | | | |
| Current Assets | 269,832 | 609,406 | 955,816 | 994,885 | 807,080 |
| Non-current Assets | 47,970,034 | 50,904,393 | 89,651,155 | 155,050,069 | 156,724,734 |
| TOTAL ASSETS | 48,239,866 | 51,513,799 | 90,606,971 | 156,044,954 | 157,531,813 |
| Liabilities | | | | | |
| Current liabilities | 1,072,376 | 1,763,486 | 3,566,704 | 2,450,733 | 2,547,054 |
| Non-current liabilities | 16,307,402 | 18,480,402 | 32,215,402 | 61,900,808 | 63,207,460 |
| TOTAL LIABILITIES | 17,379,778 | 20,243,888 | 35,782,106 | 64,351,541 | 65,754,514 |
| NET ASSETS | 30,860,088 | 31,269,911 | 54,824,865 | 91,693,413 | 91,777,300 |
| TOTAL EQUITY | 30,860,088 | 31,269,911 | 54,824,865 | 91,693,413 | 91,777,300 |

| STATEMENT OF CASHFLOWS | Actual | Actual | Actual | Prospective | Prospective |
|---|----------------|------------------|------------------|----------------|----------------|
| | Year | Year | Year | Year | Year |
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ |
| Cash and cash equivalents at beginning of period | 145,260 | 109,139 | (117,412) | 163,773 | 224,790 |
| Net cash inflow from operating activities | 1,794,808 | 1,163,954 | 3,314,107 | 3,146,806 | 6,298,361 |
| Net cash inflow/ (outflow) from investing activities | 2,492,404 | (1,242,571) | (32,733,142) | (61,525,805) | (1,674,665) |
| Net cash inflow/ (outflow) from financing activities | (4,323,333) | (147,934) | 29,700,220 | 58,440,017 | (4,670,000) |
| Cash and cash equivalents at end of period | 109,139 | (117,412) | 163,773 | 224,790 | 178,486 |

6.2 Key Return Information for Investors

The key return information below is based, where indicated, on the prospective performance of the Fund as outlined within this section of the PDS.

| Financial Year | Actual | Actual | Actual | Prospective | Prospective |
|--|--------------------|-------------------|--------------------|-------------------|-------------------|
| | Year | Year | Year | Year | Year |
| | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ |
| Total comprehensive income | 3,995,845 | 2,730,757 | 7,702,235 | 3,574,364 | 6,123,887 |
| Return per subscribed unit (weighted and annualised)²⁰ | 14.27 cents | 9.75 cents | 17.04 cents | 6.58 cents | 7.65 cents |
| Gross distributions to Unitholders | 2,100,000 | 2,100,000 | 3,390,000 | 4,724,167 | 6,040,000 |
| Gross distribution per subscribed unit (weighted and annualised) | 7.50 cents | 7.50 cents | 7.50 cents | 6.61 cents | 7.55 cents |
| Gross cash distribution return on Offer Unit price ²¹ | N/A | N/A | N/A | 5.51% | 6.40% |

²⁰ The return per subscribed unit (weighted and annualised) is the total comprehensive income of the Fund divided by the weighted average number of units on issue for the relevant period. This therefore includes all fair value gains and losses on properties and interest rate swaps for the relevant periods.

²¹ The gross cash distribution return on Offer Unit price is shown for the period from 1 July 2020, as applicable to investors purchasing units at \$1.18 per Unit under this Offer. Where relevant, these figures are annualised.

6.3 Financial Measures of the Fund's Borrowing

| Financial Year | Actual | | | Prospective | | |
|-----------------------------|------------|------------|------------|------------------|------------|------------|
| | Year | Year | Year | As At Settlement | Year | Year |
| | 2018 | 2019 | 2020 | Date | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Total borrowings | 16,307,402 | 18,597,814 | 32,215,402 | 56,715,402 | 57,215,402 | 58,515,402 |
| Gearing ratio ²² | 33.8% | 36.1% | 35.6% | 36.4% | 36.7% | 37.1% |
| Interest cover ratio | 2.5 | 2.2 | 2.8 | N/A | 3.4 | 3.8 |

The above assumes 34,000,000 Units are issued under the Offer.

The **Gearing Ratio** equals the Fund's total interest-bearing liabilities as a proportion of the Fund's total assets. A higher gearing ratio represents a greater risk to the Fund if the investment properties were to decrease in value because a greater proportion of the assets would be required to repay bank debt.

The **Interest Cover Ratio** is a multiple of the Fund's EBITDA (less unrealised gains, plus unrealised losses) compared to the Fund's interest expense. These projections are based on assumptions, which are set out in this PDS at Section 6.4 *Principal Assumptions for Prospective Financial Information*. The higher the ratio, the greater the ability of the Fund to pay interest on bank loans.

The assumptions in relation to the funding facility are set out in Section 6.4 *Principal Assumptions for Prospective Financial Information*, under the subheading *Bank Borrowings and Interest Expense*.

The Fund's Borrowing Facility Maturity Profile

The table below summarises, in aggregate, when the amounts of the bank facility limits of \$61,774,000 referred to above and set out in detail in Section 2.7 *Borrowings* are due for repayment or extension:

| Year of Facility Expiry Before Renewal | 31 March 2021 | 31 March 2022 | 31 March 2023 | 31 March 2024 |
|--|---------------|---------------|---------------|---------------|
| Value of borrowing facilities expiring | - | - | \$5,000,000 | \$56,774,000 |

6.4 Principal Assumptions for Prospective Financial Information

The principal assumptions on which the prospective financial information has been prepared are set out below. These assumptions should be read in conjunction with the risks set out further below and in Section 7 *Risks to Returns from the PMG Direct Office Fund*. A statement of Prospective Financial Information (together with the assumptions underlying those statements) is available on the Offer Register.

- Settlement:** The Fund intends to settle the acquisition of the Acquisition Property on the estimated settlement date of 30 June 2020. The prospective financial statements of the Fund have been prepared for the years ending 31 March 2021 and 31 March 2022. The prospective financial statements only include information for the Acquisition Property from the estimated settlement date.
- Offer Proceeds and Costs:** The Manager has assumed a total of \$40,120,000 is raised by the Offer from the issuance of 34,000,000 Units at \$1.18 each. Total estimated issuance costs for the Offer are \$2,928,150. Issuance costs include Manager's Acquisition and Underwriting Fees, brokerage fees, deposit fees, legal fees, accounting fees, property valuations, marketing costs and finance costs. For further information see Section 8.1 *Offer Costs*.
- Revenue, occupancy rates, and lease renewals:** The prospective financial statements assume annual net rental income as follows:

| For the year ended 31 March | Prospective 2021 \$ | Prospective 2022 \$ |
|--|---------------------------|---------------------------|
| 213 Tuam Street | 3,080,913 ²³ | 4,181,383 |
| 65B Main Highway | 1,589,622 | 1,619,075 |
| 410 Victoria Street and 12 Alma Street | 610,108 | 644,923 |
| 8 Rockridge Avenue | 965,904 | 986,763 |
| 5 Short Street | 1,401,504 | 1,539,864 |
| 2 Robert Street | 863,986 | 864,272 |
| 127 Durham Street | 229,065 | 231,146 |
| 143 Durham Street | 482,343 | 517,157 |
| Allowance for rent relief and provision for additional vacancy | (664,554) | (213,658) |
| Total | 8,558,891 | 10,370,926 |

²² The ratios assume the change in value of the Existing Properties beyond 31 March 2020 is only the value of the capital expenditure on the Existing Properties, and the change in value of the Acquisition Property beyond 30 June 2020 is only the value of the capital expenditure on the Acquisition Property.

²³ Rental income from the Acquisition Property will commence from Settlement Date.

The amounts above are exclusive of all separately recoverable operating expenses. Property operating expenses are generally recoverable to the extent the property is tenanted, except for gross lease arrangements. There are several leases to government agencies that are gross lease arrangements, whereby the operating expense recoveries are included in the rental amount.

Property-specific annual net rental income during the forecast period is budgeted to increase due to the acquisition of the Acquisition Property, part way through the 2021 financial year, contracted rental adjustments, market rent adjustments, lease renewals, and letting of vacancies during the prospective period.

A summary of lease occupancy expectations from Settlement Date, before any additional allowance attributable to the above, is provided below:

| | At Settlement Date 30 June 2020 | Year ending 31 March 2021 | Year ending 31 March 2022 |
|---|------------------------------------|------------------------------|------------------------------|
| Tenancy occupancy rates at start of period | N/A | 98.2% | 98.9% |
| Leased space falling vacant ²⁴ | N/A | (2.1%) | (1.5%) |
| Vacant space subject to new leases | N/A | 2.8% | 1.1% |
| Tenancy occupancy rates at end of period | 98.2% | 98.9% | 98.5% |
| Leases expiring/with right to terminate ²⁵ | 0.9% | 5.5% | 11.0% |

More detailed information about the leases coming up for renewal, the tenancies that the Manager expects to be renewed, and a summary of vacant space across the Property Portfolio, is set out in the prospective financial information on the Offer Register.

Separate to the specific vacancy allowances by property, non-specific rental income allowances have been made that reduce total rental income in the prospective financial periods presented by a total of \$878,212. These allowances are related to tenant rent relief, potential future vacancies and vacancy periods, and tenant rent review deferrals or reductions attributable to the current economic conditions created by COVID-19. For more information related to this risk, see Section 7 *Risks to Returns from the PMG Direct Office Fund*.

- Rental income is presumed to reduce \$350,000 below the current contracted rental amounts in the two months ending 31 May 2020, based on the Manager's net rent relief offered to existing tenants during the period. In addition, an expected reduction in net operating expenditure recovered of \$83,446 has been provided for.
- For the remaining ten months ending 31 March 2021, an additional allowance for potential rental income reductions of \$314,554 has been made (as a result of rent review deferrals, additional vacancy or increased vacancy periods), calculated as a percentage of forecast property-specific rental income before accounting for allowances. This amounts to a 4.2% reduction of monthly forecast rental income for the ten month period.
- For the year to 31 March 2022, further allowance for potential rental income reductions of \$213,685 has been made (an estimate of the impact of rent review deferrals, additional vacancy or increased vacancy periods) calculated as a percentage of forecast property-specific rental income before accounting for allowances. This amounts to a 2.0% reduction of monthly forecast rental income for the year.

(d) **Bank Borrowings and Interest Expense:** The total funding facilities from ASB have a limit of \$61,774,000 (39.6% of the Total Assets of the Fund at Settlement Date). The actual total borrowings drawn at Settlement Date is forecast to be \$56,715,402 (36.4% of the Total Assets of the Fund at Settlement Date), providing sufficient headroom in the facility limit on settlement to provide funding for items such as future capital and operating expenditure.

The interest rate on bank borrowings has been assumed to be a weighted average of 4.00% for the years to 31 March 2021 and 31 March 2022. Considering interest rate hedging in accordance with the Manager's hedging policy, it is projected for the purposes of the prospective financial information that the average interest rates charged should be in line with this forecast weighted average.

The interest expense and interest paid cash flow is dependent on the balance of the funding facilities. The following has been assumed in relation to the funding facilities:

- no principal repayments are expected during the term of the funding facilities
- no recourse to Unitholders; and
- capital expenditure will be funded by the funding facilities to the extent that free cash flows from operations are not available to fund such expenditure.

The bank borrowings will be secured by first registered mortgages over the Property Portfolio and a general security agreement over all present and future acquired assets of the Fund. The ASB offer is subject to variation at the time of the loan being drawn and assumes the conditions in the offer are fulfilled.

²⁴ Tenancy occupancy rates and vacant space assumptions are expressed as net lettable area as a percentage of the total net lettable area of the Property Portfolio, based on current expectations of net lettable area under contract. These exclude any general allowances for rent reductions that may be related to future vacancy or longer vacancy periods.

²⁵ Leases expiring/with right to terminate are expressed as annualised net rental income of leases expiring or with a right to terminate as a percentage of the total annualised net rental income of the Property Portfolio as at Settlement Date.

- (e) **Management Fees:** The management fees payable to the Manager have been estimated at \$876,870 for the year ending 31 March 2021, and \$1,007,057 for the year ending 31 March 2022. The management fees consist of a management fee charge of 2.00% of the gross rental received from the Property Portfolio and an asset management fee of 0.50% of the carrying value of the Property Portfolio.
- (f) **Performance Fees:** No performance fee has been presumed for the years ending 31 March 2021 and 31 March 2022 due to the Manager's benchmark for charging performance fees not being reached in the prospective financial information. The performance fee calculation basis can be seen in detail at Section 8 *What Are the Fees?*
- (g) **Gross Cash Distribution Returns:** The annualised gross distributions before tax per Unit are forecast to be 7.50 cents per unit for the period 1 April 2020 to 31 May 2020, 6.50 cents per unit from 1 June 2020 to 31 March 2021, and 7.55 cents per unit from 1 April 2021. For new Unitholders participating in this Offer, this equates to a projected annualised gross cash distribution return on Unit issue price of 5.51% per annum from 1 July 2020 to 31 March 2021, and 6.40% for the year ending 31 March 2022.
- (h) **Property Acquisition, Disposal, Capital Expenditure, and Valuation:** It has been assumed that the Acquisition Property is purchased on Settlement Date for a total of \$58,650,000 (before property acquisition costs and fees).

All properties in the Property Portfolio are initially recorded at cost. All subsequent capital expenditure is recorded as an incremental cost. In the prospective financial information, the Existing Properties have been revalued to fair value at 31 March 2020. The Acquisition Property has been revalued to forecast fair value as at 30 June 2020, based on a valuation dated 5 May 2020. No further fair value movements have been presumed in subsequent periods, with the only changes to investment property value being the result of ongoing capital expenditure, deemed to be incurred at fair value.

The valuation reports have been prepared on the basis of 'material valuation uncertainty' due to the impact of the COVID-19 outbreak. Consequently, less certainty – and a higher degree of caution – should be applied when relying on valuations than is normally the case. The fair valuation as at 31 March 2020 for all properties has been reconfirmed for all properties as appropriate by valuers during May 2020.

The prospective financial statements have been prepared on the assumption that capital expenditure is incurred for the prospective periods as follows:

| For the year ended 31 March | 2021 | 2022 |
|-----------------------------|-----------|-----------|
| | \$ | \$ |
| Total Capital Expenditure | 2,049,305 | 1,674,665 |



213 Tuam Street, Christchurch

The most significant capital expenditure projects forecasted are:

- **Short Street** – Required lift and building façade repair works. To undertake this work and upgrade the property to an acceptable standard, the works are expected to cost \$1,000,000 between October 2020 and September 2021.
- **Main Highway** – Landlord's fit-out required as part of the sale and purchase agreement for the property. An estimated cost of \$500,000 is forecast in the year ending 31 March 2021.
- **143 Durham Street** – Tenancy and common area fit-outs estimated to cost \$400,000 in the year ending 31 March 2021. This will assist with leasing vacant space and encouraging existing tenants to renew leases on longer lease terms.

Additional capital expenditure of a general or provisional nature has been estimated based on the Manager's historic experience combined with technical due diligence completed by independent third parties prior to commitment to acquisition of the Fund's properties. This additional capital expenditure is spread across multiple lower value capital expenditure projects. The total capital expenditure includes Project Fees payable to the Manager.

- (i) **Taxation:** The Fund is a PIE for tax purposes. As a result, in substance the Fund will pay tax based on the notified investor rate of Unitholders and it will not be required to calculate deferred tax.
- (j) **Other Assumptions:** Other Assumptions can be found disclosed in more detail in the prospective financial information included on the Offer Register. Other Assumptions include those relating to brokerage fees, accounts receivable default rates, redemptions, and the business environment (economic, legal, taxation).

7. RISKS TO RETURNS FROM THE PMG DIRECT OFFICE FUND

This section sets out a description of the circumstances that the Manager is aware of, that exist or are likely to arise, that significantly increase the risk to returns for Unitholders. The table in this section sets out particulars of why each circumstance is of particular significance, and an assessment of the likelihood of any impact arising, the nature of that impact, and the potential magnitude of that impact.

The risks have been identified by the Manager on the basis of information known to it, as at the date of the PDS, and on an assessment of the probability of a risk occurring and the anticipated impact of the risk if it did occur. These risks may not be all of the risks that the Fund currently faces, or may face in the future, and there is no guarantee that the importance of each risk will not change.

These risks, were they to occur, and if they were not appropriately mitigated by the Manager, could have a material adverse effect on the Fund's financial position or future financial performance. The Manager has taken, and will, in the future, take steps to mitigate the effects of these circumstances. However, some risks may not be fully capable of mitigation. Unitholders should carefully consider these risk factors (together with other information in this PDS) before deciding whether to invest in the Units of the Fund.

The description of risks in this section does not take into account the personal circumstances, financial position or investment requirements of any person. It is therefore important that, before deciding to invest in the Units, you consider the suitability of an investment in the Units in light of your individual risk profile for investments, investment objectives and personal circumstances (including financial and taxation issues). If you do not understand the information in this section, you should consult a financial or legal adviser.



213 Tuam Street, Christchurch

7.1 Property Market and Economic Environment Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|--|---|
| Property Market and Economic Environment Risk | <p>The Property Portfolio is concentrated in commercial, primarily office, properties. Property market conditions and fluctuations in supply and demand for these kinds of properties will affect the value of the Fund's portfolio, the rental income of the Fund, the expenses of the Fund, and other underlying property fundamentals. The Fund is reliant on the Property Portfolio to provide it with both a cash and potential capital return for its investors.</p> <p>Deterioration in the New Zealand economy, the property sectors in which the Fund is invested, and the industry sectors in which tenants of the Fund's properties operate, may result in Unitholders not receiving the forecast return and/or not being able to recoup their original investment. This impact will not be offset by exposure to other classes of assets.</p> <p>As a result of COVID-19, New Zealand entered a Government issued Alert Level 4 lockdown on 26 March 2020 and some tenants in the Property Portfolio were not able to access their premises for work, which resulted in entitlement for some tenants to rent abatement/relief.</p> <p>The Manager has adopted the approach of assisting tenants, even those without specific rent abatement clauses within their lease agreements, to support the ability of tenants to continue meeting their lease obligations. The Manager considers this short-term cost to the Fund will help assist tenants to continue operations, and not be forced to terminate leases early, thus supporting rental income, property valuations and Fund returns.</p> <p>The longer term impacts on Fund and investor returns, if any, are currently unknown. These returns will primarily be driven by longer term rental income expectations and property valuations. Tenants may find themselves with an inability to meet rent payment obligations, downwards pressure may exist on rent achieved from rent reviews, and there may be an increased likelihood of vacancy periods emerging when leases expire. A reduction in the valuation of property may occur, in addition to interest rate fluctuations.</p> <p>These specific risks are considered further in other risks in this section, and an estimate of the sensitivity of the Fund's returns to these risks is further summarised in the Prospective Financial Information associated with this PDS.</p> | <p>From Settlement Date, the Fund expects 60% (prior to Settlement Date, 34%) of its annual rental income to be generated by tenants that are considered essential public services (either fully or in part), supporting their ability to continue to operate and honour lease obligations despite the current economic environment. These tenants include Vodafone New Zealand, the Ministry of Social Development and the Ministry of Justice.</p> <p>Several of the Fund's material leases include fixed rental increases during the prospective financial period, including Vodafone New Zealand. Provided access to the property is not further restricted, and these tenants continue to meet their lease obligations, this helps to mitigate the risk of any downwards pressure on the Fund's rental income.</p> <p>Fund borrowings may be subject to reduction in interest rates, given the current economic circumstances lend themselves to favourable movements in interest rates. This may reduce the level of bank interest charged to the Fund, and thus improve Fund and Investor returns.</p> |
| Manager's assessment of likelihood of circumstance arising | <p>High likelihood of a short (up to six months) to medium (up to two years) deterioration in the New Zealand economy, property sectors in which the Fund is invested, and industry sectors in which some tenants of the Fund's properties operate.</p> <p>Low likelihood of the deterioration being longer term.</p> | |
| Manager's assessment of the impact, were the circumstance to arise | <p>A short-medium term deterioration may have a moderate impact on the Fund's short-medium term Unit value and return to investors, but a low impact on the Fund's long-term Unit value and returns to investors.</p> <p>A long-term deterioration may have a significant impact on the Fund's Unit value and returns to investors.</p> | |

7.2 Valuation Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|--|--|
| Valuation risk | <p>The market value of each property within the Property Portfolio is influenced by numerous inputs. This may include, but is not limited to, recent property market sales data, contractual lease terms, assumptions on prospective rental income and vacancy, and other expert opinions and assumptions. The property market and general economic environment drives these inputs.</p> <p>The market value of the Property Portfolio directly impacts the Gross Asset Value, NAV, Offer Price per Unit, Redemption Price, and the Gearing of the Fund amongst other metrics.</p> <p>The valuation reports have been prepared on the basis of material valuation uncertainty. Less certainty, and a higher degree of caution, should be applied when relying on these valuations than is normally the case. Values may change more rapidly and significantly than under normal conditions.</p> <p>This matter has also been emphasised in the Auditor's report attached to the Fund's audited financial statements for the year ending 31 March 2020, which can be found on the Offer Register.</p> <p>A material change in the valuation of the Property Portfolio may have a material impact on all of the above metrics. A 5% reduction in property valuations (approximately \$7.5 million) would reduce the Gross Asset Value and NAV of the Fund by a similar amount, and, if recorded at the date of the PDS, reduce the Offer Price per Unit by approximately 9.4 cents per Unit.</p> | <p>The Manager has obtained independent valuation reports on the Existing Properties, and the Acquisition Property, dated within 2 months of the date of this PDS.</p> <p>The current economic environment, as a result of COVID-19, has been factored into the valuations as at the date of the valuation reports. These valuations have since been reconfirmed, in May 2020, by each independent valuer as remaining appropriate in the current economic environment.</p> <p>As a result, the value of the Property Portfolio (before and on Settlement Date), and Offer Price per Unit, is considered by the Manager to represent fair value as at Settlement Date, based on facts and circumstances known to the Manager at the date of this PDS.</p> <p>Beyond Settlement Date, given the types of input that derive property and unit valuations, mitigating factors include those noted in section 7.1, 7.3, and 7.4.</p> |
| Manager's assessment of likelihood of circumstance arising | High likelihood of an individual property valuation varying over time. Moderate likelihood of a short to medium term (0-2 year) reduction in Property Portfolio and unit values. Low likelihood of long term, sustained reduction in Property Portfolio and unit values (2 years plus). | |
| Manager's assessment of the impact, were the circumstance to arise | <ul style="list-style-type: none"> - Property valuation fluctuations may be material over the course of property ownership, based on the property market and economic environment throughout the period of ownership. - Typically the larger the rental income from a property in the Property Portfolio, the larger the potential for fluctuation in value of both the property and the Fund's Units. - A material reduction in Property Portfolio valuation would materially reduce the Fund's Gross Asset Value, NAV and Redemption Price per Unit. | |



Aerial view, Vodafone building, 213 Tuam Street, Christchurch and surrounds

7.3 Rental Income Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|--|---|--|
| Rental income risk | <p>The Fund is reliant on rental income and exposed to rental income fluctuations. Rental income from any property may stop or decrease for several reasons, such as if a lease is terminated, expires without being renewed, or the rent under a lease decreases following a rent review.</p> <p>If a lease is terminated or expires without being renewed, there may be difficulty obtaining a replacement tenant and rental rates may be at a lower level than previously received. This is more likely in properties with lower WALTs, which have increased risks of vacancy. This may also reduce the value of the affected property and therefore the value of the Property Portfolio.</p> <p>There are expected to be 53 tenants in the Property Portfolio from Settlement Date (excluding car park only tenants).</p> <ul style="list-style-type: none"> - The largest Annual Rental Income exposure by tenant relates to Vodafone New Zealand Limited, a total exposure of \$3,917,934 across two leases. This represents 39.4% of the expected rental income²⁶ of the Fund as at Settlement Date. - 5 Short Street has the highest value of rental income associated with casual leases and leases due to expire or be renewed across the Property Portfolio in the prospective financial periods to 31 March 2022, totalling \$754,599 of Annual Rental Income. This represents 7.6% of the Rental Income of the Fund as at Settlement Date. <p>The lease expiry profile and annual net rental by largest lessee across the Property Portfolio are summarised in Section 2.2 <i>The Fund's Property Portfolio</i>.</p> <p>Risk 7.1 highlights that tenants have been unable to access property in April 2020 due to COVID-19. The Manager is providing rent abatement/ relief in the period from 1 April 2020 to 31 May 2020 to multiple tenants. The cost of this rent abatement/relief has been factored into the prospective financial information of the Fund, estimated at \$350,000 of rental income over the two months to 31 May 2020, plus \$83,446 of operating expenditure recovered. As the economic impact to some tenants may persist beyond 31 May 2020, the Manager has made a further allowance of \$528,212 for rental income reductions from contracted levels between 1 June 2020 and 31 March 2022, as the Manager's best assessment of the medium-term impact of the existing economic environment on rental returns. This is in addition to any vacancy assumptions provided for in property-specific budgets, and accounts for a combination of reductions in rental amounts achieved from rent reviews, increased vacancy levels and increased vacancy periods when leases expire.</p> | <p>The Manager minimises rental income risk through its strategy to grow the WALT on each property, while maintaining low levels of vacancy.</p> <p>The Manager's strategy with respect to rental income risk is to continue diversifying the Fund's Property Portfolio over time, thereby reducing the Fund's reliance on any one region, tenant industry sector, or tenant counterparty. The acquisition of further properties into the Property Portfolio is part of this strategy.</p> <p>As at Settlement Date, the Manager expects the Property Portfolio to have a WALT of 5.6 years with an occupancy rate in excess of 98% by Net Lettable Area. The Acquisition Property contributes significantly to the WALT, with WALT prior to Settlement Date being 3.9 years.</p> <p>The largest rental income source post Settlement Date, Vodafone New Zealand, is considered a significant benefit to the Fund in the current environment, as a provider of an essential service to the New Zealand public and with a lease subject to fixed rental increases of 2.25% between market rent review dates (the next market review being 17 August 2022). The lease also expires more than eight years from Settlement Date, with rights of renewal that could extend the existing lease to August 2046.</p> <p>With respect to other leases, the Manager proactively engages with each tenant with respect to lease renewals at least six months before the lease term expiry. This assists with tenant retention, or in the event the existing tenant vacates, provides the opportunity to re-tenant the space with a minimal void period.</p> <p>Should a lease with existing tenants not be renewed, the Manager will actively market the vacant space to key real estate agents in the region at the earliest opportunity.</p> <p>Each property has a property strategy in Section 2.2. The Fund's Property Portfolio, which specifically addresses planned mitigation of risks to rental income, especially relevant for properties with a lower WALT.</p> |
| Manager's assessment of likelihood of circumstance arising | High likelihood of a lease not renewing with an existing tenant. Moderate likelihood of a tenancy expiring without either a renewal or an alternative tenant being sourced and contracted within a short time period. | |
| Manager's assessment of the impact, were the circumstance to arise. | <p>Dependent on the tenant and their relative contribution to total revenue of the Fund.</p> <ul style="list-style-type: none"> - The majority of tenants are not considered material in isolation, so the impact would be low on Unit value and investor returns. - If a large number of tenancies yield reduced rental income, the impact could be moderate to significant on Unit value and investor returns (depending on the tenants). - If the Ministry of Social Development or the Ministry of Justice did not renew their leases on the Main Highway property, and no alternative tenants were contracted within a reasonable period of time, the impact would be moderate on Unit value and investor returns. - If Vodafone New Zealand Limited did not renew their lease and no alternative tenants were contracted within a reasonable period of time, the impact would be significant on Unit value and investor returns. | |

²⁶ Rental income represents the expected annualised rental income as at Settlement Date, stated before lease incentives and rental abatement or allowances, based on the contractual arrangements in place at the date of this PDS plus any prospective period assumptions up to Settlement Date.

7.4 Tenant Default Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|--|---|
| Tenant default risk | <p>Dependence is placed on the ability of tenants to meet their contractual obligations to continue payment of rental and outgoings. If any tenant was to suffer liquidity or other financial problems of a significant nature, and was unable to meet their obligations, any resulting failure to pay rental and outgoings and consequential recovery action or litigation would have a detrimental impact on the Fund's ability to pay Unitholder returns at the expected level prospectively. It may also reduce the value of the Property Portfolio, which would reduce the value of Units.</p> <p>Should a material tenant default rate exist across the Property Portfolio, total comprehensive income available for distribution to Unitholders would reduce significantly. The most likely cause of an increase in tenant defaults would be a specific financial issue with an individual tenant caused by tenant-specific factors or a general deterioration in the overall macroeconomic environment.</p> <p>Given the current economic environment, linked to COVID-19, there is an increased risk of tenant default.</p> <p>The aggregation of the exposure to individual tenants/entities and tenant industry sectors is summarised at Section 2.2 The Fund's Property Portfolio.</p> <p>The estimated impacts of the current economic environment on rental income, as summarised at Section 7.3 Rental Income Risk.</p> | <p>The Fund strategy is to invest in an increasingly diversified portfolio of properties, tenants and regions. The intent is to minimise the impact of a tenant default should one occur, as the rent paid by each tenant makes up an increasingly smaller proportion of the Fund's total revenue, and ultimately the Fund's cash available for distribution. The strategy also focuses on minimising exposure to tenants of heightened risk of default (i.e. by improving tenant size and reputation), while minimising aggregation risk where possible.</p> <p>At Settlement Date, the Fund expects rental income exposure to be predominantly tenants with a low to very low risk of default. Those with a very low risk of default are considered to be Vodafone New Zealand – 39%, Government-related entities – 17%, national financial services providers – 3%, and the Manager – 2%. Furthermore, these entities are also considered to be essential service providers (at least in part), should any further Government imposed lockdowns occur.</p> <p>Vodafone New Zealand will become the largest rental income exposure for the Fund. A major national telecommunications provider and considered an essential service provider (at least in part), at Alert Level 3 or below it is expected that Vodafone New Zealand will continue to operate and meet its lease obligations as they fall due. The Manager is aware of possible rental abatement discussions between the Vendor and Vodafone in relation to the historic Alert Level 4 lockdown. The Manager currently has no reason to believe that the Fund's rental income from Vodafone will differ from that which is contractually committed, and also projected within the prospective financial information.</p> <p>The Manager undertakes due diligence on prospective tenants and (where possible) obtains personal guarantees or bank guarantees from tenants. The larger exposures include a tenant owned by two large, well-resourced international businesses (Vodafone New Zealand Limited), and established Government entities, agencies and departments.</p> <p>As at the date of this PDS, there are no material tenant defaults on existing lease obligations and no proceedings have been issued in respect of any default. No bad debts have been recorded in the life of the Fund, since Fund establishment in December 2016.</p> |
| Manager's assessment of likelihood of circumstance arising | Moderate likelihood of one or more immaterial tenants defaulting, low likelihood of one or more material tenants defaulting. | |
| Manager's assessment of the impact, were the circumstance to arise | If a material tenant or multiple immaterial tenants failed to make their lease payments for an extended period, the impact on Unit value and investor returns could be significant. | |

7.5 Interest and Derivative Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|---|---|
| Interest and derivative risk | <p>Interest incurred as an expense as a result of borrowings is a material expense of the Fund. At Settlement Date, 36.4% of the Fund's total assets will be funded by interest-bearing borrowings at a floating interest rate. In the future, total borrowings and the interest rate on borrowings is expected to fluctuate (further details on borrowings and interest rates can be found at Section 2.7 <i>Borrowings</i>).</p> <p>Under the current SIPO, the Manager is permitted to invest the Fund's assets in interest rate swaps (the target asset allocation is between 0 to 10% of the Fund's assets).</p> <p>An interest rate swap is a class of financial derivative, in which two parties agree to exchange interest rate cash flows based on a specified notional amount, from a fixed rate to a floating rate (or vice versa), or from one floating rate to another. Interest rate swaps are used by the Manager to hedge interest rate risks for the Fund. The Manager intends to determine the interest rate with a combination of short-term and long-term swap agreements and/or floating rates as appropriate over time.</p> <p>If any swap agreements are exited before the date those swaps expire, penalties may be payable. Furthermore, fair value losses on swap agreements will be recorded if they are out of the money (if the agreed swap rate was higher than the prevailing wholesale market rate that reflects the remaining term through to maturity).</p> | <p>The Fund maintains a hedging policy that would mitigate the actual effect of an increase in interest rates in the short to medium term.</p> <p>The Manager actively manages, on behalf of the Fund, the risk of interest rate movements by entering interest rate swap agreements with the Fund's lenders. The current policy is to have at least 50% of the Fund's debt hedged, with a hedge expiry of more than 18 months.</p> <p>The Fund intends to enter new swap arrangements for three years or more, with a minimum term of three years. Such arrangements assist the Fund in mitigating unexpected interest rate changes.</p> <p>Should material adverse changes in interest rates occur, the Fund could dispose of one or more assets from the Property Portfolio to reduce borrowings and thus interest payable.</p> <p>In the current economic environment, a material increase in interest rates is not expected.</p> |
| Manager's assessment of likelihood of circumstance arising | The likelihood of a material adverse movement in interest rates, combined with the fair value of interest rates swaps, is low. | |
| Manager's assessment of the impact, were the circumstance to arise | The impact of a material adverse movement in interest rates would be moderate on investor returns, and may moderately impact Unit value. | |

7.6 Funding Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|---|--|
| Funding risk | <p>The Fund intends to borrow further funds from ASB to assist with the purchase of the Acquisition Property and may make further borrowings to help fund future capital expenditure and further acquisitions of property. Total borrowings at Settlement Date are expected to be \$56,715,402 should the Fund achieve the Maximum Equity Raise. If the Fund only achieves the Minimum Equity Raise, it is expected that the Fund will require additional funding facilities to meet the requirement of future capital expenditure in the prospective periods to 31 March 2022 (an estimated required increase on existing approved facility limits of \$1,200,000).</p> <p>Adverse market movements may cause a breach of banking covenants - in particular, the requirements to maintain a loan-to-value ratio below the maximum allowed per bank covenants, and for interest cover levels against operating profits to be above the minimum allowed per bank covenants. If a breach of these (or any other) banking covenants is not remedied, ASB may enforce its security and sell some or all the Fund's properties.</p> <p>There is also the risk that a bank facility may not be able to be renewed at the end of its term. If the Manager were required to sell one or more of the Fund's properties in a forced sale process, a lower value is likely to be obtained.</p> | <p>The extendable nature of the bank loan may assist to mitigate any renewal risk, whereby the loan may be extended (subject to mutual agreement) after the first 12 months, by a further 12 months, thereby resetting the loan term to three years. Should agreement not be reached, the Manager would have up to two years to arrange alternative loan arrangements.</p> <p>Should additional bank facilities be required, such as if the Fund only achieves the Minimum Equity Raise, the Manager is confident it will be able to source such facilities given the relatively low forecast LVR of the Fund compared to prevailing banking covenants and the Fund's SIPO requirements.</p> |
| Manager's assessment of likelihood of circumstance arising | Low | |
| Manager's assessment of the impact, were the circumstance to arise | Significant | |

7.7 Capital Expenditure Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|--|---|
| Capital expenditure risk | <p>The Fund will incur capital expenditure from time to time in relation to the Property Portfolio. Significant capital expenditure may be required for a number of reasons, including upgrading newly vacated lettable areas to assist with leasing, undertaking structural repairs and related work to bring a property up to a designated standard or to meet new requirements resulting from changes to current regulations and standards, or because general capital improvements are required. The Fund may not be able to recover all, or any, of this expenditure from tenants, which may have an adverse effect on the Fund's performance and funding risk.</p> <p>The Manager has provisioned for capital expenditure requirements totalling \$3,723,970 in the two years ending 31 March 2022. Capital expenditure beyond the date of this PDS is discussed in Section 6.4 Principal Assumptions for Prospective Financial Information.</p> | <p>The Manager minimises risk associated with capital expenditure through its use of certified professional experts in assessing minimum capital expenditure requirements associated with each property, with a focus on contractual lease requirements and seismic surveys. The Manager has procurement processes in place to budget for and monitor capital works as they progress, holding contractors to account in their provision of services to expected standards. Furthermore, the sale and purchase agreement for a property transaction may require a vendor to upgrade a property to a certain standard prior to settlement, or to compensate the Fund for such upgrade works once completed.</p> |
| Manager's assessment of likelihood of circumstance arising | Low likelihood of material, unexpected capital expenditure. | |
| Manager's assessment of the impact, were the circumstance to arise | Moderate impact, particularly on borrowings and potentially a low to moderate impact on investor returns. | |

7.8 Liquidity Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|--|--|
| Liquidity Risk | <p>The Property Portfolio, and any future properties acquired by the Fund, are inherently long-term investments and cannot easily be sold. Accordingly, the Fund has limited working capital available to satisfy requests for redemptions of Units.</p> <p>There is a residual risk that the Fund will not have enough cash resources and, as a result, redemptions may be suspended for a period of time or indefinitely. If redemptions are suspended, this may have a significant negative impact on the value of Units.</p> | <p>The Manager has discretion on redemptions and limits redemptions to annual periods. The Fund maintains a relatively low loan-to-value ratio allowing for additional funds to be borrowed if required.</p> |
| Manager's assessment of likelihood of circumstance arising | Low | |
| Manager's assessment of the impact, were the circumstance to arise | Potentially significant | |

7.9 Taxation Risk

| Description of risk | Manager's assessment of nature and magnitude | Mitigating factors |
|---|--|--|
| Taxation Risk | <p>The Fund is a multi-rate PIE and expects to be a multi-rate throughout its lifespan. Generally, where an entity is a multi-rate PIE, tax is payable on each investor's share of an entity's income at a tax rate broadly approximating their marginal tax rate (with this rate capped at 28%). Further, as distributions from a multi-rate PIE are not taxable, this allows capital gains of the entity to be distributed tax-free prior to wind-up. Several criteria must be met for the Fund to be a multi-rate PIE. If these criteria are not met, the Fund may lose its PIE status.</p> <p>If the Fund is not a PIE, investors may face a higher tax cost due to the loss of the 28% PIE tax rate cap and distributions of the Fund become taxable.</p> | <p>The Manager has processes in place to ensure investor and investment limits are not breached.</p> |
| Manager's assessment of likelihood of circumstance arising | Low | |
| Manager's assessment of the impact, were the circumstance to arise | Potentially significant | |

8. WHAT ARE THE FEES?

All fees in this Section are exclusive of GST unless otherwise stated.

8.1 Offer Costs

The following table contains the estimated fees and expenses that will be charged to the Fund for the Offer. Fees and expenses associated with previous offers are not included below, however they are included in the table at Section 1.9 *What Fees will You Pay?* in the relevant historic periods.

| | |
|---|--------------------|
| Manager and associated persons fees (estimated) | |
| Manager's property acquisition fee | \$586,500 |
| Manager's underwriting commitment fee | \$929,250 |
| Brokerage fee | \$802,400 |
| Deposit fee | \$150,000 |
| Offer Costs payable to the Manager and associated persons | \$2,468,150 |
| Other persons' fees (estimated) | |
| Legal fees | \$125,000 |
| Marketing costs | \$200,000 |
| Due diligence fees | \$60,000 |
| Accounting fees | \$20,000 |
| Supervisor's fees | \$5,000 |
| Administrative and contingency costs | \$50,000 |
| Offer Costs payable to other persons | \$460,000 |
| Total Offer Costs of the Fund (estimated) | \$2,928,150 |
| As a percentage of unit subscriptions received under the Offer | 7.30% |

- (a) **Manager's property acquisition fee:** The acquisition fee relates to Property Acquisition Fees chargeable by the Manager as a result of the purchase of the Acquisition Property under the terms of this Offer. This is charged at 1.00% of the property purchase price stipulated in the sale and purchase agreement.
- (b) **Manager's underwriting commitment fee:** The Manager has agreed to underwrite subscriptions for up to 22,500,000 Units. The Manager's underwriting commitment fee is the fee payable to the Manager for this underwriting commitment. The fee is charged as a 3.50% fee on the underwritten Units. The underwriting commitment agreement is unconditional. A copy of the agreement between the Manager and the Supervisor relating to the Manager's underwriting commitment is available on the Offer Register.
- (c) **Brokerage:** The brokerage is payable to the Manager by the Fund as commission for subscriptions of Units under the Offer. The brokerage fee is charged at 2.00% of the value of Units issued under the Offer. It has been assumed that 34,000,000 Units are issued under the Offer.
- (d) **Deposit fee:** A deposit fee will be paid to PMG Capital Fund Limited for funding the Acquisition Property deposit prior to acquisition (6.00% of the deposit amount on the Acquisition Property).
- (e) **Legal fees:** Legal fees are payable on a time and attendance basis for:
- Simpson Grierson - the costs of advising on the PDS, compliance with the FMCA, and attending to registration of the Offer Information
 - Cooney Lees Morgan - legal due diligence on the Acquisition Property, negotiation of the sale and purchase agreement for the Acquisition Property, and settlement of the purchase of the Acquisition Property; and
 - fees may be payable for advice related to this Offer, including any subsequent amendments or changes to this PDS, advice to the Manager relating to ongoing compliance with the FMCA, and attending to registration of ongoing Offer related information.
- (f) **Marketing Costs:** The costs payable on a time and attendance basis for designing this PDS, and producing advertisements in relation to the Offer, and the costs associated with preparing and printing this PDS. Marketing costs include reimbursement made to the Manager for use of internal marketing team resources.
- (g) **Due Diligence fees:** This includes property valuation fees, building and seismic report fees incurred in relation to the Acquisition Property, and other disbursement and due diligence costs associated with the acquisition and the Offer.
- (h) **Accounting fees:** Fees are payable to Baker Tilly Staples Rodway Audit Limited for reviewing the prospective financial information of the Fund for the sole purpose of this Offer.
- (i) **Supervisor's Fees:** The fees payable to the Supervisor reflect an establishment fee for the additional real estate asset acquired by the Custodian, calculated on a time and attendance basis (as notified by the Supervisor to the Manager from time to time).
- (j) **Administrative and contingency costs:** This includes the PDS registration fee and FMA levies, bank fees and charges, compliance fees, and other costs associated with preparing the offer documentation that may occur.

8.2 Aggregated Fees and Expenses

| Financial Year | Actual Year 2018 | Actual Year 2019 | Actual Year 2020 | Prospective Year 2021 | Prospective Year 2022 |
|--|------------------------|------------------------|------------------------|-----------------------------|-----------------------------|
| Description of fee | \$ | \$ | \$ | \$ | \$ |
| Fees and expenses charged by the Manager and associated persons | | | | | |
| Offer-related costs | - | - | 1,209,588 | 2,468,150 | - |
| Property management fee | 83,763 | 112,856 | 155,567 | 205,682 | 253,561 |
| Fund management fee | 239,125 | 241,402 | 383,966 | 671,188 | 753,497 |
| Manager performance fee | 397,273 | 18,591 | 903,426 | - | - |
| Property project fee | 91,117 | 329,356 | 102,227 | 97,586 | 79,746 |
| Sub-total fees and expenses – Manager and associated persons | 811,277 | 702,205 | 2,754,774 | 3,442,606 | 1,086,803 |
| As a percentage of NAV | 2.63% | 2.25% | 5.02% | 3.75% | 1.18% |
| Fees and expenses charged by other persons | | | | | |
| Offer-related costs | - | 223,194 | 165,902 | 460,000 | - |
| Property operating expenditure | 1,068,303 | 1,281,685 | 1,564,403 | 2,302,479 | 2,522,801 |
| Property capital expenditure | 1,291,480 | 1,537,358 | 2,329,705 | 1,951,719 | 1,594,919 |
| Supervisor's fees | 20,170 | 21,614 | 20,096 | 20,000 | 20,000 |
| Auditor's fees | 25,000 | 16,547 | 65,800 | 55,000 | 55,000 |
| Interest expense | 864,760 | 1,066,128 | 1,384,102 | 2,036,013 | 2,319,224 |
| Other overhead expenditure | 142,729 | 143,017 | 162,310 | 156,086 | 166,796 |
| Sub-total fees and expenses – Other | 3,412,441 | 4,289,545 | 5,692,318 | 6,981,297 | 6,678,740 |
| As a percentage of NAV | 11.06% | 13.72% | 10.38% | 7.61% | 7.28% |

The aggregated fees and expenses for the prospective periods are estimates, based on assumptions set out in Section 6.4 *Principal Assumptions for Prospective Financial Information*.

(a) **Management fees:** The Manager is entitled to:

- (i) a fund management fee equal to 0.50% of the carrying value of the investment property assets in the Fund, based on the carrying value as at the beginning of the applicable financial year (i.e. 1 April, plus acquisitions throughout the year).
- (ii) a property management fee equal to 2.00% of the gross annual rental of the investment property assets in the Fund.

The management fees are paid to the Manager monthly, in respect of the property and funds management services provided by the Manager during the prior month. Under the Master Trust Deed, the Manager may increase the management fees by giving two months' notice to Unitholders (no prior notice is required in respect of a decrease in management fees).

(b) **Manager Performance Fee:** The Manager is entitled to a performance fee equivalent to 20% of the excess performance above the Manager Performance Benchmark (**Manager Performance Fee**). The **Manager Performance Benchmark** is the average 10-year Government bond yield²⁷ plus 6%. The Manager's performance is measured by the annual capital and income returns to Unitholders at the end of each financial year against the Manager Performance Benchmark. If the measure of the Manager's performance is negative, no performance fee is payable to the Manager in respect of that year.

The Manager applies a "high water mark" to the Manager Performance Fee. The term high water mark means the highest value that a fund has achieved on previous performance fee calculation dates. A high water mark ensures that if the Fund loses money over a period, the Manager must achieve investment returns above the high water mark before receiving a performance-based fee.

In the context of the Fund, the Manager's Performance Fee is only payable if the Fund's performance exceeds both the Manager's Performance Benchmark Return, and the high water mark. The high water mark is the Adjusted NAV of the Fund when it last charged a performance fee (or, in the case of the first Manager's Performance Fee to be charged, the Adjusted NAV on establishment of the Fund). The Fund's high water mark does not reset.

²⁷ The 10-year average government bond yield is the rate published at the end of each month by the Reserve Bank of New Zealand. The current rates may be viewed at www.rbnz.govt.nz/statistics/b2.

Further information in relation to the Manager Performance Fee, including an example calculation of this fee, can be found in Other Material Information disclosed on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number **OFR12881**.

- (c) **Property transaction fees:** The Manager is entitled to:
- (i) **Acquisition:** on acquisition of a new property by the Fund, a fee equal to 1.00% of the acquisition price of any investment (**Acquisition Fee**)
 - (ii) **Disposal:** on disposal of a property held by the Fund, a fee equal to 1.00% of the sale price for the investment (**Disposal Fee**)
 - (iii) **Transaction Investigation:** on undertaking an investigation into a potential transaction, a fee (**Investigation Fee**), on a time and attendance basis, as agreed between the Manager and Supervisor. If the Manager is paid an Investigation Fee and the relevant transaction subsequently proceeds, an amount equal to the Investigation Fee will be deducted from the Acquisition Fee
 - (iv) **Development:** if construction or refurbishment is undertaken on a property held by the Fund, a fee equal to 5.00% of the development costs, provided that those development costs exceed \$50,000 (**Project Fee**); and
 - (v) **Consultant/adviser costs:** recover any costs incurred by the Manager from any consultants or advisers engaged in relation to property acquisition, disposal, investigation, construction, or refurbishment, subject to those costs being approved by the Supervisor.
- (d) **Termination fee:** If the Manager is removed as manager of the Fund, the Manager is entitled to a sum equivalent to the fees under Section 8.2(a)(i) and (ii) (fund and property management fees) for the last full financial year preceding the removal as a termination fee.
- (e) **Supervisor's fees:** The Supervisor is entitled to:
- (i) an establishment fee for each additional real estate asset acquired by the Fund, with this fee to be calculated on a time and attendance basis
 - (ii) an annual base fee, as agreed between the Manager and Supervisor, but not exceeding 0.06% per annum of the Adjusted NAV of the Fund (subject to a minimum annual fee of \$20,000); and
 - (iii) special fees, in amounts agreed with the Manager, for any services provided by the Supervisor of an unusual or onerous nature outside of the Supervisor's regular services.
- (f) **Recovery of expenses:** The Manager and Supervisor are entitled to be reimbursed out of the Fund (whether from income or capital or both) certain fees and expenses. These include costs incurred in connection with this Offer, the acquisition of the Acquisition Property, the investigation and negotiation of additional properties for the Fund, the fees and expenses of the Fund's auditor, any fees or expenses incurred for any engagement by the Supervisor or as required by law, any taxes, duties, imposts or levies charged to the Manager or Supervisor in connection with the Fund, the costs of convening and holding Unitholder meetings, professional services fees (legal, accounting and so forth) incurred by the Manager or Supervisor in the discharge of their duties under the Master Trust Deed, communication and postage costs, expenses relating to the Unit registrar, and any other expenses properly and reasonably incurred by the Manager or Supervisor in connection with carrying out their duties under the Master Trust Deed.



- (g) **Sub-contracted investment and administration services:** If the Manager sub-contracts investment management or administration services to other members of PMG (or its related parties), the providers of those services will be paid a reasonable fee and will be entitled to be reimbursed for any costs, charges or disbursements, out of the Fund.
- (h) **Break fee on redemption:** The Manager is entitled to charge a Unitholder a break fee in relation to a request by the Unitholder for redemption of Units. The break fee is currently 1.00% of the Adjusted NAV of the Units redeemed prior to the deduction of the break fee and any deduction or withholding on account of taxes. Any changes to the break fee must be notified to Unitholders in writing.
- (i) **Other fees:** If the Manager, with the approval of the Supervisor, undertakes any works related to any of the properties in the Fund that do not fit within the obligations contemplated under the schedule of the Establishment Deed related to fees, the Manager is entitled to be paid out of the Fund for those services a reasonable fee on normal commercial terms or terms as favourable to the Fund as normal commercial terms.
- (j) **Interest expense:** Predominantly the interest charged on bank borrowings. Refer to Section 6.4 *Principal Assumptions for Prospective Financial Information*, assumption (d) for further information.
- (k) **Property capital expenses:** Capital expenditure incurred on investment property after initial purchase, excluding fees and expenses charged by the Manager that are capitalised (such as Property Project Fees). Parties involved in the works on the property include payments for remediation, fitouts and upgrades.

8.3 Fees Charged to Individual Investors

- (a) **Redemption Fee:** The Manager is entitled to deduct a break fee on the redemption of any Units by a Unitholder. The current break fee is equal to 1.00% of the gross value of the Units redeemed (prior to the deduction of the break fee and any deduction or withholding on account of taxes) plus GST. The Manager is entitled to change the break fee at any time provided that the Manager gives notice in writing to all Unitholders in advance of the new break fee.
- (b) **Transfer or Sale of Units:** Units in the Fund are intended to be a long-term investment. Should an investor wish to sell some or all of their investment, the Manager has a large database of investors and, from time-to-time, the Manager will assist in facilitating secondary transfers of Units. A fee of 1.50% plus GST is payable when using this service. This excludes any associated costs such as legal and professional advisor fees. Neither the Fund nor the Manager represents that there will be sufficient demand or liquidity to enable a Unitholder to sell Units at any given time. The Manager is not an authorised financial adviser and does not provide any recommendations in relation to buying or selling Units. If Units are transferred or sold to a third party without use of the Manager's facilitation service, no fee is payable by a Unitholder.



213 Tuam Street, Christchurch

9. TAX

Tax can have significant consequences for investments and can affect your return from the Units. If you have queries relating to the tax consequences of investing in the Units, you should obtain professional advice on those consequences.

The Fund is a multi-rate Portfolio Investment Entity (**PIE**) for income tax purposes. This means that all tax will be calculated and paid at the Fund level under the PIE rules. Under these tax rules, the amount of tax paid by the Fund in relation to any income that is attributed to you (based on your Units in the Fund at the time the income is attributed) will depend on your Prescribed Investor Rate (**PIR**) as advised to the Fund.

To determine your PIR, go to <http://www.ird.govt.nz/roles/portfolio-investment-entities/find-my-prescribed-investor-rate>. The current PIRs are listed in the table below. If you are unsure of your PIR, we recommend you seek professional advice or contact the Inland Revenue Department (**IRD**).

It is your responsibility to tell the Manager your correct PIR (and provide your IRD number) when you invest or if your PIR changes. If you do not provide your IRD number within six weeks of investing, the Fund may be required to cancel or reacquire your units. If you do not tell the Manager your PIR, a default rate of 28% may be applied.

- a. Where the Commissioner of the Inland Revenue believes the wrong PIE tax is applied, the Commissioner has the ability to instruct the Fund directly to change the rate of tax applied. However, this in turn can be overridden by any subsequent PIR that the investor informs the Fund of.
- b. An end of year square-up calculation will be required for all individual investors in the Fund. The tax paid by the multi-rate PIE based on the investor's notified PIR will be compared to the tax that should have been paid based on the correct PIR (and not their personal marginal tax rate). To the extent tax is underpaid further tax will be payable by the investor, or if tax is overpaid a credit will be available to the investor.

As the Fund is a multi-rate PIE, where you elect a PIR of more than 0% the Fund will pay tax on your share of the Fund's income based on your PIR. If you have a PIR of 0%, you must include the Fund's income that is attributed to you as a Unitholder in your income tax return.

Distributions received by Unitholders from the Fund do not need to be returned as a taxable dividend. However, where a Unitholder has elected a PIR of more than 0%, an adjustment may be made to their gross distribution amount for PIE tax remitted to Inland Revenue on behalf of the Unitholder.

If the Fund ceases to be a PIE any distributions paid will be taxable to Unitholders. Additional tax rules will apply if a Unitholder is not New Zealand tax resident.

A Unitholder may be taxed on sale of the Units if they acquired them with the dominant purpose or intention of resale or as part of a share trading business (or profit-making undertaking or scheme). If you are unsure whether you would be taxed on the sale of your Units, we recommend you seek professional advice.

| Unit Holder type | PIR |
|--|------------------|
| NZ tax resident individuals | see below |
| a. Taxable income in one of the two previous tax years is \$14,000 or less; and Taxable and PIE income (less PIE losses) is \$48,000 or less | 10.5% |
| b. Taxable income in one of the two previous tax years is \$48,000 or less; and Taxable and PIE income (less PIE losses) is \$70,000 or less | 17.5% |
| c. If a. or b. do not apply | 28% |
| NZ tax resident entities | see below |
| Companies (including unit trusts and PIEs) | 0% |
| Charitable organisations | 0% |
| Testamentary trusts (excluding charitable trusts) | 10.5% |
| Superannuation funds | 0, 17.5, 28% |
| Other trusts (excluding charitable trusts) | 0, 17.5, 28% |
| Non-resident | 28% |

10. ABOUT THE MANAGER AND OTHERS INVOLVED IN THE PMG DIRECT OFFICE FUND

10.1 About the Manager

The Fund is managed by the Manager, PMG Property Funds Management Limited. The Manager is one of the most established in New Zealand and the first unlisted property and funds manager to have previously received two “AA” ratings for its retail investment funds, Pacific Property Fund Limited and PMG Direct Office Fund, by investment research house FundSource. More recently the Manager received a 4-star rating by Research IP for the newly launched PMG Generation Fund.

For over 28 years, the Manager has been invested in delivering long-term sustainability and value for investors through proactive management and portfolio diversification.

The Manager was formed in 1992 and has established more than 30 investment schemes throughout New Zealand, giving it a well-established record in property and funds management. The Manager has a highly experienced team of property investment and management professionals and currently manages properties with a value of over \$450 million.

The Manager is licensed under the Financial Markets Conduct Act 2013 to manage Managed Investment Schemes (excluding managed funds) which invest in, or own, real property in New Zealand.

Further information about the Manager may be found at www.pmgfunds.co.nz.



The contact details for the Manager are:

PMG Property Funds Management Limited
Level 1, 143 Durham Street
Tauranga 3110

PO Box 2034
Tauranga 3144

Ph (07) 578 3494
Fax (07) 578 6455

10.2 Who Else is Involved?

| | | Name | Role |
|----------------------|---|---|---|
| Supervisor |  | Covenant Trustee Services Limited | The Supervisor will monitor compliance with the Trust Deeds and fulfil the role of supervisor under the Financial Markets Conduct Act 2013. |
| Custodian | | PMG Direct Office Fund Trustees Limited | The Custodian is a wholly owned subsidiary of the Supervisor. PMG Direct Office Fund Trustees Limited is the Custodian for the Fund and will hold all assets belonging to the Fund on bare trust on behalf of the fund in accordance of the Trust Deeds. |
| Unit Registry |  | Appello Services Limited | The Registry holds the details of all Unitholders and manages distributions and communications to Unitholders. |

11. HOW TO COMPLAIN

A complaint about your investment may be made to:

The Manager

The Chief Executive Officer
PMG Property Funds Management Limited
Level 1, 143 Durham Street
Tauranga 3110

PO Box 2034
Tauranga 3144
Phone (07) 578 3494
Fax (07) 578 6455

The Supervisor

Covenant Trustee Services Limited
Level 6, 191 Queen Street
Auckland 1010
Phone (09) 302 0638

Dispute Resolution Scheme

Financial Dispute Resolution Scheme
PO Box 2272
Wellington 6140
Phone (05) 0833 7337
Email: enquires@fdrs.org.nz
Web: www.fdrs.org.nz

The Dispute Resolution Scheme will not charge a fee to any complainant to investigate or resolve a complaint.



Vodafone building interior - 213 Tuam Street, Christchurch

12. WHERE YOU CAN FIND MORE INFORMATION

Further information relating to the Fund or the Units (for example, the Trust Deeds and financial statements) is available on the Offer Register. A copy of the information on the Offer Register is available on request to the Registrar (email registrar@fspr.govt.nz). The website for the Offer Register is <https://disclose-register.companiesoffice.govt.nz>. Further information relating to the Fund is available from this website.

Further information relating to the Manager is also available on the public register at the Companies Office of the Ministry of Business, Innovation, and Employment. This information can be accessed on the Companies Office website at <https://companies-register.companiesoffice.govt.nz>.

Further information about the Manager is also available free of charge on its website, <http://www.pmgfunds.co.nz>.

You will receive annual reports and annual audited financial statements for the Fund, and other communications as and when required to update you on progress. You will also receive a notice stating the availability of such communications and how to obtain copies.

This information will be made available to you, free of charge, upon a written request to the Manager at PO Box 2034, Tauranga 3144.

13. HOW TO APPLY

If you want to apply for Units under the Offer you must fill in the Application Form associated with this PDS. For new investors, applications must be for at least 10,000 Units and in multiples of 5,000 thereafter. For existing investors, applications must be for at least 5,000 units and in multiples of 5,000 thereafter.

Completed and signed Application Forms must be forwarded to:

PMG Property Funds Management Limited
Level 1, 143 Durham Street
Tauranga 3110

PO Box 2034
Tauranga 3144

An alternative digital application form may be available for investors. Please contact the Manager if you would like support completing a digital application form.

Completed application forms are to be received no later than 5:00pm on 28 June 2020 (or such later date if the Offer is extended) and must be accompanied by payment of the full subscription amount and any required supporting documentation.

Further information on how to apply for Units and pay for them is set out in the Application Form associated with this PDS.

The Manager reserves the right, in its sole discretion, to accept or reject any application in whole or in part without giving any reason.

You should read this PDS carefully before completing the Application Form.

14. CONTACT INFORMATION

The Manager

PMG Property Funds Management Limited
Level 1, 143 Durham Street
Tauranga 3110
PO Box 2034
Tauranga 3144
Phone: 07 578 3494

The Supervisor

Covenant Trustee Services Limited
Level 6, 191 Queen Street
Auckland 1010
Phone 09 302 0638

The Custodian

PMG Direct Office Fund Trustees Limited
c/- Covenant Trustee Services Limited
Level 6, 191 Queen Street
Auckland 1010
Phone 09 302 0638

Legal Adviser

Simpson Grierson
Lumley Centre
88 Shortland Street
Auckland
Private Bag 92518
Auckland 1141
Phone: 09 358 2222

Tax Adviser

KPMG
ANZ Centre
247 Cameron Road
Tauranga 3141
Phone: 07 578 5179

Auditor

Baker Tilly Staples Rodway Audit Limited
Level 1, 247 Cameron Road
Tauranga 3140
PO Box 743
Tauranga 3140
Phone: 07 578 2989

15. GLOSSARY

| Term | Interpretation |
|-----------------------------------|--|
| \$ | New Zealand dollars. |
| Acquisition Property | The property at 213 Tuam Street, Christchurch (and includes the lease of car and bike parking at 2/160 Lichfield Street, Christchurch). |
| Adjusted NAV | Where applicable, adjustments are made to the NAV to reflect the Fund's costs of establishment, equity issuance and property acquisition that are written off on a straight-line basis over five years from the date of establishment, equity issuance or property acquisition. The relevant adjustments are set out in Clause 5.3 of the Establishment Deed. |
| Bank | ASB Bank. |
| BKBM | Bank Bill Market. |
| Business Day | Any day (other than Saturday or Sunday) on which banks in Auckland are open for business. |
| Closing Date | 29 June 2020. The Manager reserves the right to close the Offer before the Closing Date in the event that acceptances of the Offer are oversubscribed. |
| Custodian | The Supervisor holds the properties of the Fund through a nominee company, called PMG Direct Office Fund Trustees Limited (the Custodian), on trust on behalf of Unitholders, subject to the Trust Deeds, the FMCA, and any other applicable legislation. |
| Disclose Register | Register of key documents pertaining to a Scheme or an Offer, accessed via https://disclose-register.companiesoffice.govt.nz . |
| Establishment Deed | The Establishment Deed between the Manager and the Supervisor dated 26 October 2016, pursuant to which the Fund was established, subsequently amended and replaced on 1 November 2016, plus any subsequent amendments. |
| Existing Properties | <ul style="list-style-type: none"> • 65B Main Highway, Ellerslie, Auckland • 410 Victoria Street and 12 Alma Street, Hamilton • 5 Short Street, Newmarket, Auckland • 2 Robert Street, Ellerslie, Auckland • 8 Rockridge Avenue, Penrose, Auckland • 127 Durham Street, Tauranga • 143 Durham Street, Tauranga. |
| FMCA | Financial Markets Conduct Act 2013. |
| Fund | PMG Direct Office Fund. |
| Fund Performance Benchmark | Average 10-year Government bond yield (as published by the Reserve Bank of New Zealand), plus 4%. |
| Gross Asset Value | Gross Asset Value has the same meaning as defined in the Master Trust Deed. In summary, this means the aggregate market value of the Fund's investments, any other assets, and any other income accrued or payable in respect of the Fund, as determined for a particular valuation by the Manager. |

| | |
|--------------------------------------|---|
| Issue Date | 30 June 2020. |
| Manager | PMG Property Funds Management Limited. |
| Manager Performance Benchmark | Average 10-year Government bond yield (as published by the Reserve Bank of New Zealand), Benchmark plus 6%. |
| Master Trust Deed | The Master Trust Deed between the Manager and the Supervisor dated 28 October 2016. |
| NAV | The Gross Asset Value of the Fund as at the relevant date of the valuation less any liabilities, costs, outgoings or other expenses of the Fund, and such other provisions as the Manager or the Supervisor considers necessary for accrued or contingent liabilities or losses. Where applicable, the NAV is adjusted (and defined as the Adjusted NAV) with the relevant adjustments set out in Clause 5.3 of the Establishment Deed. |
| NBS | New Building Standard. |
| NLA | Net Lettable Area. |
| Offer | An offer of Units in the Fund pursuant to the PDS. |
| Offer Information | The PDS and all entries on the Offer Register relating to this Offer. |
| Offer Register | The register available at https://disclose-register.companiesoffice.govt.nz/ |
| Opening Date | 30 May 2020. |
| PDS | The product disclosure statement for the Offer registered on or about 22 May 2020. |
| PIE | Portfolio Investment Entity. |
| PIR | Prescribed Investor Rate. |
| Property Portfolio | The combination of the Existing Properties and the Acquisition Property. |
| Settlement Date | 30 June 2020. |
| SIPO | Statement of Investment Policies and Objectives. |
| SQM | Square metres. |
| Supervisor | Covenant Trustee Services Limited. |
| Trust Deeds | The Master Trust Deed and Establishment Deed. |
| Tuam Street | 213 Tuam Street, Christchurch. |
| Unitholder | A holder of Units in the Fund. |
| Units | Units in the Fund. |
| Victoria Street | 410 Victoria Street, Hamilton and 12 Alma Street, Hamilton. |
| WALT | Weighted Average Lease Term. |





PMG Direct Office Fund
c/- PMG Property Funds Management Limited
Level 1, 143 Durham Street
PO Box 2034, Tauranga, 3144
Phone: 07 578 3494
Email: invest@pmgfunds.co.nz
Website: www.pmgfunds.co.nz