

pmg Direct Office Fund

Product Disclosure Statement

3 November 2023

Issued by PMG Property Funds Management Limited

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> Offer Number OFR13655.

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 advice provider to help you to make an investment decision.



1 KEY INFORMATION SUMMARY

1.1 WHAT IS THIS?

This is an offer of units in 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. This offer is only available to investors in New Zealand.

1.2 WHO MANAGES THIS SCHEME?

The Manager manages this scheme. Section 10 of this Product Disclosure Statement (PDS) contains further details about the Manager and others involved in this scheme. The Manager is licensed under the Financial Markets Conduct Act 2013 (**FMCA**) as a manager of Managed Investment Schemes (excluding managed funds), which invest in, or own:

- real property and assets associated with ownership of real property in New Zealand;
- managed investment products in managed investment schemes (or equity securities issued by companies) in New Zealand that invest primarily in real property in New Zealand; and
- equity securities issued by listed companies, or managed investment products issued by listed property trusts, in Australia that invest primarily in real property in Australia.

1.3 WHAT ARE YOU INVESTING IN?

The Fund is a managed investment scheme, managed in accordance with the Master Trust Deed and the Establishment Deed (together, the **Trust Deeds**). The Fund is in the form of a unit trust, structured as a long-term investment vehicle with the purpose of investing in commercial property. As the Fund is a unit trust, investors will receive units as interests in the Fund. The Fund is managed by the Manager in accordance with the Trust Deeds.

Property portfolio

The Fund is currently invested in commercial properties in major metropolitan centres of New Zealand, directly holding an existing portfolio of four office sector properties (the **Existing Properties**), summarised further on this page. The Fund may acquire further properties in future with the support of funds raised from this offer.

Additional information about the Fund's Property Portfolio can be found in Section 2.2 *The Fund's Property Portfolio*.

Existing properties

The Fund currently holds the following properties:

- 213 Tuam Street, Christchurch (**Tuam Street Property**);
- 152 Fanshawe Street, Auckland (**Fanshawe Street Property**);
- 65B Main Highway, Ellerslie, Auckland (**Main Highway Property**); and
- 410 Victoria Street & 12 Alma Street, Hamilton (**Victoria Street Property**).

Investment objectives and strategy

The investment objectives of the Fund are to provide Unitholders with a stable, sustainable monthly income stream combined with the potential for capital growth in the value of units in the Fund (**Units**). To achieve the Fund's investment objectives, the Fund intends to invest in commercial property investments over time (the **Property Portfolio**).

The Fund's strategy is to continue growing a portfolio of commercial property investments (principally office buildings), diversified by region and tenant, to achieve greater resilience of income with scale. The Fund intends to grow the value of the Property Portfolio by finding opportunities to add value to the property investments, leasing any vacant space, and capitalising on rent review opportunities.

Purpose of the offer

The primary purpose of the Offer is to raise money that will initially reduce the Fund's bank borrowings and increase its cash on hand. The funds raised will also pay for the issue costs associated with the Offer. In future, the Fund may use its cash on hand, combined with further bank borrowings, to fund a combination of capital expenditure requirements and additional property investments. Further information can be found in Section 2.4 *Purpose of the Offer*.

Use of funds raised

The funds raised by the Offer will be allocated initially as follows (rounded to the nearest thousand dollars):

Net debt repayment	\$6,200,000
Issue costs	\$642,000
Cash on hand	\$3,161,500
Funds allocated	\$10,003,500
Unit subscriptions	\$10,003,500
Total funding	\$10,003,500

It is assumed that 10,530,000 Units are issued at a price of \$0.95 per unit (**Target Equity Raise**). The Manager has discretion to decide the value of subscriptions to be accepted between \$5,937,500 (**Minimum Equity Raise**) and \$19,950,000 (**Maximum Equity Raise**).

Further information on Issue Costs, and the relationship between the number of Units to be issued and the amount of debt repayment, can be found in Section 2.4 *Purpose of the Offer*. Details about the Fund's borrowings, including existing loan facilities, covenants and facility headroom can be found in Section 2.7 *Borrowings*.

1.4 KEY TERMS OF THE OFFER

Products on offer	Units in the Fund.
Offer Opening Date	13 November 2023.
Offer Closing Date	28 November 2023 (may be varied or extended as determined by the Manager).
Offer price per unit	\$0.95 per Unit ¹ .
Cash distributions	Target gross cash distributions of 5.85 cents per unit per annum from 1 December 2023 to 31 March 2025, to be paid monthly on the 25th day of the month following declaration. Distributions are not guaranteed, may vary, and may be partially funded from capital or debt. See Section 4.4 <i>Distributions</i> for more details.
Minimum Equity Raise	\$5,937,500 (6,250,000 Units). The Fund must meet this subscription amount for the Offer to proceed.
Maximum Equity Raise	\$19,950,000 (21,000,000 Units). The Fund will not take subscriptions over this amount.
Underwriting Agreement	Equity totalling \$5,937,500 is pre-committed at the date of this PDS by the Manager, so the Offer will proceed. For the commitment, the Manager will receive a fee of 4.00% of the committed Unit subscription amount from the Fund. If the Offer proceeds, but it does not successfully close, the Manager will only receive a fee of 1.00% of the committed Unit subscription amount. Further details on the arrangement can be found in Section 4 <i>Terms of the Offer</i> .
Scaling	Scaling may apply to subscriptions including those related to the Underwriting Agreement, and the Manager's discretion on scaling is absolute.
Subscriptions	The minimum unit subscription for the Offer is 10,000 Units per investor. Additional subscriptions from the Offer must be in multiples of 5,000 Units. For existing investors, additional investment must be in multiples of 5,000 Units.
Minimum holding	Transfers and redemptions (if available) will not be processed if these will result in an investor holding less than 10,000 Units, unless the investor is selling or transferring its entire holding.

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

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.

Under the Trust Deeds, the Manager has discretion to provide a redemption facility for Units in July each year, or at other dates at its sole discretion. Otherwise, Units are not redeemable. To date, a redemption facility has not been provided and the Manager currently has no planned windows for permitting redemptions, as the Fund is focused on growth.

If the Manager provides a redemption facility for Units in the future:

- redemption pricing will be based on the Adjusted Net Asset Value (**Adjusted NAV**¹) of the Fund per Unit at the commencement of each redemption period, less a break fee of 1.5%;
- funds available for redemption will be limited to the greater of 3% of the Fund's Adjusted NAV determined on the relevant redemption date (or other relevant date as selected by the Manager), and an amount as determined by the Manager from time to time; and
- the Manager may charge the Fund a fee for facilitating redemptions.

The Manager may also operate a sales facility for Units from time to time.

Further information about unit redemption and the sales facility are set out in Section 4.3 *How Can I Withdraw My Investment From 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 are:

Income from property portfolio: The Fund's primary source of income is the rental income from each of the property investments in the Property Portfolio. The timing of income recognition in respect of the Surrender Agreement will specifically impact the Fund's Financial Information. See Section 1.8 *Key risks of this investment* and Section 4.4 *Distributions* for further information.

Valuation of property portfolio: The value of Units is influenced by the value of the Property Portfolio. The value of the Property Portfolio will be primarily influenced by the state of the property market, the level of income from each property investment, the level of capital expenditure required in relation to each property investment, and the remaining lease terms related to the underlying properties.

Borrowings and interest rates: A primary cost of the Fund is interest expense. The level of interest expense over time is influenced by the level of bank borrowings, interest rate movements, and the Fund's hedging strategy. Interest rates are ultimately influenced by the current and forecast economic environment over time. A summary of the Fund's borrowing arrangements are set out in Section 2.7 *Borrowings*.

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*.

¹Derived from the Fund's net asset value (total assets less total liabilities), adjusted for the Fund's establishment and equity issuance costs, determined in accordance with the Establishment Deed.

1.7 THE FUND'S FINANCIAL INFORMATION

For units subscribed for under this Offer, the prospective gross cash distribution return on offer unit price is 6.16% per annum to 31 March 2025 (excluding any special distributions).

	Actual			Prospective	
Financial year ending 31 March	2021	2022	2023	2024	2025
Net profit/(loss) per Unit ²	19.73 cents	13.81 cents	(21.20 cents)	(4.79 cents)	4.98 cents
Gross distribution per Unit ³	6.94 cents	7.23 cents	7.00 cents	6.18 cents	6.75 cents
Distribution payout ratio ⁴	90.1%	95.8%	99.9%	92.3%	135.5%
Adjusted distribution payout ratio ⁵	90.1%	95.8%	99.9%	97.2%	87.1%
Interest cover ratio ⁶	2.4 times	2.3 times	2.4 times	2.7 times	2.2 times
Gearing ratio ⁷	47.6%	44.2%	46.7%	39.0%	40.0%
Bank loan-to-value ratio ⁸	41.8%	38.0%	39.5%	30.2%	32.2%

The metrics above include actual results from the Fund's historic financial information and forecast results from the Fund's prospective financial information. Prospective metrics are calculated on the assumption that the Target Equity Raise is achieved. Definitions and further details in relation to the above metrics and the Fund's financial information in general can be found in Section 6 *PMG Direct Office Fund's Financial Information*.

The Surrender Payment is a material, one-off transaction that impacts the recognition of income in the prospective financial information. Further details about the relationship between the Surrender Payment, gross distributions, the Distribution Payout Ratio, and the Adjusted Distribution Payout Ratio can be found in Section 4.4 *Distributions* and Section 6.2 *Key return information for investors and financial measures of the Fund's borrowing*.

Valuations

The Manager has obtained independent valuation reports in relation to all properties in the Property Portfolio in anticipation of the Offer. The value of the Property Portfolio following these valuations is \$114,000,000. The Manager has no reason to believe a material change in the value of the Property Portfolio has occurred since the date of the valuation reports.

1.8 KEY RISKS OF 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:

- Property income risk:** The Fund is reliant on income from the Property Portfolio to pay expenses, bank interest, and distributions. Income from the Property Portfolio could stop or decrease for several reasons, including if:
 - a lease is terminated, surrendered, or expires without being renewed;
 - a tenant defaults and/or is unable to meet its rent falling due on an ongoing basis;
 - the rent decreases following a rent review or change in tenant; or
 - there is difficulty obtaining replacement tenants based on relative demand for the Fund's lettable areas.

- a lease is terminated, surrendered, or expires without being renewed;
- a tenant defaults and/or is unable to meet its rent falling due on an ongoing basis;
- the rent decreases following a rent review or change in tenant; or
- there is difficulty obtaining replacement tenants based on relative demand for the Fund's lettable areas.

A loss or reduction in rental income may have a detrimental impact on the Fund's ability to pay distributions to investors and the value of the Units. Despite current economic and property market conditions, there are currently no material tenant defaults, and no expectation of such defaults in future.

One New Zealand, the Fund's largest tenant by rental income, has agreed to a partial surrender of its lease from 1 April 2024 (**Surrender Agreement**). The area surrendered is approximately 17% of the Fund's net lettable area (**Surrendered Area**), and contributes Net Rental Income of \$1,443,000 per annum plus operating expenditure recoveries. In exchange for the Surrender Agreement, One New Zealand will pay the Fund \$3,100,000 plus GST if any (**Surrender Payment**). The Fund will have a material vacancy as a result of the Surrender Agreement, until the Surrendered Area is leased. The Surrendered Area may take longer to lease than expected, may not be leased at the rental rate expected, or may not be leased at all. While the Manager has strategically entered this transaction on the basis it believes the Surrendered Area can be leased at appropriate rental rates in an appropriate time frame to benefit investors, leasing outcomes are not guaranteed and may vary from current expectations.

- Property valuation risk:** The economic environment, property market conditions, fluctuations in supply and demand for commercial properties and lettable areas, and recent transactions relevant to the Fund, will affect the value of the Property Portfolio. The value of the Property Portfolio directly impacts the value of the Units and the Fund's loan-to-value (**LVR**) ratio, among other key metrics. Material increases and decreases in value have occurred since the Fund's establishment, and may continue to occur.
- Interest rate risk:** Interest rates applied to interest-bearing bank borrowings generate a material interest expense to the Fund. Interest rates on the Fund's bank borrowing are not fixed. Movements in interest rates will affect returns to investors and changes in interest rates cannot be predicted with certainty. If interest rates were to fluctuate more than projected and allowed for by the Manager, it may affect the Fund's level of distributions.

The Fund's weighted average interest rate is driven by the 30-day BKBM (**Floating Base Rate**) plus a Bank Margin, adjusted for any interest rate swap arrangements in place. Changes in the Official Cash Rate (**OCR**) will impact the Floating Base Rate and therefore interest expense. Based on market forecasts, the Manager assumes that the OCR will not increase further than 5.50% during the prospective financial periods presented. The Manager monitors interest rate markets and utilises interest rate swap arrangements to mitigate some of the risk associated with changes in the Floating Base Rate.

² Annualised, expressed as cents before tax per weighted average Unit on issue, rounded to two decimal places.

³ Annualised, expressed as cents before tax per weighted average Unit on issue, rounded to two decimal places. A special distribution of 0.90 cents per Unit is included in the year ending 31 March 2025 to manage expected tax obligations associated with the Surrender Payment (see Section 4.4 *Distributions*).

⁴ Gross distributions declared, expressed as a percentage of Adjusted Funds from Operations (**AFFO**).

⁵ The Distribution Payout Ratio, adjusted to account for the Surrender Payment (material one-off income received in cash) which is available for distribution on and from the Surrender Date, but is not yet fully recognised in **AFFO** for accounting purposes.

⁶ A multiple of the Fund's Earnings Before Interest, Tax, Depreciation and Amortisation (**EBITDA**), less unrealised gains, plus unrealised losses, compared to the Fund's interest expense (including ground lease expense accounted as a financing cost).

⁷ Total interest-bearing liabilities (including lease liabilities of \$19.7 million) as a proportion of the Fund's total assets. Prospective information assumes the Fund achieves the Target Equity Raise, and does not draw additional borrowings for future investments.

⁸ Total bank borrowings drawn as a proportion of the latest independent valuations of the Existing Properties.

Changes in the Fund's level of bank borrowing also change the Fund's exposure to interest rate risk. Despite the Offer intending to reduce bank borrowings in the short-term, the Fund may increase its level of borrowings in future in the normal course of business to fund further property acquisitions and capital expenditure.

The risk factors above may all be impacted by changing macroeconomic conditions (including the rate of inflation and interest rates), plus business and investor confidence. These broad areas generally impact the supply and demand for properties and lettable areas, and bank borrowing terms and availability, which in turn may impact the most significant risk factors in a variety of ways over time. These risks are heightened in the current economic environment. Property-specific, or tenant-specific circumstances may further impact property income and property valuation risks.

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

1.9 WHAT FEES WILL YOU PAY?

The table below summarises the fees and expenses that you will be charged to invest in this scheme. Further information about fees is set out in Section 8 *What Are the Fees?* Unless otherwise indicated, all fees and expenses are stated exclusive of GST, are rounded to the nearest thousand dollars, and will be charged to the Fund (not directly to investors).

	Actual			Prospective	
Year ending 31 March	2021	2022	2023	2024	2025
Fees and expenses charged by the Manager and associated persons					
Fund	\$2,106,000	\$1,328,000	\$811,000	\$618,000	\$570,000
Property	\$886,000	\$713,000	\$561,000	\$629,000	\$332,000
Offer-related	\$2,421,000	\$-	\$-	\$467,000	\$-
Total costs charged by the Manager and associated persons	\$5,413,000	\$2,041,000	\$1,372,000	\$1,714,000	\$902,000
- As a percentage of closing NAV	5.44%	1.95%	1.66%	2.06%	1.11%
Fees and expenses charged by other persons					
Fund	\$275,000	\$348,000	\$263,000	\$270,000	\$282,000
Property	\$5,506,000	\$5,276,000	\$6,094,000	\$6,858,000	\$4,101,000
Offer-related	\$392,000	\$-	\$-	\$175,000	\$-
Financing	\$2,571,000	\$3,631,000	\$3,809,000	\$3,694,000	\$3,785,000
Total costs charged by other persons	\$8,744,000	\$9,255,000	\$10,166,000	\$10,997,000	\$8,169,000
- As a percentage of closing NAV	8.79%	8.85%	12.30%	13.24%	10.03%
Total fees and expenses charged	\$14,157,000	\$11,296,000	\$11,538,000	\$12,712,000	\$9,071,000
As a percentage of closing NAV	14.23%	10.80%	13.96%	15.31%	11.13%

Offer-related costs include fees and expenses charged by the Manager and associated persons of the Manager (underwriting commitment fees, contribution fees, property acquisition fees and deposit fees), and by other persons (legal fees, marketing costs, due diligence fees, accounting fees, Supervisor's fees, and other administrative and contingency costs). Previous offer costs have been included in the table as applicable.

The other costs, not related to an offer, include:

- Fund costs, for management and administration of the Fund (charged by the Manager – fund management fee, manager performance fee; charged by other persons – auditor fees, supervisor fees, valuation fees and other overhead expenditure);
- Property costs, for management and operation of the Fund's properties (charged by the Manager – property management fee, property project fee, property transaction fees; charged by other persons – property operating expenditure, property capital expenditure and property transaction fees); and
- Financing costs charged by other persons, associated with the Fund's borrowings (such as bank interest expense, bank fees, and leasing expenditure accounted for as interest).

The estimated Manager and associated persons' fees are based on assumptions set out in Section 6.3 *Principal Assumptions for Prospective Financial Information*. Specifically, the performance fee and termination fee are only payable to the Manager in certain circumstances. The termination fee has been assumed to not be payable and is therefore nil in each period presented. The estimated fees and expenses charged by other persons specifically exclude outflows for distributions to investors and the purchase price of properties.

Fees that may be charged directly to individual investors

Sale of Units: Units are transferable by an investor to a third party (subject to the Fund's minimum holding requirements set out in Section 1.4 *Key Terms of the Offer*). However, if Units are transferred to a third party through the sales facility operated by the Manager (as described in Section 4.3 *How Can I Withdraw My Investment From the Fund?*), the Manager may charge a service fee of 1.5% plus GST if any.

Redemption of Units: The Manager, in its discretion, has decided to not redeem any Units at this time. Should redemptions occur, the Manager's current policy is that a break fee of 1.5% will apply, to be retained by the Fund, as documented in Section 4.3 *How Can I Withdraw My Investment From The Fund?*. The Manager reserves the right to change this policy and may also charge a fee to the Fund for facilitating redemptions, up to the amount of the break fee.

1.10 HOW WILL YOUR INVESTMENT BE TAXED?

The Fund is a multi-rate 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 associated with this PDS, or go to <https://www.ird.govt.nz/roles/portfolio-investment-entities/using-prescribed-investor-rates>. 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 an offer of units in the PMG Direct Office Fund.

The Fund is managed by PMG Property Funds Management Limited (the Manager), and this capital raise provides the opportunity for astute investors with a long-term view to join, or increase their stake in, the Fund.

Since the establishment of the Fund in 2016, the Manager has pursued an active management strategy to enhance its robustness and support the Fund's value over time. This has been achieved by acquiring properties that meet strict requirements for quality, location, type, and tenant covenants, and appropriately divesting of assets that no longer meet those requirements.

The Fund currently has a property portfolio valued at \$114 million across four properties and 18 tenants. The Manager believes it is well positioned to endure the current economic environment, with quality buildings and tenants, and forecast growth in demand for high-quality office space⁹.

We are taking proactive steps to continually improve the Fund's resilience in a period of persistent inflation and economic uncertainty. This capital raise will enable the Fund to further reduce debt and interest costs, providing greater flexibility to:

- commit to capital expenditure projects at existing properties designed to increase long-term rental income growth, while meeting growing expectations of tenants; and
- respond to property acquisition opportunities aligned with strategy as they emerge.

As a result of downward pressure on commercial property valuations, the Offer provides investors an opportunity to invest in the Fund at what the Manager believes is a low point in the property market relative to the last 12 to 24 months, supporting the potential to generate growth in value over time. In addition, the Fund is expected to provide access to a competitive forecast gross cash distribution return of 6.16% per annum¹⁰ (before taxation), paid monthly.

Investing through the Fund also gives investors access to the Fund's status as a multi-rate Portfolio Investment Entity (PIE), capping the tax rate to investors at 28%, which may improve cash returns after tax for some investors compared to other investment structures.

We invite you to join us as we continue to execute our strategy of building a robust and resilient fund with the aim of providing sustainable returns, in addition to the potential for growth in value over time.

This PDS contains important information about the Fund and this capital raising 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,



Wayne Beilby
Chairman of the Board of the Manager



Scott McKenzie
Executive Director of the Manager

⁹According to JLL Q3 2023 Office Vertical Vacancy Review, which forecasts continued rental growth and decrease in vacancy across New Zealand cities for quality office properties located close to transport options and amenities, and those with good tenant covenants.

¹⁰Forecast for the period 1 December 2023 to 31 March 2025, based on gross cash distributions per annum before tax (cents per Unit), divided by expected Unit price. This excludes a special gross cash distribution of 0.90 cents forecast during the year ending 31 March 2025 to manage expected tax obligations associated with the Surrender Payment (see Section 4.4 Distributions).



213 Tuam Street, Christchurch

2 WHAT PMG DIRECT OFFICE FUND INVESTS IN

Property portfolio

The Fund was established in 2016 with the intention of building a portfolio of commercial property investments targeting the office sector, diversified by property, region, and tenant. A summary of the Fund's Property Portfolio can be found in this section.

The Manager believes that quality office properties that are well located, well managed, and with a diverse tenant mix, will increase the resilience of the Fund's Property Portfolio. This in turn is designed to support delivery of regular and sustainable returns to investors, and provide the potential for growth in the value of the Property Portfolio when held over the long term.

Any investments made by the Fund into the Property Portfolio must align with the Fund's investment objectives as set out under its Statement of Investment Policy and Objectives (SIPO), which is summarised in Section 2.1 *Statement of Investment Policy and Objectives*. Details of the specific permitted investments of the Fund are set out in Section 2.1(e) *Permitted Investments*. Future investment is likely to expand the scale and diversity of the Property Portfolio. Any surplus cash held by the Fund in excess of working capital requirements determined by the Manager (such as those that may be generated from subscriptions to the Offer, future offers of Units in the Fund, or bank borrowings) may be invested into the Property Portfolio in future.

It is the Manager's view that higher quality offices in quality locations will attract and retain stronger tenants, enable the retention of high levels of occupancy over the long term, and drive rental growth – supporting regular and sustainable income to investors, and providing the opportunity for growth in value over time.

Our strategy in action

In support of the Fund's strategy, as themes in the office sector have been emerging and acknowledged by the Manager (see the following page, sub-titled *Office Sector – the Manager's view*), the Fund has taken a proactive approach to adjusting its asset allocation. Recently, the Fund has focused on acquiring higher quality assets and selling the Fund's assets expected to fall below the Manager's long-term quality expectations at appropriate points in their investment life cycle, to lift the quality of the Property Portfolio and place the Fund in a position to further grow and diversify in future.

Key transactions that have taken place in the periods presented in this PDS to support this view (all subsequent to the last PDS for the Fund being issued) are summarised below:

Acquisitions:

- The **Tuam Street Property**, a high-quality, modern building with a single tenant (One New Zealand), was acquired in June 2020 for \$58,650,000. This acquisition marked a shift in the Manager's drive for even higher quality office properties, that are likely to be subject to growing levels of tenant demand in future. At acquisition, with the lease over the property expiring in 2028, the Manager considered potential options for the property on or before the expiry of that lease, including multi-tenanting the building to increase diversification and strengthen resilience. Further information on this property can be found in Section 2.2 The Fund's Property Portfolio.
- The **Fanshawe Street Property**, a high-quality office in a prime Auckland CBD location, was purchased in December 2020 for \$36,250,000. The purchase of this property was supported by the divestment of both the Short Street Property and the Robert Street Property noted below. Further information on this property can be found in Section 2.2 *The Fund's Property Portfolio*.

Divestments:

- The **Short Street Property** (5 Short Street, Newmarket, Auckland) was sold in August 2020 for \$21,000,000. The Manager believed the property was at the right point in its ownership life cycle to be disposed of, in addition to considering upcoming capital expenditure requirements on the property, and the disruption of neighbouring development work. The divestment enabled the acquisition of the higher quality Fanshawe Street Property, in a more appealing location with greater tenant demand.

- The **Robert Street Property** (2 Robert Street, Ellerslie, Auckland) was sold in April 2021 for \$13,700,000 following the acquisition of the Fanshawe Street Property and full execution of the Manager's strategy for the property. The Manager believed the property was at the right point in its ownership life cycle to be disposed of, and the property no longer met the Fund's threshold for quality (part of the property had a seismic rating of 39% New Building Standard (NBS), and a notable number of retail tenancies in the property presented a different risk profile to target office tenants).
- The **Rockridge Avenue Property** (8 Rockridge Avenue, Penrose, Auckland) was sold in August 2022 for \$15,750,000. The property had been earmarked as a potential divestment, given it no longer met the Fund's threshold for quality of location (non-traditional, suburban office). It lacked appeal to tenant demand, requiring significant capital expenditure to potentially reduce impending vacancy risks. This disposal also positioned the Fund's borrowings conservatively, supporting distribution levels and reducing bank funding risk.
- The **Durham Street Properties** (127 Durham Street, and 143 Durham Street, Tauranga) were strategically sold in July 2023 for \$16,750,000 to a captive buyer (the University of Waikato, the sole tenant of the 127 Durham Street Property) for \$1,000,000 in excess of the latest independent market valuations of the properties. Purchased initially based on their central location within Tauranga's central business district, near the now growing University of Waikato campus, the Manager believed the properties were at the right point in their ownership life cycle to be disposed of following full execution of the Manager's strategy for the property.

As a result of the sale of the Durham Street Properties, the Fund's borrowings are more conservatively positioned prior to the Offer, amid a period of heightened interest rates and lower property valuations. This not only offers capacity to support property acquisitions in future, but also provides headroom to key banking covenants (further information in relation to banking covenants is set out in 2.7 *Borrowings* and Section 7.6 *Bank Funding Risk*).

Office sector – the Manager's view

The Fund solely invests in commercial property investments targeting the office sector. The last few years have created uncertainty for the office sector as the COVID-19 pandemic affected the way in which enterprises and employees utilise their office spaces. Work-from-home (WFH) became the new normal as government-imposed restrictions affected access to workplaces around the globe, with many offices vacated for extended periods.

The new world of work

Post-pandemic research points to continuously strong demand for high-quality, modern office spaces, as businesses ramp up their efforts to attract employees back to the office. The workplace is about more than bricks and mortar; it's about creating environments that foster collaboration and innovation, with employees citing location and quality of space as the most important factors when it comes to their workplace environment¹¹.

As the world adapts to new ways of working, we believe A-grade office real estate in quality locations presents an opportunity to put your money to work in a sector in high demand that is well positioned for growth¹².

A number of themes have emerged recently, including those evidenced from market behaviour, that help to provide context around the current and potential future state of the office sector:

- **WFH here to stay, but so is working from the office**

Many businesses around the world are now imposing requirements on employees to come back into the office for a portion of the week. The key reason behind these decisions is that businesses acknowledge that working in the office is a key requirement to establishing and maintaining a positive, collaborative culture among staff, encouraging creativity and connection¹³.

- **Usage of space – smaller tenancies, greater efficiency**

While some occupiers (16%) are considering reducing their space, this is balanced by 14% saying they are looking to increase their space¹⁴. The tenant experience is now front of mind and the Manager continues to actively manage the Fund's office portfolio to position it for the future of work.

- **Flight to quality**

Quality of space (modern fit-out, ambience) have been identified as the most important aspects of a workplace environment by occupiers. Similarly, 69% of office workers place stronger importance on their work environment than pre-pandemic, a trend that is driving demand for high-quality, future-proofed office buildings¹³.

Driven by a desire from employees to be visible in the workplace, occupiers are recognising the need for quality spaces to encourage staff into the office, to create culture, encourage creativity, and facilitate collaboration to improve outcomes. Sustainability is also becoming more important, with occupiers planning on moving or upgrading their space to reduce their environmental impact¹³.

Secondary office properties with few sustainability features may struggle to attract tenants, being forced to incur significant capital expenditure to improve the property offering and offer high incentives and accept lower levels of rental income to manage vacancy¹⁴.

- **Location**

More than ever, location is key. Well placed buildings are more likely to sustain enduring demand from tenants, in turn supporting longer-term property value. Location for ease of travel between work and home has also been identified as the second most important aspect of a workplace environment¹⁵.

- **Relative value of office**

While commercial property has generally seen reductions in value in the recent past, the office sector has generally been hit harder than most, driven by sentiment surrounding COVID-19 and the interest rate hiking cycle that has followed. We believe quality opportunities for long-term investors in quality office real estate are starting to eventuate, at more attractive prices than recent years.

¹¹JLL New Zealand Office Sentiment Survey 2023.

¹²JLL Market Snapshot New Zealand Office Q2 2023.

¹³CBRE 2023 APAC Office Occupier Sentiment Survey.

¹⁴JLL Office Vertical Vacancy Review Q3 2023.

¹⁵CBRE Live-Work-Shop Report 2022.

2.1 STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

The Fund has a Statement of Investment Policy and Objectives (SIPO). The SIPO can be found on the scheme register at <https://disclose-register.companiesoffice.govt.nz> under Scheme Number SCH10921. A summary of the SIPO is as follows:

- a. **Purpose:** The Fund intends to hold and grow a portfolio of commercial property investments (principally office buildings), diversified by region and tenant, to achieve greater resilience of income with scale.
- b. **Investment objectives:** The investment objective of the Fund is to provide Unitholders with a stable, sustainable monthly income stream combined with the potential for capital growth in the value of Units.
- c. **Investment philosophy:** The Manager believes that acquiring and actively managing commercial property investments (principally office buildings), held over the medium to long term, will provide Unitholders with the opportunity for income and income growth, together with capital appreciation.
- d. **Investment strategy:** The investment strategy of the Fund is to invest directly in office properties across major metropolitan centres of New Zealand, actively manage those investments, and grow the value of those investments (through finding opportunities to add value to the underlying properties, leasing any vacant space, and capitalising on rent review opportunities).
- e. **Permitted investments:**

Asset classes	<ul style="list-style-type: none">Investments in commercial property related to the Office sector;Interest rate swaps (for hedging purposes);Other assets associated with property investment ownership;Cash.
Sectors	<ul style="list-style-type: none">Office.
Geographic location	<ul style="list-style-type: none">Major New Zealand metropolitan centres.

Cash will be held for working capital, to fund property investments and to manage redemptions of Units. Cash reserves may be increased to allow for the purchase of new property investments or capital works required for a property owned directly by the Fund.

- f. **Target asset allocations:**

Asset class	Target allocation
Investment in commercial property related to the Office sector (including right of use assets associated with leasehold property interests)	70% – 100%
Interest rate swaps (for hedging purposes)	0% – 10%
Other assets associated with property investment ownership	0% – 10%
Cash	0% – 10%

The weightings in each asset class will be reviewed at least quarterly and rebalanced if appropriate. The Fund has a target that no single investment is to be more than 35% of the Gross Asset Value of the Fund. This target can be exceeded with the consent of the Supervisor.

- g. **Investment policies:** Key investment policies include:

- **Distributions:** It is the Manager's policy to distribute 100% of the Fund's AFFO to Unitholders. Distributions may be reduced below this level where cash reserves are required to fund redemptions, or to pay for planned capital expenditure for property investments. Due to fluctuations in the Fund's income and expenses, it is possible that the Fund may pay more than 100% of AFFO in a particular period, but this will only occur where commercially sustainable over the life of the Fund. Further information on distributions and AFFO can be found in Section 4.4 *Distributions*.
- **Leverage:** The Fund may borrow up to 50% of the Gross Asset Value of the Fund with first-ranking mortgages over the Property Portfolio.
- **Hedging Interest Rate Risk:** The Fund may enter into interest rate swap contracts to mitigate the risk of future interest rate rises over time, providing an element of interest cost certainty. It will not speculate on interest rate swaps.
- **Valuations:** Annual valuations of each property in the Property Portfolio will be undertaken by an independent valuer. The Manager may commission a valuation more often as and when deemed appropriate.

- h. **Investment performance monitoring:** Each financial quarter, the Manager will provide a report to the Board of the Manager including accounting information, transaction details, monitoring of bank covenant compliance, comment on past performance and other key metrics, and economic comments pertinent to the investment objectives and the outlook for future returns. Each year, Unitholders will receive the audited financial statements and an annual report of the Fund, with an Annual General Meeting also held annually.

- i. **Strategy and SIPO review:** The Board of the Manager will review the key metrics for the Fund's property investments no less than annually and assess if any of the investments should be sold. If the Manager determines that an investment should be sold, it will endeavour to sell the investment (subject to the terms of the Trust Deeds and the FMCA, meaning the Manager must notify the Supervisor about the proposed sale, and the Supervisor is entitled to refuse to sell the investment if, in the Supervisor's opinion, the transaction is manifestly not in the interest of Unitholders or is in breach of the Trust Deeds or any law).

The Board of the Manager will formally review the SIPO on an annual basis, or more often as required in relation to market conditions and regulatory requirements. A change to the SIPO requires liaison with the Supervisor, and if required, Unitholders.

The Fund's investment strategy may be amended by the Manager if a material and sustained change in conditions has occurred, which may lead to a review of the SIPO itself. Should a breach of any SIPO benchmark occur at the time of annual monitoring, a review of the Fund and its Property Portfolio will be undertaken, and the requirement for an ad-hoc review of the SIPO will be triggered.

2.2 THE FUND'S PROPERTY PORTFOLIO

The Fund's Property Portfolio is summarised in this section. Information is forecast as at 30 November 2023 (**Settlement Date**) unless otherwise stated or indicated. Metrics represent information at a point in time, and do not reflect the impact of forecast property activity over time beyond the stated date. A breakdown of the Property Portfolio by property is included below:

Property	Valuation	WALT	NLA	Tenants	Occupancy	Key Tenants
Tuam Street Property	\$52,000,000	3.1 years	8,941 sqm	1	100%*	One New Zealand
Fanshawe Street Property	\$31,000,000	3.9 years	6,673 sqm	7	100%	Workday
Main Highway Property	\$24,300,000	5.6 years	4,588 sqm	3	100%	MSD, MOJ
Victoria Street Property	\$6,700,000	1.6 years	1,912 sqm	7	93%	Kiwibank

*The Surrender Agreement in relation to the lease at the Tuam Street Property has impacted the valuation and WALT for the Tuam Street Property, and the Fund, in the information stated on this page. However, any impact on occupancy as a result of the Surrender Agreement will not be recognised until 1 April 2024. If the Surrendered Area is not leased by 1 April 2024, the occupancy of the Tuam Street Property at that date will reduce to 58% and the occupancy of the Fund is expected to reduce to 80%. For further information see the sub-section *Tuam Street Property* within this section, or refer to Section 7 *Risks to Returns from PMG Direct Office Fund*.

The Durham Street Properties previously owned by the Fund were sold in July 2023, and as a result are not included within this section.

All valuation reports referred to in this section are available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under offer number OFR13655. The valuations consider a range of inputs and market evidence in forming an opinion on value. Notwithstanding this, there may be a greater range around the assumption of market value than would normally be the case. The valuation reports may also be made available free of charge by contacting the Manager as set out in Section 14 *Contact Information*.

Throughout this section, Net Rental Income represents expected rental income (before lease incentives, lease adjustments, and operating expenditure recovered).

The Manager reviews the financial standing of tenants on property acquisition, on becoming aware of new facts and circumstances related to a tenant, and on agreeing to leases with tenants. The Manager has carried out due diligence on the financial standing of tenants and is satisfied with its findings, noting that the Manager does not have access to all financial information related to tenants. Enquiries may include understanding deposit and guarantee arrangements, searching the Insolvency Register, and reviewing publicly and privately available financial information related to tenants. As at the date of this PDS, no tenants are materially in arrears to the Fund. Approximately 20% of the Fund's Net Rental Income at 30 November 2023 is either from Government tenants, or tenants with which the Fund holds deposit or guarantee arrangements.

As at 30 November 2023

 **Portfolio Valuation¹⁶** **\$114m**

 **Properties Owned¹⁷** **4**

 **Net Lettable Area¹⁸** **22,000 sqm**

 **Unique Tenants¹⁹** **18**

 **Occupancy²⁰** **99%**

 **WALT²¹** **3.7 years**

 **LVR²²** **30%**

 **Annual Distribution²³** **5.85 cents per unit**

 **Distribution Return²⁴** **6.16% per annum**

¹⁶Cumulative value of most recent independent valuation report per property at 30 September 2023.

¹⁷Being the Existing Properties. The Durham Street Properties were sold in July 2023.

¹⁸Approximation in square metres, rounded to the nearest thousand metres.

¹⁹Less than the ultimate number of leases as some tenants lease more than one space in the Fund.

²⁰Projected leased area, expressed as a percentage of Net Lettable Area, rounded to the nearest percent. The Surrender Agreement and any subsequent leasing activity at the Tuam Street Property will impact future occupancy levels, see information above on this page.

²¹Weighted Average Lease Term, the average term of expected leases in place at 30 November 2023, rounded to one decimal place. This factors in the Surrendered Area at the Tuam Street Property only having 4 months to lease expiry at 30 November 2023.

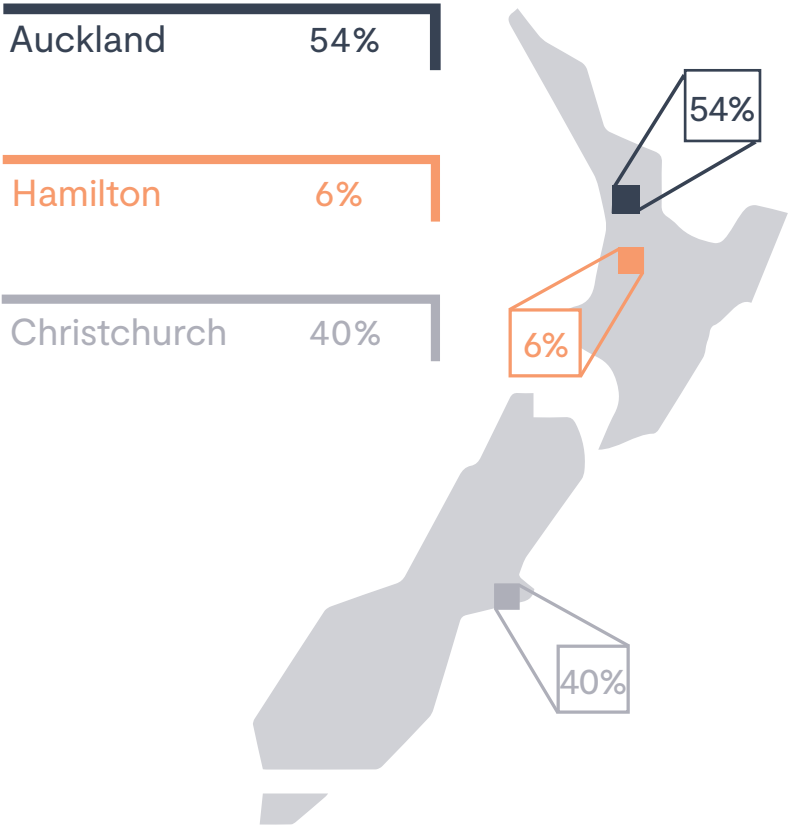
²²Total bank borrowings drawn as a proportion of the Portfolio Valuation.

²³Applicable to units subscribed for under the Offer, being the prospective gross cash distribution per unit per annum to 31 March 2025, to be paid monthly. Excludes a special distribution of 0.90 cents per unit, forecast to be declared to manage the expected tax obligations of investors associated with the Surrender Payment in April 2024.

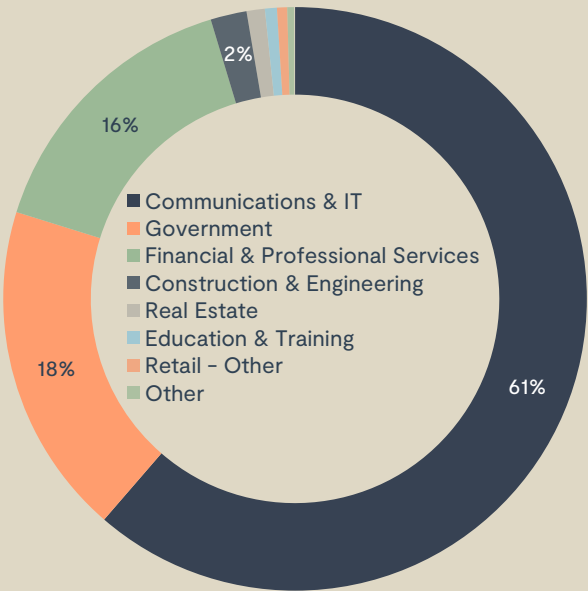
²⁴Applicable to units subscribed for under the Offer, being the prospective gross cash distribution per unit per annum, divided by the offer unit price of \$0.95.

Net Rental Income diversification
at 30 November 2023

By region



By tenant sector



By lease expiry



TUAM STREET PROPERTY

The Property and the Tenant

Acquired in June 2020, this property comprises a five-level 'A-grade' office building in the south-eastern portion of the Christchurch CBD. Just to the east of the property, Christchurch's new multi-use arena/stadium (Te Kaha) is currently under construction, with completion expected in mid-2026. The property is further surrounded by office and retail properties to the south and residential developments to the north.








Completed in 2016, the building had 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% greater than the building code). In addition, construction utilises timber sourced from FSC® certified renewable NZ radiata pine forests in places. From a seismic perspective, the property is in the "High" National Risk Zone.

As part of the acquisition in 2020, the Fund acquired a lease for 90 car and 60 bike parking spaces at 2/160 Lichfield Street, to the north-west of the property, which has a 999-year lease term.

The property is currently fully leased to One New Zealand, a major operator in the telecommunications market in New Zealand. One New Zealand is the Fund's largest tenant, accounting for approximately 39% of the Fund's annualised Net Rental Income at 30 November 2023. This will strategically reduce from 1 April 2024, as discussed further in this section.

Projected as at 30 November 2023

				
Office	8,941 sqm	\$52,000,000	100%*	3.1 years
Property type	Net lettable area	Valuation	Occupancy	WALT

* If the Surrendered Area is not leased by 1 April 2024, the occupancy of the Tuam Street Property at that date will reduce to 58%.

Address	Building: 213 Tuam Street, Christchurch. Car and Bike Parks: 2/160 Lichfield Street, Christchurch.
Title	Building – Freehold. Car and Bike Parks – Leasehold (Stratum estate in fee simple).
Key tenant(s)	One New Zealand.
Net Rental Income	See sub-section <i>Material Leases</i> further in this section.
Seismic rating	At least 100% NBS based on an assessment by a qualified, independent engineer (letter dated 23 January 2020, included on the Offer Register previously, under offer number OFR12881).
Valuation report	Jones Lang LaSalle has prepared an independent valuation report for the property dated 30 September 2023, a copy of which is available on the Offer Register.
Other key information	<ul style="list-style-type: none">• An agreement for One New Zealand to surrender part of the property has been entered. Further information is included in sub-section <i>The Surrender Agreement</i> later in this section.• The Fund has committed to a planned, material capital expenditure project on the ground floor of the property, estimated to cost \$1,350,000. This will improve the accessway to the property to be more functional and support accommodation of more than one tenant in the property.• The car and bike parks associated with the property are leasehold. Further information is included in <i>Material Leases</i> later in this section.

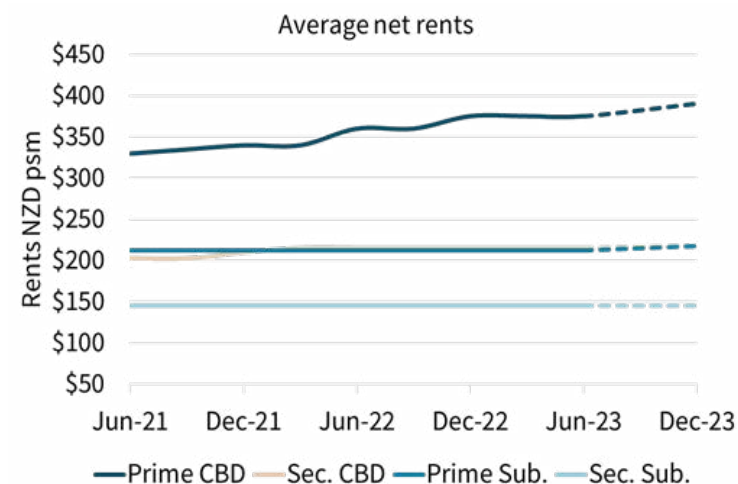
The Christchurch office market

The Manager believes the opportunity for leasing activity in the Christchurch office market is strong, in respect of both leasing vacant space, and achieving improved rental rates.

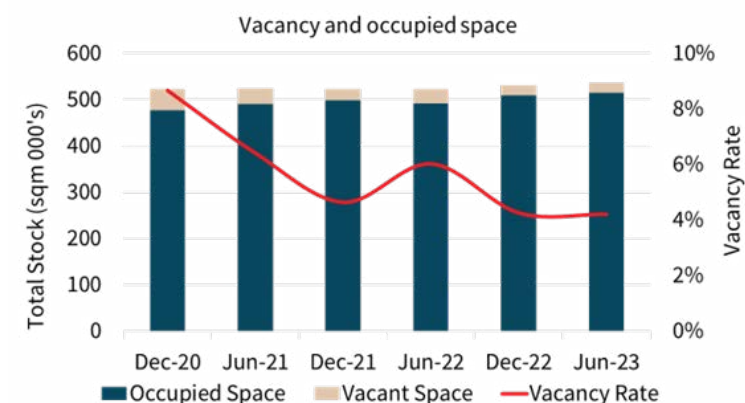
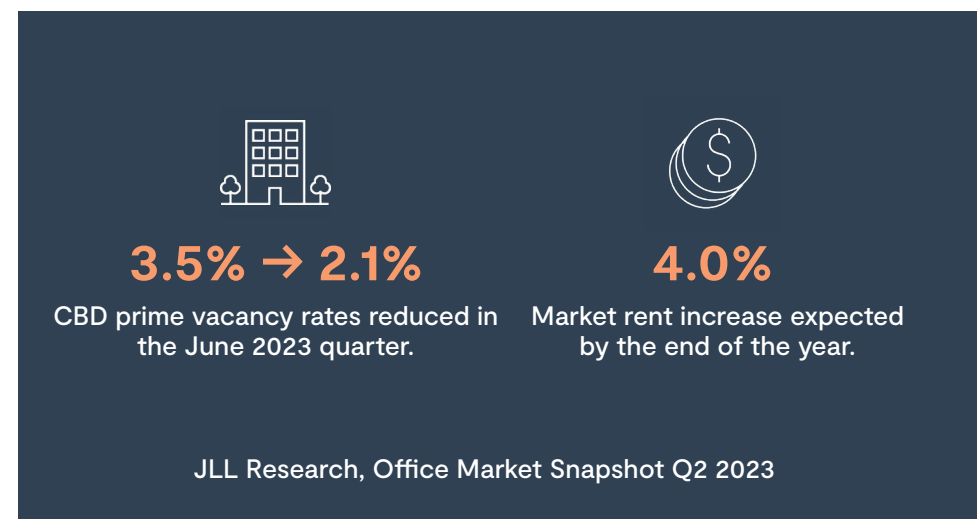
As demonstrated by the graphs and information provided by JLL Research in their publication Office Market Snapshot Q2 2023, the supply of total stock (lettable area) continues to increase in Christchurch, with further supply on the horizon (including at 800 Colombo Street, and 33 Cathedral Square). Despite this, the overall downward trend in office vacancy rates as depicted on this page has been seen across all Christchurch office space – reducing from over 8% in December 2020 to approximately 4% in June 2023, exemplifying the improving demand for office space in Christchurch.

Demand for prime office space in the Christchurch market particularly, a category within which the Manager considers the property sits, is believed to be strong. The Fund's valuation report on the property from JLL also states average net prime CBD rents sit at \$375 per sqm for the third consecutive quarter, with a forecast increase of 4.0% expected by the end of the year, supported by strong demand for prime office space. Further to this, CBD prime vacancy rates have reduced from 3.5% to 2.1%, further indicating a positive leasing environment.

That being said, an office property under redevelopment close to the Tuam Street Property with comparable size floor plates is likely to become available to lease in the future, in addition to other CBD developments planned, competing for tenants with the Tuam Street Property.



JLL Research, Office Market Snapshot Q2 2023



JLL Research, Office Market Snapshot Q2 2023

The strategy

The Fund's strategy includes a focus on diversification by tenant and tenant sector over time, reducing reliance on any single tenant or industry. At acquisition of the property in June 2020, while it was fully leased at strong rental rates to One New Zealand (with the lease expiring in August 2028), the Manager considered potential strategic options or alternative use cases for the property on or before the expiry of the lease with One New Zealand.

Given the single tenant in the property is also the Fund's largest tenant by rental income, and the property is material in value, multi-tenanting the property is the Manager's preferred alternative strategy outside of retaining One New Zealand in the entire property. Taking this approach is expected to increase diversification and strengthen resilience, while also expecting to grow rental income per square metre, extend WALT, and reduce occupancy risk.

As One New Zealand are currently not fully utilising the property (two floors and some area on the ground floor are underutilised), One New Zealand have attempted to sub-lease the top floor of the property to reduce their footprint in advance of their lease expiry in August 2028. The tenant has further expressed to the Manager its desire to reduce its footprint, indicating they are unlikely to renew their lease over the entire property in August 2028, but may wish to remain in a smaller footprint beyond that date.

Given the above, the Manager has actively engaged with One New Zealand to find a pragmatic solution that aligns with One New Zealand's desires, while providing the opportunity to enhance the income and value of the Fund over time compared to the existing contractual lease arrangements.

As a result, the Manager is now executing its preferred long-term strategy – enabling the property to be multi-tenanted ahead of August 2028. The solution agreed is a partial lease surrender, in which One New Zealand reduces its net lettable area in the property from 1 April 2024, provided it makes a one-off payment of rental income to the Fund (as compensation for exiting part of its current contractual agreements early).

This approach enables the Manager, unhindered, to actively pursue leasing the area surrendered, with a financial buffer to support any vacancy period that may arise from the date the associated space is surrendered.



213 Tuam Street, Christchurch

The Surrender Agreement

A deed of rent review and partial surrender and variation of lease dated 25 October 2023 (Surrender Agreement) has been entered by the Fund and One New Zealand, whereby One New Zealand will continue to occupy the first and second floor of the property, as well as the meeting rooms and hospitality space on the ground floor. The top two floors, as well as a portion of the ground floor, totalling 3,751 sqm of net lettable area, plus 30 bike parks (Surrendered Area), will be surrendered and no longer leased by One New Zealand from 1 April 2024 (Surrender Date). In exchange for being permitted to surrender the Surrendered Area, and cease to pay rent on these spaces, One New Zealand will pay the Fund \$3,100,000 plus GST if any (Surrender Payment) on the Surrender Date. The Surrender Payment will be treated in the Fund's financial information as rental income, recognised over the life of the existing lease term to August 2028, despite the material one-off cash payment due to be received unconditionally, in full, on the Surrender Date. The Surrender Payment equates to roughly 20 months of rental income that would otherwise have been received in relation to the Surrendered Area from One New Zealand.

Market rent review

Included within the Surrender Agreement is reference to the market rent review that was due on 17 August 2022. The market rent review was concluded as part of the Surrender Agreement in October 2023, reducing the effective market rental due retrospectively from 17 August 2022 to \$3,752,038 per annum, subsequently increasing on 17 August 2023 in accordance with the terms of the lease to \$3,831,811 per annum (due to a fixed rental increase of 2.25% in relation to most income from the property). In the period from 17 August 2022 to the date of this PDS, One New Zealand have continued payment of their lease obligations that were in place prior to the Surrender Agreement being signed, which has generated an amount of rent effectively received in advance. This amount has been factored in to the Surrender Payment amount.



213 Tuam Street, Christchurch

Short-term focus

As a result of the Surrender Agreement, the Fund will be required to:

- offset the Surrender Payment against any lost rental income on the Surrendered Area from the Surrender Date, prior to it being leased to new tenants;
- bring forward the cost of any lease incentives, leasing fees, and capital expenditure that may have occurred in August 2028 or later, had One New Zealand not remained in the entire property on expiry of their lease; and
- adjust the existing property to accommodate a multi-tenant offering, including updating building services such as security, power, and air conditioning prior to tenants commencing new leases.

Leasing the Surrendered Area from 1 April 2024 is a key focus for the Manager. The third and fourth floors of the property offer attractive panoramic views of central Christchurch, with the third floor already having an existing modern fitout which could be inherited by incoming tenants. The fourth floor is also ready for any turn-key fitout desired by tenants, with high-quality concept plans already prepared for potential tenants to consider.

The Fund is now actively marketing the Surrendered Area for lease and is engaging with several potential tenants through real estate agents in Christchurch at the date of this PDS. While no commercial terms have been agreed, the Fund believes that the two floors available for lease can be leased in a reasonable time frame, and long-term leases can be secured.

The current leasing assumptions, presumed in the prospective financial information associated with the PDS, are the fourth floor (and associated common area on the ground floor) being leased by September 2024, and the third floor (and associated common area on the ground floor) being leased by September 2025. The Manager considers these assumptions balanced, and is striving to achieve leasing as close to 1 April 2024 as possible to achieve the best outcome for investors as a result of the Surrender Agreement.

Longer-term considerations

The Fund's strategy in the long term is to de-risk the property, with multiple tenants on long leases. In addition to securing one or more tenants to lease the Surrendered Area on long-term leases, the Fund would also like to increase the period of relative income certainty from the property through engaging with One New Zealand early to extend their remaining leased area beyond its current expiry of August 2028, utilising their three 6-year rights of renewal.

Provided One New Zealand can fully align their footprint with their future requirements, the Manager believes they may look to continue occupying space in the building long term, beyond their lease expiry. One New Zealand have invested in considerable infrastructure at the property, including servers that service the South Island, 5G services installed on the roof, and backup power systems. It is considered likely that the cost for One New Zealand to move this infrastructure to a different location would be significant and may therefore play a factor in the determination of their long-term commitment to the property.

Should One New Zealand desire the surrender of additional space over time, such as the ground floor hospitality space, the Manager will consider this at the relevant time, including whether such action would be commercially in the best interest of the Fund's investors.

Material agreements

The Manager considers the combination of the lease to One New Zealand and the Surrender Agreement to be material information. A summary of these items is provided here, and in the sub-section titled *The Surrender Agreement* within this section, with copies of the agreements available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Lease Agreement

Tenant	One New Zealand Group Limited.
Net Rental Income	<ul style="list-style-type: none"> · \$3,752,038 per annum plus GST annualised from 17 August 2022. · \$3,831,811 per annum plus GST annualised from 17 August 2023. · \$2,388,528 per annum plus GST annualised from 1 April 2024. · \$6,199,000 per annum plus GST for the 12 months from 30 November 2023, including the Surrender Payment and leasing of one vacant floor in September 2024.
Term of the lease	Twelve years from commencement, initially expiring 16 August 2028, with final expiry up to 16 August 2046.
Rights of renewal	Three rights of renewal for a period of six years each.
Rent reviews	2.25% fixed reviews annually, except for market reviews on the sixth anniversary and any renewal date.
Other key information	The lease also includes the rental of 40 car-parking and 30 bike-parking spaces from the Fund's complement of leasehold parks near the property.

Surrender Agreement

Tenant	One New Zealand Group Limited.
Nature of agreement	Deed of rent review and partial surrender and variation of lease.
Surrender Date	1 April 2024.
Surrender Payment	\$3,100,000 plus GST.
Surrendered Area	<ul style="list-style-type: none"> · Level 3 of the property, net lettable area 1,749 sqm. · Level 4 of the property, net lettable area 1,777 sqm. · Areas of the ground floor of the property, net lettable area 538 sqm, to be converted to common area. · 30 bike parks.
Rent review	<ul style="list-style-type: none"> · The agreement summarises the terms of the market rent review on 17 August 2022 and the annual rent adjustment as at 17 August 2023, as reflected in the <i>Lease Agreement</i> section above. · Any rent overpaid by One New Zealand from 17 August 2022 because of the rent review will not be refunded and has been factored into the amount of the Surrender Payment.
Other key information	<ul style="list-style-type: none"> · Existing workstations and associated cabling on Level 3 will remain in place for use by the Fund. · One New Zealand's reinstatement and make-good obligations related to Level 3 and Level 4 have been varied, to enable the Fund to progress with preparing the Surrendered Area for leasing prior to the Surrender Date. · The Fund may now grant signage rights to the property in addition to One New Zealand's right to have signage on the property.

Car and bike park head lease

The Fund leases the right to use car and bike parks on a perpetual basis. The Manager considers the lease from the proprietor's Innovation Car Park Limited to be material information. A summary of this lease is set out here, and a copy of the lease is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Lessor	Innovation Car Park Limited.
Title	Stratum estate in fee simple.
Term of the lease	999 years from 1 July 2016.
Rent reviews	Fixed review 2.25% every year, bar on market rent review every sixth anniversary of commencement date (cap and collar at 10% of the then passing rental).
Other key information	The rent review terms may vary should One New Zealand no longer sub-lease 40 car parks.



213 Tuam Street, Christchurch

FANSHAWE STREET PROPERTY

Notes on the property, tenant and strategy

Constructed in 2007 and refurbished in 2019, this 5-level office property is centrally positioned on Fanshawe Street, Auckland CBD’s main east-west thoroughfare, and is located directly opposite the Viaduct Basin. In addition to the 5 levels of office space, the property provides basement parking for 76 vehicles.



The building benefits from natural light on all four sides, with views of Victoria Park and the Auckland Harbour Bridge. The property has a strong tenant mix, anchored by enterprise software business Workday who occupy the bulk of two floors.






The property was purchased by the Fund in 2020 due its desire to improve the overall quality of the Property Portfolio. Strategic capital works have been completed over the last two years to further improve the quality of the tenant offering, including end-of-trip facilities, upgrading the building’s main air handler unit, staged replacement of air conditioning units, and making sustainability improvements around waste and energy consumption. These improvements have helped the Fund secure new leases, or

lease extensions, in the last 18 months with Grant Thornton, Neo Capital, Cisco, and the Manager, maintaining occupancy of the property at 100% and improving WALT.

Ahead of their lease expiry, the Manager believes Capgemini would like to adjust their footprint in the property, which may create an additional tenancy at the property of approximately 346 sqm (5% of the property). The strategy for this space is to create a carbon reduced turnkey fitout to attract potential tenants.

The long-term strategy for the property is to retain existing tenants through proactive leasing, and to capture inherent rental growth for this quality office building in a quality location.

Projected as at 30 November 2023

				
Office	6,673 sqm	\$31,000,000	100%	3.9 years
Property type	Net lettable area	Valuation	Occupancy	WALT

Address	152 Fanshawe Street, Auckland
Title	Leasehold
Key tenant(s)	Workday, Grant Thornton, Capgemini, Cisco.
Net Rental Income	\$3,620,000 per annum plus GST for the 12 months from 30 November 2023.
Seismic rating	At least 100% NBS based on an Initial Seismic Assessment (ISA) by a qualified, independent engineer.
Valuation report	Jones Lang LaSalle has prepared an independent valuation report for the property dated 30 September 2023, a copy of which is available on the Offer Register.
Other key information	The value of the property is for the Fund’s leasehold interest only. The land upon which the building is built, subject to a ground lease, currently costs the Fund \$859,200 plus GST per annum, with the next rent review due in August 2026. Further details can be found below, with a copy of the lease on the Offer Register.

Material leases

The Manager considers the three leases to Workday and subsequent deed of variation to be material information. A summary of the existing lease terms is shown below, and a copy of the lease and subsequent variation is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Tenant	Workday (NZ) Unlimited.
Net Rental Income	\$1,158,000 plus GST for the 12 months from 30 November 2023.
Term of the lease	Three original leases of varying terms and expiry dates: <ul style="list-style-type: none"> Level 2: 6-year lease commencing 17 December 2016. Level 3A-1: 6-year lease commencing 1 November 2019. Level 3A-2: 5-year lease commencing 1 November 2020. <p>All three leases were renewed early via a deed of variation dated 7 October 2022. All three floors were aligned to have a current expiry of 16 December 2028, with final expiry of 16 December 2031.</p>
Rights of renewal	One further right of renewal for three years.
Rent reviews	Annual fixed rent reviews of 2%, market review on renewal.
Other key information	As part of the deed of variation, a rental abatement of \$8,333 plus GST per month is to be provided to the tenant from 17 December 2022.

The Manager considers the lease to Grant Thornton and subsequent deeds of variation to be material information. A summary of the existing lease terms is shown below, and a copy of the lease and subsequent variations is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Tenant	Grant Thornton New Zealand Limited.
Net Rental Income	\$852,000 plus GST for the 12 months from 30 November 2023.
Term of the lease	The original lease was for a term of 12 years, with initial expiry of 30 September 2019. As per the latest renewal and variation, the current term expires on 30 September 2028, with final expiry of 30 September 2033.
Rights of renewal	One further right of renewal for five years.
Rent reviews	Annual fixed reviews, except for market review on 1 October 2026, and on renewal.
Other key information	An \$87,000 contribution towards signage placed on the building was provided to the tenant.

The Manager considers the ground lease from the proprietors Ngāti Whātua o Ōrākei Māori Trust Board to be material information. A summary of this lease is set out here, and a copy of the lease is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Tenant	Ngāti Whātua o Ōrākei Māori Trust Board.
Net Rental Income	\$859,200 plus GST for the 12 months from 30 November 2023.
Term of the Lease	150 years from commencement, expiring 26 August 2154.
Rights of Renewal	None.
Rent Reviews	Every seven years from 27 August 2019. The rent shall be adjusted to be 6% per annum of the freehold market value of the land on the review date. The reviewed rental shall not be less than the rent payable in the 12 months prior to the review date.
Other Key Information	<ul style="list-style-type: none"> On expiry the lessor will own any improvements upon the land. The Fund must maintain full replacement insurance of any improvements on the land.



152 Fanshawe Street, Auckland

MAIN HIGHWAY PROPERTY

Notes on property, tenant and strategy

The building was constructed in 2003 and comprises a free-standing four-level office building, located in the popular southern corridor area of Ellerslie, Auckland.



The property is located alongside another almost identical building, together structured as a Stratum in Freehold title. The property provides for 159 car parks, primarily located underground. The property is fully occupied, currently with three government tenants. The Manager has a high level of confidence that government tenants will meet rental obligations as they fall due.

The Manager successfully upgraded the property to 100% NBS after the initial purchase in 2019, a key strategic initiative to retain the ability to attract government tenants to the property.

The Manager recently negotiated a lease extension with the Ministry of Justice, alongside a new lease for the space currently occupied by the Electoral Commission. As part of this transaction the new space will be upgraded by the Fund to

enhance the tenant's experience. The expiry date for both the extension and new lease is January 2033, increasing the WALT of the property to over 5 years.

Exterior tiles on the façade of the building require replacement, and a solution has been devised to ensure the property remains fit for use. This project is likely to commence and be completed during the current financial year.

The strategy is to continue to hold the property long term, retaining its strong tenant base while seeking further rental growth through proactive lease and rental negotiations at the appropriate time. The Ministry of Social Development's lease expiry in early 2026 is the next opportunity to continue this strategy.

Projected as at 30 November 2023



Office

Property type



4,588 sqm

Net lettable area



\$24,300,000

Valuation



100%

Occupancy



5.6 years

WALT

Address	65B Main Highway, Ellerslie, Auckland.
Title	Stratum in Freehold.
Key tenant(s)	Ministry of Social Development, Ministry of Justice.
Net Rental Income	\$1,850,000 per annum plus GST for the 12 months from 30 November 2023.
Seismic rating	At least 100% NBS based on an assessment by a qualified, independent engineer (following a previous Detailed Seismic Assessment and subsequent remedial works).
Valuation report	Aim Valuation Limited has prepared an independent valuation report for the property dated 22 September 2023, a copy of which is available on the Offer Register.
Other key information	The Fund has committed to upgrade the exterior façade of the property, at an estimated cost of \$600,000 plus GST. Work is expected to commence during the year ending 31 March 2024.

Material leases

The Manager considers the lease to the Ministry of Social Development, and subsequent deed of variation, to be material information. A summary of the existing lease terms is shown below, and a copy of the lease and subsequent variation is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Tenant	The Sovereign in Right of New Zealand acting by and through the Ministry of Social Development.
Net Rental Income	\$919,000 plus GST for the 12 months from 30 November 2023.
Term of the lease	Six years from commencement, initially expiring 31 January 2020, with current expiry 31 January 2026.
Rights of renewal	No further rights of renewal.
Rent reviews	Annual CPI reviews except for market review on every third anniversary.
Other key information	None to note.

The Manager considers the leases to the Ministry of Justice and any subsequent deeds of variation to be material information. A summary of the existing lease terms is shown below, and a copy of the lease and subsequent variations is available on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

Tenant	His Majesty the King in right of New Zealand acting by and through the Ministry of Justice.
Net Rental Income	\$845,000 plus GST for the 12 months from 30 November 2023.
Term of the lease	Original Premises: Current expiry 16 January 2033 with final expiry up to 16 January 2039. New Premises: 9 years from commencement, initially expiring 16 January 2033 with final expiry up to 16 January 2039.
Rights of renewal	One right of renewal of six years for both leases.
Rent reviews	Three yearly market reviews, from 17 January 2027.
Other key information	The New Premises are currently occupied by the Electoral Commission. The lease to the Electoral Commission expires 13 December 2023. The lease to the Ministry of Justice for the New Premises is expected to commence 17 January 2024.



65B Main Highway, Ellerslie, Auckland.

VICTORIA STREET PROPERTY

Notes on property, tenant and strategy

The building was completed in 1983 and comprises a four-level office building occupying a prominent corner site on the main commercial street in Hamilton. The building has good exposure to vehicular and pedestrian traffic and is close to central amenities. The building is leased to anchor tenant Kiwibank, alongside the Department of Internal Affairs, the New Zealand Automobile Association, and other smaller tenants.



Alongside the building on Victoria Street, the Fund owns a carparking structure at 12 Alma Street, known as 'The Stack'. This structure comprises a 32-park mechanical car stacker on a 255 sqm regular shaped site. The property's tenants as well as tenants from surrounding properties make use of the available car parking.

While the two structures above have separate legal titles, the assets are collectively referred to as the Victoria Street Property, due to the additional carparking being critical to the operation of 410 Victoria Street as a commercial asset.

The Manager believes the likelihood of Kiwibank renewing their lease on expiration in April 2025 is very low, as they are no longer committed to a retail banking presence in Hamilton CBD.

The Hamilton office market has changed since the Fund's acquisition of the Property, with a number of prime office spaces being developed (both new stock and re-

development of existing properties).

With high supply levels compared to demand, the ability to lease future vacant space at the property may become more challenging. Given the above, and the Fund's overall strategy including a flight to quality, the Manager will continue to consider strategic options in relation to the property, including alternative uses for the property and/or divestment of the property.

Should the property be divested, it would reduce the Fund's level of diversification, but may mitigate future rental income, capital expenditure, and valuation risks associated with the property. If divesting of the property, the Manager would ultimately look to redeploy the associated funds into another investment opportunity aligned with the Fund's strategy.

No leases at the property are considered material by the Manager in isolation, as no tenant is expected to contribute 5% of Net Rental Income to the Fund at Settlement Date.

Projected as at 30 November 2023



Office

Property type



1,912 sqm

Net lettable area



\$6,700,000

Valuation



93%

Occupancy



1.6 years

WALT

Address	Building – 410 Victoria Street, Hamilton. Carpark – 12 Alma Street, Hamilton.
Title	Freehold.
Key tenant(s)	Kiwibank, Department of Internal Affairs.
Net Rental Income	\$615,000 per annum plus GST for the 12 months from 30 November 2023.
Seismic rating	Building and Carpark – At least 100% NBS based on an ISA by a qualified, independent engineer. Carpark – At least 100% NBS based on an ISA by a qualified, independent engineer.
Valuation report	Aim Valuation Limited has prepared an independent valuation report for the property dated 22 September 2023, a copy of which is available on the Offer Register.
Other key information	The Fund has committed to replace the lift at the property during the year ending 31 March 2024.



213 Tuam Street, Christchurch

2.3 MANAGEMENT OF THE FUND

The Manager has been appointed under the Trust Deeds to manage and administer the Fund on behalf of Unitholders. The Manager's responsibilities include managing the investments of the Fund in accordance with the SIPO (including identifying future acquisition opportunities for the Fund), administering distributions and unit redemptions, communication with Unitholders, and ensuring compliance with the Trust Deeds and other legal requirements.

The key personnel of the Manager responsible for governance and management of the Fund are split between the Manager's Board of Directors (Board) and the Investment Committee.

Related party benefits derived by the Manager are included in Section 5.2 Related Party Benefits. The Manager is currently responsible for the day-to-day property management of the properties owned by the Fund.

PMG Board of Directors

The Board's role is one of governance. The Board sets the Manager's strategy, oversees its management and key policies, and is ultimately responsible for managing risk and protecting the interests of its shareholders and stakeholders (including Unitholders).

The Board currently consists of a non-executive chair, a non-executive director, and two executive directors (who are also members of the Investment Committee described in the following section).

PMG Investment Committee

The Investment Committee is a sub-committee of the Board responsible for overseeing the day-to-day operations of the Manager's activities impacting on the management of the Fund and its investments.

The Investment Committee currently has five members, being chaired by the GM Investment (Daniel Lem), who is also a former director of the Manager.

He is supported by fellow members Matt McHardy and Steve Williams, alongside Scott McKenzie and Nigel Lowe (Directors of the Manager).

PMG Board of Directors



Dr Wayne Beilby
Chairman of the Board

A director of the Manager since September 2017, Dr Wayne Beilby became the Chairman of the Board of the Manager in January 2023. With over 15 years' experience in the financial services industry, he brings extensive management and governance experience.

Wayne holds a Doctorate in Business Administration (DBA) from Southern Cross University in New South Wales, a Bachelor of Law from the University of Otago, and a Bachelor of Arts at Victoria University. He also has a specialised Master of Business Administration (MBA) in finance and risk from Deakin University in Melbourne.

His experience includes professional appointments such as Chairman, Company Secretary, Director, and Chief Executive for several companies across New Zealand and overseas, including NZX, PNGX and ASX 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. He is also 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).



James Beale
Non-Executive Director

James joined the Board in July 2022. James is a Founding Partner of Oriens Capital Limited, a private equity funds management business based in Tauranga.

He has worked in NZ financial markets businesses for over 25 years, and his experience includes investment analysis and research, capital markets advisory, managing initial public offerings (IPOs), investment advisory and funds management.

James is a member of the Institute of Directors and sits on the boards of Oriens' portfolio companies Rockit Global, Retirement Income Group and IVS Group.

He Chairs the Audit and Risk Committee for Rockit Global, the Investment Advisory Committee for Acorn Foundation, the Oriens Capital Investment Committee, and is also a member of the Investment Committee of New Zealand Cricket.

PMG Board of Directors & Investment Committee



Scott McKenzie

Director and Chief
Executive Officer

With over two decades in business and 10 years specialising in funds management and commercial real estate, Scott is the driving force behind the Manager's innovative strategy.

He honed his leadership skills in the New Zealand and UK banking sectors, and holds a Bachelor of Commerce in Valuation and Management from Lincoln University and a Post Graduate Diploma in Management from Waikato University.

In addition to his role as CEO and Director of PMG, Scott is also a board member of Priority One (Tauranga's economic development agency), a founding board member of the Urban Taskforce for Tauranga, and a Trustee of the PMG Charitable Trust.



Nigel Lowe

Director and Chief
Financial Officer

Since joining the Manager in 2016, Nigel has strengthened and provided additional capability to the Manager's senior management team across financial reporting, compliance, and assistance with future property acquisitions.

With Nigel's direct oversight as Compliance Director of the Manager, the Manager became one of only a handful of unlisted property funds managers to attain a Managed Investment Scheme licence from the FMA. His leadership of the Manager's compliance function is crucial to complying with the Anti Money Laundering (AML) Act and regulations regarding accepting retail investments.

Nigel is a Chartered Accountant and holds a Bachelor of Commerce.

PMG Investment Committee



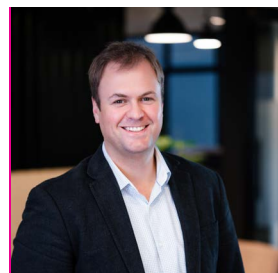
Daniel Lem

General Manager
Investments

Daniel has 20 years' experience in asset and project management, commercial leasing and structured property finance. As a previous Director and Head of Tenant Representation for Jones Lang LaSalle (JLL), Daniel represented tenants including Microsoft, IBM, Unisys, and the New Zealand Government.

Daniel was also the joint Fund Manager of Danube Property Funds I and II, where he acquired and managed €100m worth of commercial office assets across Eastern Europe. Daniel's property management company merged with the Manager in 2015. He chairs our Investment Committee, sources new investment opportunities, and project manages the repositioning and redevelopment of specific assets.

Daniel holds a Bachelor of Science and is a Member of the Royal Institute of Chartered Surveyors.



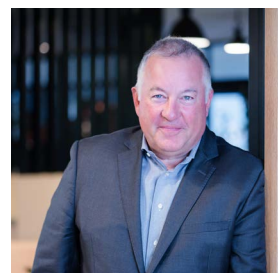
Matt McHardy

General Manager
Investor Relationships

Matt joined the Manager in April 2015 to develop the sales and investor relationships 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, and holds a New Zealand Certificate in Financial Services and a New Zealand Certificate in Real Estate.

Matt also sits on the board of Enterprise Angels and is a member of the Institute of Directors NZ. Alongside the wider Investor Relationships Team, Matt has a passion and commitment to ensuring the team provides a best-in-market service to the Manager's clients and professional partners, and that the Manager's investment products are promoted in a compliant and ethical manner.



Steve Williams

Head of Transactions

Steve has over 25 years of property expertise, joining the Manager in 2016 in the role of Head of Asset Management – and transitioning to the Head of Transactions role in May 2020. Steve's key responsibilities are to drive the acquisition and disposal of properties managed by the Manager.

Steve holds a property degree (REAA) and is a Member of the Royal Institution of Chartered Surveyors (MRICS).

2.4 PURPOSE OF THE OFFER

The primary purpose of the Offer is to raise money that will initially reduce the Fund's bank borrowings and increase its cash on hand. The total funds raised will also pay for the issue costs associated with the Offer. In future, the Fund may use its cash on hand, combined with further bank borrowings, to fund a combination of capital expenditure requirements and additional property investments.

The broader investment strategy for the Fund includes growing the Property Portfolio while increasing the diversity of properties, regions, and tenants the Fund is exposed to. At the date of this PDS the Fund is not committed to any opportunities to acquire property investments.

The Fund will utilise cash on hand to fund committed capital expenditure projects and maintain a conservative level of bank borrowings until appropriate property investment opportunities are available to the Fund, at which point the Fund may arrange additional bank borrowing facilities.

The funds raised by the Offer will be allocated initially as follows (rounded to the nearest thousand dollars):

Net debt repayment	\$6,200,000
Issue costs	\$642,000
Cash on hand	\$3,161,500
Funds allocated	\$10,003,500
Unit subscriptions	\$10,003,500
Total funding	\$10,003,500

Unit subscriptions above assumes that the Target Equity Raise is achieved. The Minimum Equity Raise is fully underwritten by the Manager, and up to 100% of this amount may be called on by the Fund.

Should the Minimum Equity Raise be achieved only, the surplus cash available to reduce bank borrowings and the capacity to fund future property investments will be reduced. Conversely, if the Maximum Equity Raise is achieved, the Fund will be able to repay additional bank borrowings and the ability to fund future property investments will increase. The impact of the Manager accepting subscriptions between the Minimum Equity Raise and Maximum Equity

Raise is included in Section 7 *Risks to Returns From PMG Direct Office Fund*.

Borrowings

The Fund has existing banking facilities. No further increase in total bank facilities with the Fund's lenders is expected in relation to the Offer. Combined with the Minimum Equity Raise amount, sufficient debt facility headroom is available in the Facilities to fund capital expenditure and any working capital requirements for the prospective periods presented. The Fund may reduce its total bank facilities available if the Offer is successful and total borrowings are reduced as forecast. For further details on the Fund's borrowings, see Section 2.7 *Borrowings* and Section 6.2 *Key Return Information for Investors and Financial Measures of the Fund's Borrowing*.

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 summarised as follows. Further information about the potential risks to investors of investing in units of the Fund are set out in Section 7 *Risks to Returns From PMG Direct Office Fund*, and in the document Other Material Information disclosed on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655.

For further information on property-specific strategies that may impact the factors that follow, see Section 2.2 *The Fund's Property Portfolio*.

Changing macroeconomic conditions (including the rate of inflation and interest rates), plus business and investor confidence, will generally impact the supply and demand for properties and lettable areas, and bank borrowing terms and availability. This may impact one or more of the stated key drivers of financial performance, and associated risk factors, in a variety of ways over time. These impacts are heightened in the current economic environment.

Factor	Impact, Strategy, and Plan	
Income from Property Portfolio	<p>Rental income directly impacts the Fund's AFFO and level of distributions to investors, in addition to the value of the Property Portfolio and therefore the value of Units. Income from the Property Portfolio varies due to several reasons, including rent reviews, lease renewals, levels of occupancy, and tenant arrears.</p> <p>In general, the Manager utilises its specialist in-house property management experience to find leasing opportunities to increase rental income across the Fund's property investments over the long term. The Manager is experienced in managing existing lease obligations to support occupancy levels, as well as achieving new leasing results to maximise rental income received by the Fund. The Manager maintains a close understanding of the specific economic circumstances and lease terms of each of the Fund's tenants, and further aims to maximise the Fund's rental income through due diligence on new tenants and establishment of guarantee arrangements where possible.</p> <p>The Fund's largest tenant by rental income, One New Zealand, have the most significant impact on the Fund's income and are the sole tenant of the Tuam Street Property.</p>	<p>In consideration of the rent review due with One New Zealand, and to mitigate the potential impact of One New Zealand not renewing their lease in relation to the Tuam Street Property leading to a material vacancy, the Manager has commenced a strategy to diversify the tenant mix within the Tuam Street Property and extend the WALT of the Property over the long term. To achieve this, the Fund has entered the Surrender Agreement. The Fund will receive one-off rental income, estimated to more than offset the expected temporary reduction in rental income and property valuation related to the Surrendered Area.</p> <p>A further lease to Capgemini at the Fanshawe Street Property has a lease expiry due in December 2023. Negotiations are ongoing to retain Capgemini as a tenant over a reduced lettable area, with some temporary vacancy as a result, expected to have an immaterial impact on the Fund's total income.</p> <p>Aside from these leases, no material leases have expiries within the prospective financial information periods presented, reducing the likelihood of further vacancy materially impacting returns in the foreseeable future.</p>
Valuation of Property Portfolio	<p>The value of the Property Portfolio directly impacts the unrealised fair valuation movement and Net Profit per Unit of the Fund, in addition to the value of Units. The valuation of the Property Portfolio is primarily influenced by property market conditions, fluctuations in supply and demand for commercial properties and lettable areas, and recent property and leasing transactions relevant to the Fund. The level of income from each property investment, the level of capital expenditure required in relation to each property investment, and the remaining lease terms related to the underlying properties will also influence value. Current property valuations are independent of the Fund and consider a range of inputs and market evidence in forming an opinion on value.</p>	<p>The Manager utilises its specialist in-house fund management, investment, property, and facilities management teams to develop and deliver strategies that aim to maximise property valuations over time. It continually strives to grow income, occupancy levels, and weighted average lease terms across the Property Portfolio, adjust asset allocation at appropriate times in the ownership journey of each property, and find opportunities to acquire properties at or below their market value with rental income growth opportunities.</p>
Borrowings and interest rates	<p>The total amount of borrowings, and the effective interest rates charged on those borrowings, can materially impact the Fund's AFFO, level of distributions, and the value of Units over time. The OCR and bank margins are a key driver of interest rates and cannot be influenced by the Fund.</p>	<p>However, the Manager does actively manage a portion of interest rate risk through a combination of fixing interest rates on a proportion of its borrowings (through interest rate swap agreements), and deploying strategies to manage levels of borrowing over time including capital raising activity, asset allocation adjustments, and timing of capital expenditure.</p>
Capital and non-recovered operating expenditure	<p>Material changes in operating expenses not recoverable from tenants compared to expectation will primarily impact AFFO and distributions to investors, in addition to property valuations and the value of Units. Material changes in capital expenditure compared to expectation will primarily impact property valuations, Net Profit per Unit of the Fund, and the value of Units. In addition, bank borrowings and interest will also be impacted by both capital and operating expenditure levels, having a flow on impact on AFFO and potentially distributions to investors.</p> <p>In general, prior to a property being purchased, a review of likely capital, repairs, and maintenance expenditure requirements is undertaken and factored into the price paid for a property. The Manager further maintains regular maintenance plans across all properties, including planned preventative maintenance, and holds service contracts with key suppliers</p>	<p>for regular or critical services. Any major capital works are also planned for, with budgets for both capital and operating expenditure reviewed no less than annually. Capital expenditure is typically considered over a 10-year period. The Fund's largest expected one-off requirements in relation to capital and non-recovered operating expenditure relate to the overall strategy at the Tuam Street Property, in addition to leasing-related works at the Fanshawe Street Property, and façade works at the Main Highway Property. All works will be subject to a suitable procurement approval process, including multiple quotes, tenders, and fixed price contracts or capped commitments to tenants where relevant.</p> <p>The Fund's strategy to improve the quality of the Property Portfolio via divestment of lower quality investments, which often require higher levels of capital expenditure, is assisting to increase the level of certainty around short-term capital expenditure requirements.</p>
Capital raising, asset allocation and asset diversification	<p>The amount of capital raised by the Fund over time, the assets invested in by the Fund over time, and the level of diversification of the Fund's Property Portfolio will impact all the above factors and therefore related areas of performance. The specific characteristics and circumstances related to each property investment held by the Fund, and the timing of acquisition and divestment of those investments, will further impact the above.</p> <p>The Manager intends to continue improving the quality and diversity of the Property Portfolio. To support this strategy, at appropriate times the Manager has and will continue to</p>	<p>raise additional capital, acquire additional property investments, and strategically divest of properties (and reallocate appropriate amounts of capital to alternative properties). At the date of this PDS, the Fund has reduced in scale and diversity relative to the date of the last PDS, as a result of continuing to execute on this strategy relative to market and economic conditions. Over time, collectively, these actions are expected to benefit investors by improving the stability of returns for the Fund and investors, and decrease the likelihood and magnitude of variations in returns (comparable to a standalone syndicate with a greater concentration of risk).</p>

2.6 NATURE OF RETURNS AND THE KEY FACTORS THAT DETERMINE RETURNS

Total returns to investors may be realised (such as through the payment of regular distributions from the Fund) or remain unrealised (such as through cumulative changes in the value of the Fund's Property Portfolio and thus the value of the Units). The following summarises the key factors that determine returns:

- **Income from property portfolio:** The Fund's primary source of income is the rental income from each of the property investments 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. The Surrender Payment is due to be received in cash on the Surrender Date, and is included in the Fund's prospective financial information as rental income over a 58 month period ending August 2028. The Fund expects to distribute this income as part of its regular distributions to investors between April 2024 and March 2026.

Income from property investments is also offset by the amount of ongoing fees and expenses paid by the Fund to the Manager, the Supervisor, the auditor, banks, and other parties (further information about the fees paid by the Fund is set out in Section 8 *What Are the Fees?*). The Fund will also pay tax on behalf of Unitholders based on the Unitholders' share of the taxable profit of the Fund at their respective prescribed investor rates as notified by the investor to the Fund (further information about tax that Unitholders will pay is set out in Section 9 *Tax*).

- **Valuation of property portfolio:** The value of Units is influenced by the value of the Property Portfolio. The value of the Property Portfolio will be primarily influenced by the state of the property market, the level of income from each property investment, the level of capital expenditure required in relation to each property investment, and the remaining lease terms related to each property investment (among other investment-specific factors).
- **Borrowings and interest rates:** A primary cost of the Fund is interest expense. The level of interest expense over time is influenced by the level of bank borrowings, interest rate movements, and the Fund's hedging strategy. Interest rates are ultimately influenced by the current and forecast economic environment over time. A summary of the Fund's borrowing arrangements is set out in Section 2.7 *Borrowings*.

2.7 BORROWINGS

Strategy: Over the long term, it is believed complementing investor funds with bank borrowings will improve total returns to investors. The Manager will consider the amount of borrowings held by the Fund as part of the Fund's overall strategy on an ongoing basis. In exercising its duties, the Manager will have regard to opportunities and anticipated opportunities to deploy such borrowings into property investments aligned with the Fund's strategy, with the aim of generating returns to investors at a level consistent with currently forecast returns. This approach provides the Fund flexibility for future opportunities to acquire additional property investments. The Manager currently has no confirmed properties for the Fund to acquire, and the timing of when appropriate properties may become available, alongside appropriate borrowing rates, is currently unknown.

The Manager actively targets borrowing levels below the level allowed by both the SIPO, and banking covenants. At times of known or expected interest rate increases, the Manager may aim to reduce relative levels of borrowing through both capital raising activity and asset allocation adjustments (such as divestments). The converse may apply in times of known or expected interest rate reductions (while still aiming to maintain a conservative level of bank borrowings relative to the SIPO and banking covenants).

Facilities: The Fund has two existing borrowing facilities (Facilities) with ASB Bank Limited (ASB). The amount due to ASB, and all other liabilities of the Fund, will rank ahead of Units on a winding up of the Fund. A summary of the Facilities is provided below, with amounts rounded to the nearest thousand where applicable.

Facility	Lender	Type	Expiry	Prospective Borrowing			
				1 Apr 2023	30 Nov 2023	31 Mar 2024	31 Mar 2025
CM04	ASB	Term Loan	Jun 2024	\$3,700,000	\$Nil	\$Nil	\$Nil
CM06	ASB	Term Loan	Oct 2025	\$51,032,000	\$34,377,000	\$34,377,000	\$34,377,000
CMNEW	TBC	TBC	TBC	N/A	N/A	N/A	\$2,350,000
Total				\$54,372,000	\$34,377,000	\$34,377,000	\$36,727,000

Facility limits: Facility limits in April 2023 were \$56,373,000 and reduced to \$42,698,000 in July 2023 following divestment of the Durham Street Properties. It is assumed that at Settlement Date, following achievement of the Target Equity Raise, the Fund will terminate facility CM04, and reduce the Facility Limit on facility CM06 to \$34,377,000. It is assumed facility CM06 will be extended by a period of at least 12 months, before October 2024. Based on funding requirements over time, an additional facility (CMNEW) may require establishment by September 2024, with a facility limit growing to \$2,350,000 by 31 March 2025.

No further facilities are being sought but may be sought subsequently by the Fund in the ordinary course of business if desired or required.

Key terms of the Facilities:

Security	ASB holds first ranking mortgages over all properties in the Property Portfolio, a first ranking general security deed over the Fund and Custodian's assets, and first ranking specific security deeds regarding leases, bank accounts and rental bonds.
Interest Rate	Structured on a Floating Base Rate plus Margin basis. The Floating Base Rate is the 30-day bid settlement rate quoted on the Reuters Monitor System Page BKBM (or any replacement page) on the first day of an interest period. The margin of ASB is commercially sensitive. The Default Interest Rate is 22.5%.
Interest Payments	Interest is payable on the last day of each interest period. In practice, interest is expected to be payable monthly.
Repayments	Interest only – full repayment required on the expiry date unless renewed.
Renewal	The Facilities are extendible. Prior to each facility anniversary, each facility within the Facilities can be extended by a further 12 months (to effectively reset the original lending term), subject to request by the Fund and acceptance by ASB. If acceptance is not given, borrowings will expire before the Fund is wound up, and refinancing would be necessary.
Other Costs	Facility establishment fees may be charged from time to time when establishing new facilities. No establishment fees are applicable in relation to the Offer or the prospective financial periods presented.
Additional Undertakings	<p>The following conditions apply:</p> <ol style="list-style-type: none"> Reporting: The Fund's annual financial statements must be provided to ASB. The Fund's tenancy schedule must be provided to ASB upon request, in addition to information on any material lease change. Valuations: The Fund must provide valuations for the secured properties completed by an independent registered valuer approved by ASB. Financial Covenants (as defined by ASB): <ol style="list-style-type: none"> Loan-to-value ratio must not be greater than 45% of the value of secured properties at any given time (Bank LVR). Net Rental Income must be greater than 1.75 times interest expense (Bank ICR). WALT must be greater than 2.75 years (previously 3.5 years, reduced in October 2023) (Bank WALT). Insurance: Comprehensive insurance is required for all secured assets with the ASB's interest noted. This must include full replacement, loss of rental income for not less than 24 months, and adequate public risk insurance.

Level of borrowings : The Fund currently has borrowings owing in relation to the Facilities. The Fund reduced its borrowings to \$41,377,000 in July 2023 following divestment of the Durham Street Properties and following the Offer any surplus funds not held as cash on hand will be utilised initially to repay borrowings on the Facilities on Settlement Date, to the extent the surplus capital raised allows. Should the amount of capital raised be below the Target Equity Raise, the amount of borrowings repaid at Settlement Date will reduce.

Interest rate swaps and effective interest rates: Interest rates are inherently subject to change for reasons beyond the Fund or the Manager's control, linked to the movement in the Floating Base Rate. To mitigate potential movements in the Floating Base Rate, and provide additional certainty over the level of interest expense for the Fund, the Fund enters interest rate swap agreements (effectively, fixing a proportion of the Fund's interest expense over a defined period of time).

The Fund's current policy is to have between 60% and 85% of the Fund's interest-bearing borrowings hedged with interest rate swaps (**Hedging Cover**), and the weighted average period of swap arrangements to be over 0.6 years (**Hedged Period**). This policy is regularly reviewed in response to current and forecast macroeconomic factors, in addition to the Fund's expected borrowing profile over time.

Hedging Cover and Hedged Period at Settlement Date are expected to be 73% and 0.76 years respectively, changing over time to 31 March 2025 where they are expected to be 65% and 1.5 years respectively. In the period between these dates, both metrics are forecast to vary within the Fund's current policy limits.

The Fund currently has the following interest rate swap facilities in place, at a weighted average rate of 2.45% (plus Bank Margin):

Term Grouping	Lender	Notional Amount	Expiry Range
1-year	ASB	\$2,000,000	Apr 2024 – Sep 2024
2-year	ASB	\$3,000,000	Mar 2025 – Apr 2025
3-year	ASB	\$12,000,000	Apr 2024 – Mar 2026
4-year	ASB	\$8,000,000	Jul 2024
		\$25,000,000	

Future interest rate swap facilities are expected to be placed to maintain hedging in accordance with the hedging policy target ranges.

Based on the terms of the Facilities and existing interest rate swap arrangements, and projected changes in the Floating Base Rate, Bank Margin, amount of borrowings drawn and interest rate swaps, the indicative effective weighted average interest rate across the Facilities during the prospective periods ending 31 March 2024 and 31 March 2025 is expected to be 5.76% and 7.44% respectively.

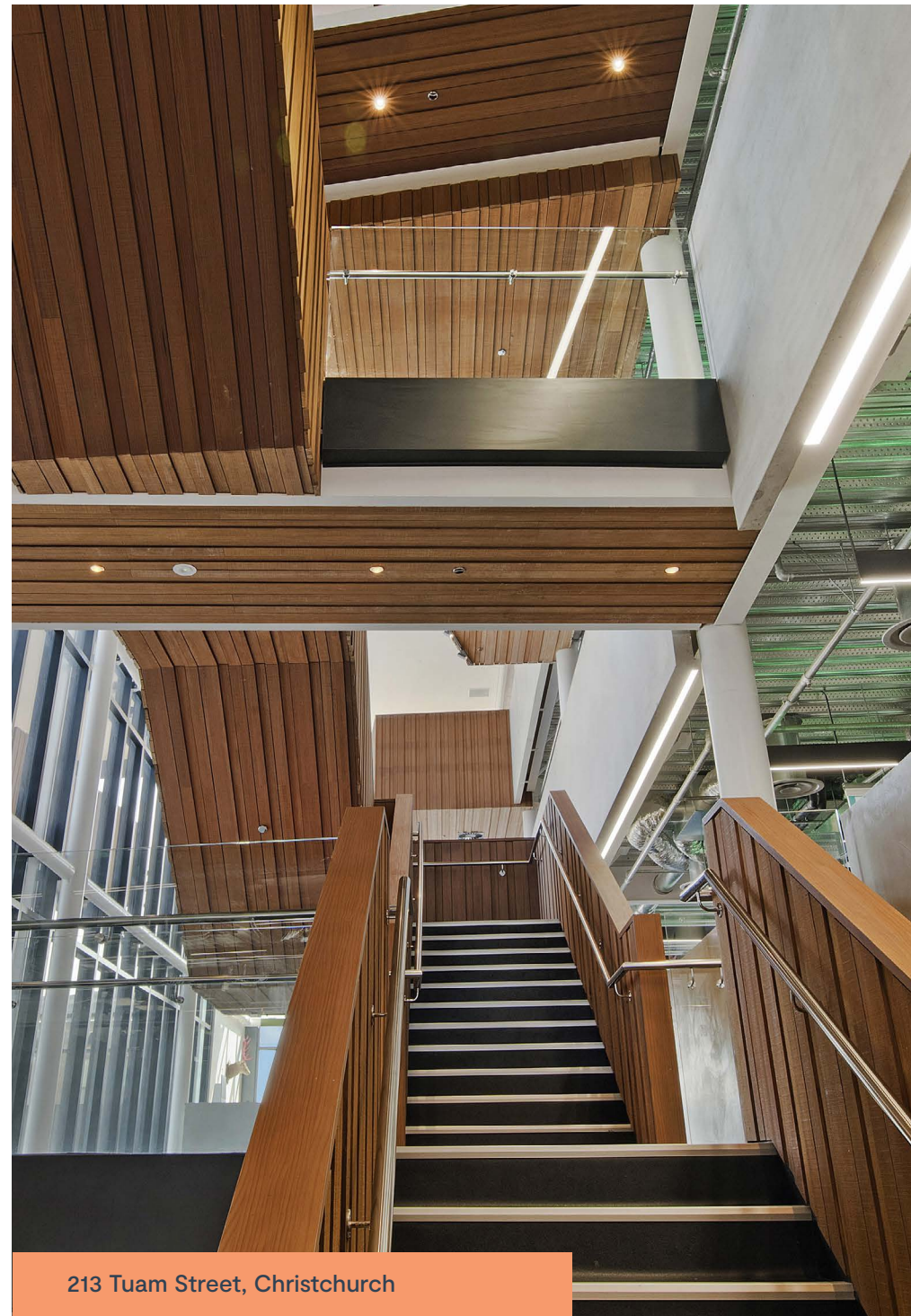
3 KEY DATES AND OFFER PROCESS

PDS Registered	3 November 2023
Offer Opening Date	13 November 2023
Offer Closing Date	28 November 2023
Settlement Date	30 November 2023
Allotment Date	30 November 2023

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

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

Subscriptions received will be held in a trust account until units are allotted. No interest will accrue on subscriptions within the trust account. Cash distributions will only accrue to investors from the day following allotment of units.



4 TERMS OF THE OFFER

4.1 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 Offer is made on the terms, and is subject to the conditions, that are set out in this PDS, the application form related to this PDS, and on the Offer Register. The information below sets out the key terms of the Offer in further detail.

What Is the Offer?	This is an offer of units in a managed investment scheme (constituted as a unit trust) called 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	<p>See Section 3 <i>Key Dates and Offer Process</i> for dates and supporting information. Among other dates, the Offer Closing Date may be varied or extended by the Manager at its sole discretion.</p> <p>In addition to this, gross cash distributions are to be paid on the 25th day of each month following declaration (if not a business day, the following business day). The first distribution for new Unitholders should be paid on 25 January 2024, assuming new Units are issued on 30 November 2023 and the first distribution applicable to new investors is declared on 31 December 2023.</p> <p>This information is indicative only and the dates may change.</p>
Price	The price of each Unit is \$0.95 with a minimum unit subscription amount per investor of \$9,500 (10,000 Units), and multiples thereafter of \$4,750 (5,000 Units). The price of each Unit was determined by forecasting what the Manager expects the fair value of the Fund's net assets will be at Settlement Date (being total assets less total liabilities), adjusting this amount by any unamortised Establishment Costs provided for in the Establishment Deed, divided by the number of Units on issue at that time.
Allotment	Units will be allotted and issued on Settlement Date (two business days following the Offer Closing Date, or, if the Manager decides to extend the Offer Closing Date, that later date). Should any investor monies be advanced to the Fund related to the Offer, but the amount of Units applied for are not allotted, any monies not allotted will be reimbursed in full, without interest.
Minimum Equity Raise	The Fund is seeking to raise at least \$5,937,500 (6,250,000 Units) from the Offer. The Minimum Equity Raise is fully underwritten.
Maximum Equity Raise	The Fund has set a limit on the maximum amount of capital that can be raised from the Offer, being \$19,950,000 (21,000,000 Units).

Underwriting Agreement	<p>The Manager has underwritten \$5,937,500 (6,250,000 Units), the Minimum Equity Raise, meaning the Manager has committed funding to the Offer in advance such that the Offer will proceed. For the commitment, the Manager will receive a fee of 4.00% of the committed Unit subscription amount from the Fund. If the Offer proceeds, but it does not successfully close, the Manager will only receive a fee of 1.00% of the committed Unit subscription amount.</p> <p>The Underwriting Agreement is essentially a commitment to subscribe for Units from this Offer, and those Units issued (if any) will carry the same rights as those issued to other Unitholders.</p> <p>The Manager may enter sub-underwriting arrangements with Wholesale Investors (as defined in the FMCA) for some or all of the value of underwritten Units. Sub-underwriting arrangements come at minimal cost (legal and administration costs within the Offer Costs) to the Fund and investors.</p>
Oversubscriptions	The Fund will not accept oversubscriptions above the Maximum Equity Raise.
Scaling	<p>The Manager has the discretion to accept valid applications between the Minimum Equity Raise and the Maximum Equity Raise.</p> <p>Applications may be scaled at the discretion of the Manager, which means that investors may receive fewer Units than applied for. Scaling may be pro-rata, but is ultimately at the discretion of the Manager.</p> <p>If scaling occurs, excess monies paid by you will be refunded (without interest) within five Business Days of the Allotment Date.</p>
Taxation	To ensure compliance with the Fund's multi-rate PIE status, an investor'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 17,706,000 Units if the Target Equity Raise is achieved from the Offer), unless the Unitholder is itself a PIE or one of a limited class of other widely held vehicles.

4.2 HOW CAN I MAKE AN INVESTMENT IN THE FUND?

Investors are required to complete the application form related to this PDS, provided by the Manager in either paper or electronic form. Subscriptions must be made before the Offer Closing Date (or, if the Manager decides to extend or bring forward the Offer Closing Date, that amended date). This is not a continuous offer of Units.

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

See Section 13 *How to Apply* for further Information.

4.3 HOW CAN I WITHDRAW MY INVESTMENT FROM THE FUND?

Units may be sold or transferred (subject to the minimum holding requirements being met), but there is currently no established market for trading in Units, nor will Units be listed on any securities exchange.

Redemptions

Redemptions refer to the Fund repurchasing, and cancelling, Units from investors.

Units are not currently redeemable, and investing in the Fund is intended to be a long-term investment. However, the Manager may decide to commence redemptions at its discretion. Under the Establishment Deed, the Manager may open an annual redemption period, and process redemptions at any other times, at its sole discretion.

The Manager does not intend to commence redemptions until the Fund has established sufficient scale, and when the Fund holds sufficient levels of liquidity to faithfully manage redemptions. The Manager may also suspend or defer redemptions in certain circumstances pursuant to the Trust Deeds (see Master Trust Deed, clause 8.11).

Should redemptions be made available to Unitholders in the future

Pricing of redemptions

For each redemption period, the Manager will set a redemption price in accordance with the Establishment Deed of the Fund. The redemption price will be based on the Adjusted NAV of the Fund per Unit, less a redemption break fee. The redemption price formula and an example calculation can be found in the document titled Other Material Information disclosed on the Offer Register, under Offer Number OFR13655.

Adjusted NAV is based on the NAV of the Fund, adjusted to take into account that:

- the Establishment Costs will be gradually written off on a straight-line basis over five years from the date of the acquisition of the relevant asset;
- on sale of the relevant asset, any remaining Establishment Costs not written off in accordance with (a) above will be reduced to zero.

Payment for redeemed units

Payments to Unitholders for redeemed Units will be made by the Fund no later than the 20th day of the month that follows the redemption date (except where unlikely circumstances occur as set out in the Trust Deeds).

Limitations on redemptions

Distributions to investors will be prioritised over redemption requests. A redemption would not be permitted if the Unitholder would hold less than 10,000 Units following redemption, unless the Unitholder was selling their entire holding.

The funds available for redemption will be limited to the greater of:

- 3.0% of the Fund's Adjusted NAV determined on the relevant redemption date (or other relevant date as selected by the Manager); and
- an amount determined by the Manager from time to time (having regard to the future working capital requirements of the Fund).

If applicable, priority will be given to unmet redemption requests from previous redemption periods.

Funding redemptions

Redemptions may be funded using a combination of the Fund's operating cash flow, the issuance of new units (if applicable), proceeds from the sale of property investments, and additional borrowings. Use of borrowings for this purpose may require bank approval, which may not be given by ASB. The Manager does not expect to establish a separate cash facility for redemptions.

Redemption fee

The Manager, in its discretion, has decided to not redeem any Units at this time. Should redemptions occur, the redemption break fee is expected to equal 1.5% of the Fund's Adjusted NAV per Unit (before any withholding on account of taxes are subtracted), for retention by the Fund. The Manager's current policy is that no fee will be charged by the Manager to the Fund. The Manager reserves the right to change this policy and charge a fee to the Fund for facilitating redemptions, up to the amount of the redemption break fee.

Sale facilitation service

Units are intended to be a long-term investment. Should an investor wish to sell some or all of their investment, the Manager has a 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, plus GST if any. This fee excludes any associated costs such as legal and professional advisory fees. See Section 8.3 *Fees Charged to Individual Investors* for further information.

There is no guarantee that this service will be available or that there will be any buyers for Units in the future. 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 a financial advice provider and does not provide any recommendations in relation to buying or selling Units. For more information, please contact the Manager using the details 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 have been paid monthly to investors since inception of the Fund and the Fund currently intends to continue providing regular and sustainable income to investors. However, the actual gross distribution per Unit for a period may vary from the prospective financial information.

It is the Manager's policy to distribute 100% of the Fund's AFFO over the long term. The Fund's AFFO is calculated annually based on net profit before tax, after reversing out the following items (if applicable to the relevant period and forming part of profit before tax):

- Realised gains and losses on the disposal of property investments and derivative financial instruments.
- Fair value adjustments for unrealised changes in the value of the Property Portfolio (plus right of use assets), and derivative financial instruments; and
- Performance fees payable to the Manager.

Distributions may be reduced below 100% of AFFO where cash reserves are required to fund redemptions, to pay for capital expenditure on the Property Portfolio, or to facilitate repayment of debt. Due to fluctuations in the Fund's income and expenses, it is possible that the Fund may pay distributions in excess of 100% of AFFO in a particular period, provided the Manager believes distributions will be commercially sustainable over the life of the Fund. Decisions to pay distributions above or below 100% of the Fund's AFFO is at the discretion of the Manager.

Timing differences may occur where material one-off income is received in cash (and is therefore available for distribution) in advance of the timing of its full recognition within AFFO (as a result of the Fund's accounting policy for lease income recognition). This will occur in the case of the Surrender Payment. As set out in more detail at Section 6.3 *Principal assumptions for prospective financial information*, the Surrender Payment will be received in cash on the Surrender Date. Despite the Surrender Payment being available for distribution on and from the Surrender Date, in accordance with the Fund's accounting policy this income will be recognised within AFFO over the period to August 2028. The Fund intends to support its regular distributions paid to investors with income from the Surrender Payment, ahead of the recognition of some of this income for accounting purposes.

It is intended that distributions are primarily funded by money derived from operations.

However, in periods where money from operations is insufficient to meet distribution payments, distributions may also be funded by money from investing and financing activities – specifically from the gain on disposal of property investments, or from borrowings secured against the value of the Property Portfolio. This may be required where temporary timing differences in relation to operational cash flow occur. Over the life of the Fund, the Manager believes use of gains from disposal of property investments, or borrowings, to support distributions to Unitholders can be considered commercially sustainable, provided the value of property investments rise over the long term. Should the value of property investments decrease, in periods where operating cash flow is below that of an intended distribution, the distribution may need to be reduced. The actual gross distribution per Unit may therefore be above or below 100% of the Fund's net profit before tax, and above or below 100% of the Fund's AFFO.

The Manager considers gross cash distributions declared divided by AFFO (**Distribution Payout Ratio**) in monitoring distribution levels. It regularly monitors historic, current, and forecast AFFO and Distribution Payout Ratio measures, to inform decision making related to distributions. Where relevant the Manager may also consider the impact of timing differences by adjusting the Distribution Payout Ratio to account for material one-off income received in cash (such as the Surrender Payment) on a cash basis, available for distribution but not yet fully recognised for accounting purposes in AFFO (**Adjusted Distribution Payout Ratio**). AFFO, the Distribution Payout Ratio and the Adjusted Distribution Payout Ratio are non-GAAP measures and a reconciliation of these measures to GAAP-compliant information is available on the Offer Register under Offer Number OFR13655 in the document titled Other Material Information.

Actual results will most likely be impacted by the factors noted in Section 2.6 *Nature of Returns and the Key Factors That Determine Returns* and risks highlighted in Section 7 *Risks to Returns from PMG Direct Office Fund*. In particular, the Distribution Payout Ratio may be impacted by actual outcomes differing from forecast, such as:

- alternative leasing outcomes at the Tuam Street Property (impacting AFFO and other metrics);
- raising alternative amounts of capital between the Minimum Equity Raise and the Maximum Equity Raise (impacting bank borrowings, interest expense at floating rates and AFFO, among other metrics);
- future capital expenditure or property transactions (impacting borrowings, interest expense, and AFFO); and
- changes to the value of forecast rent reviews, occupancy levels and interest rate assumptions (impacted by macroeconomic factors including the level of inflation over time, among other factors).

Payment Frequency: Distributions are paid monthly (or more frequently at the discretion of the Manager). Only those Unitholders registered as holding Units on the relevant record date 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 non-business day, then the distribution will be made on the following business day.

Historic distributions

Distributions have been declared by the Fund and paid on the 25th day of the following month (or the next business day if applicable) since inception, as follows:

- 7.00 cents per Unit per annum before tax (declared December 2016 to March 2017)
- 7.50 cents per Unit per annum before tax (declared April 2017 to May 2020)
- 6.50 cents per Unit per annum before tax (declared June 2020 to September 2020)
- 7.10 cents per Unit per annum before tax (declared October 2020 to March 2021)
- 7.55 cents per Unit per annum before tax (declared April 2021 to August 2021)
- 7.00 cents per Unit per annum before tax (declared September 2021 to July 2023)
- 5.75 cents per Unit per annum before tax (declared August 2023 to October 2023)

Forecast distributions

It is expected that a monthly distribution of 5.75 cents per Unit per annum before tax will be declared in November 2023 to existing Unitholders. From December 2023 to March 2025, distributions are expected to increase to 5.85 cents per Unit per annum before tax. The forecast distribution amount of 5.85 cents per Unit is supported by income related to the Surrender Payment, which is available for distribution on and from the Surrender Date, but not yet fully recognised for accounting purposes within AFFO. For Unitholders participating in the Offer:

- The first distribution related to new units will be declared on 31 December 2023 and paid on 25 January 2024.
- The distributions declared for the forecast period December 2023 to 31 March 2025 are projected to deliver an annualised gross cash distribution return on Unit issue price of 6.16% per annum (excluding the special distribution set out below).

Should the Offer Closing Date be extended, a part-month distribution will be declared to existing investors prior to the allotment of Units, and a part-month distribution declared to all investors for the period post allotment of Units to the end of that month.

In addition to the distributions noted above, a special distribution of 0.90 cents per unit is forecast to be declared on 30 April 2024 as a one-off gross distribution to manage the expected tax obligations of investors associated with the Surrender Payment in April 2024.

As a direct result of this special distribution, it is currently expected that investors with a PIR below 28% will receive some net income after tax, however those with a PIR of 28% are likely to receive no net income after tax.

These returns are not guaranteed. The distribution amounts may vary if actual results vary 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. The composition of the Fund has changed over time, as has the Fund's financial performance, position, and ability to make distributions. Specifically, the Property Portfolio owned by the Fund has changed over time and distributions above are based on the Property Portfolio held in the period leading up to those distributions, plus any one-off income received.

Governing Documents

The Fund is subject to 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. 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's strategy and objectives are outlined in Section 2.1 *Statement of Investment Policy and Objectives*.

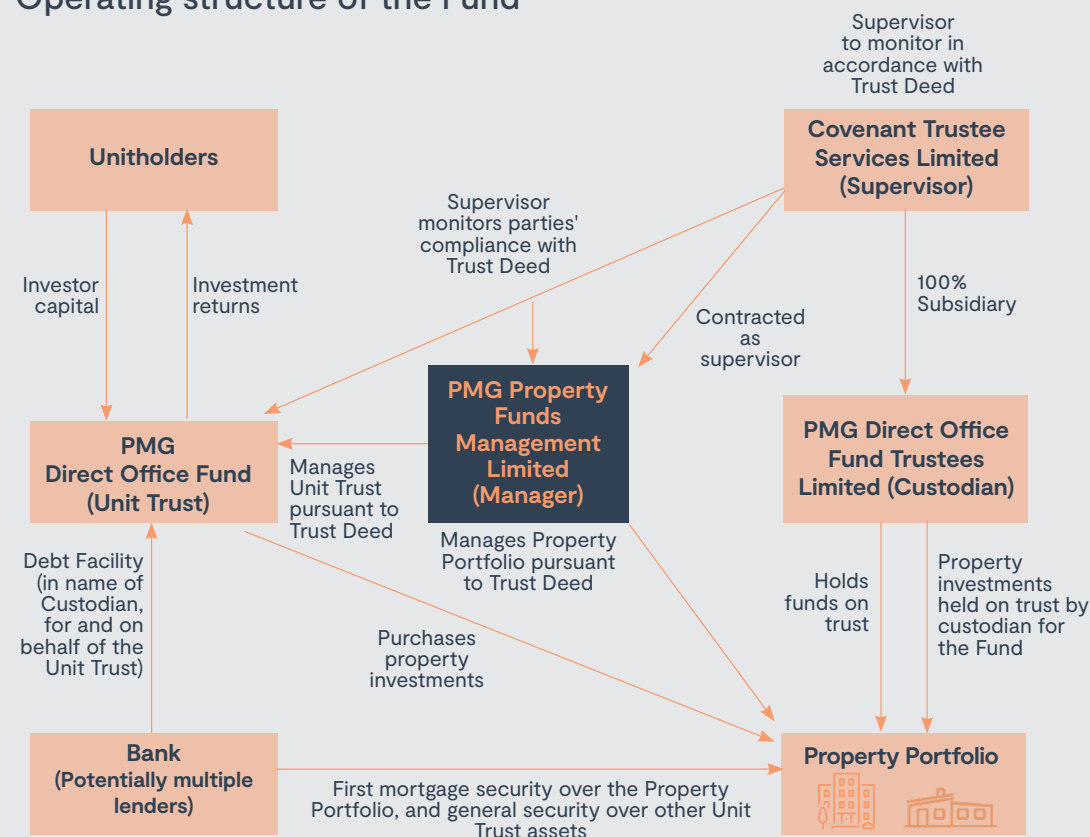
The interests that investors receive in the Fund are unitised interests in the Fund's property investments. The Supervisor has been appointed to act as the supervisor of the Fund. The Supervisor holds the Property Portfolio for the Fund on trust (through a custodian company wholly owned by the Supervisor called PMG Direct Office Fund Trustees Limited), on behalf of the Unitholders of the Fund, 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. 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.

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.

In the future the Fund may acquire additional property investments that satisfy the investment criteria set by the Manager, provided that suitable investment opportunities present and enough funding from the issuance of Units combined with bank borrowings is available.

Operating structure of the Fund



5.2 RELATED PARTY BENEFITS

The Fund's related parties include the Manager, the parent company of the Manager (**PMG Holdings Limited**), the ultimate parent company of the Manager (**PMG Group Limited**), PMG Funds Limited (**PMG Funds** – a subsidiary of PMG Holdings Limited), PMG Capital Fund Limited (**PMG Capital** – a fund managed by the Manager), PMG Generation Fund (a fund managed by the Manager), Forsite Limited (Wayne Beilby and Scott McKenzie are directors of both Forsite Limited and the Manager) and various other funds or entities managed or controlled by the Manager or its directors, and members of key management personnel of the Manager.

Denis McMahon was previously a related party as a shareholder and director of the Manager, and director of PMG Capital. He ceased to be a director of the Manager in December 2022. Scott McKenzie remains a shareholder of the Manager and is a director of both PMG Capital and 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.

Other than the transactions referred to below, 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 related to the periods presented.

Operating transactions

Fund expenditure: Forsite Limited provides software services to the Fund. The cost for the prospective periods is forecast to be \$8,000 plus GST and \$7,000 plus GST for the years ending 31 March 2024 and 31 March 2025 respectively. The Manager is entitled to recover 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?*

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

Rent and opex	Actual			Prospective	
	31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
The Manager	\$172,000	\$137,000	\$193,000	\$173,000	\$128,000

The Fund also provided the Manager a rental incentive in the year ending 31 March 2023 in relation to their lease at the Fanshawe Street Property totalling \$55,000.

During the year ending 31 March 2024 the Manager ceased to pay rent and operating expenditure recoveries to the Fund in relation to the 143 Durham Street Property on its sale to a third party.

Investing transactions

Property Portfolio transactions: PMG Funds typically commits to contracts for the acquisition of property prior to nomination to the Fund. The Fund may acquire properties from PMG Capital at independent valuation (two have been purchased since inception); however none have been purchased in the periods presented in this PDS.

Financing transactions

Deposits: PMG Capital may fund deposits related to property acquisitions from time to time. PMG Capital funded the deposit for the Tuam Street Property in the year ending 31 March 2021, and earned a deposit fee from the Fund equating to \$150,000.

Underwriting: The Manager has entered the Underwriting Agreement with the Fund to underwrite the Minimum Equity Raise for the Offer. Fees associated with this agreement are included in Section 8 *What Are the Fees?* Unit pricing and distributions payable at any point will be on the same basis as for all other investors.

Investing in Units: The Manager and related parties of the Manager may invest in the Fund on the same basis as any other investor (including as a sub-underwriter through a financial arrangement with the Manager). PMG Capital intends to be a sub-underwriter associated with the Offer.

The Fund has previously had investing activity, including secondary transfers, with related parties as noted on the following page (including those related by virtue of their relationship to a member of the Manager's key management personnel).

Balances held with related parties

Related party	Balance type	Actual			Prospective	
		31 March 2021	31 March 2022	31 March 2023	31 March 2024	31 March 2025
The Manager	Trade and other payables	\$125,000	\$142,000	\$118,000	\$77,000	\$75,000
	Performance fee payable	\$1,186,000	\$696,000	\$-	\$-	\$-
Unitholders	Distributions payable	\$461,500	\$455,000	\$455,000	\$432,000	\$432,000

Financing activity with related parties

Unitholder	Actual									Prospective		
	Year to 31 March 2021			Year to 31 March 2022			Year to 31 March 2023			Year to 31 March 2024		
	Units bought /(sold)	Distributions	Units held	Units bought /(sold)	Distributions	Units held	Units bought /(sold)	Distributions	Units held	Units bought / (sold)	Distributions	Units held
The Manager	500,000/(500,000)	\$18,000	0	0	\$0	0	10,000	\$1,000	10,000	(10,000)	\$1,000	0
PMG Capital	2,785,000	\$239,000	2,785,000	(2,785,000)	\$17,000	0	0	\$0	0	1,684,000	\$33,000	1,684,000
PMG Generation Fund	0	\$0	0	0	\$0	0	855,000	\$40,000	855,000	0	\$29,000	855,000
Denis McMahon (and associated)	5,000	\$14,000	205,000	120,000	\$17,000	325,000	(10,000)	\$23,000	315,000	N/A	N/A	N/A
Scott McKenzie (and associated)	170,000	\$2,000	190,000	380,000	\$22,010	570,000	(265,000)	\$27,000	305,000	0	\$10,000	305,000
Nigel Lowe (and associated)	130,000	\$6,000	200,000	215,000	\$19,000	415,000	(260,000)	\$15,000	155,000	0	\$5,000	155,000
Daniel Lem (and associated)	0	\$0	0	305,000	\$7,000	305,000	(305,000)	\$7,000	0	0	\$0	0
Matt McHardy (and associated)	10,000	\$1,000	20,000	65,000	\$3,000	85,000	(85,000)	\$2,000	0	0	\$0	0
Steve Williams (and associated)	0	\$0	0	405,000	\$20,000	405,000	(265,000)	\$16,000	140,000	0	\$5,000	140,000



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6 PMG DIRECT OFFICE FUND'S FINANCIAL INFORMATION

The tables provided in this section present selected financial information about the Fund. Full financial statements are available on the Offer Register <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655. If you do not understand this sort of financial information, you can seek professional advice.

The purpose of the prospective financial information is to assist investors 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.

Information presented in this section is based on:

- Historical audited financial information for the Fund for the years ending 31 March 2021, 2022, and 2023; and
- Prospective financial information for the Fund for the two years ending 31 March 2025.

Information for the year ending 31 March 2024 has been prepared using actual unaudited financial information from 1 April 2023 to 31 August 2023, and forecast financial information for the period 1 September 2023 to 31 March 2024.

The prospective financial information included in the tables in this section are either GAAP financial measures extracted from prospective financial information prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements (available on the Offer Register in the document titled Prospective Financial Information), non-GAAP financial measures, or measures derived from GAAP or non-GAAP financial measures. Any non-GAAP measures are not reflected in the Fund's financial statements, and a reconciliation of the adjustment to GAAP-compliant information is available on the Offer Register under the document Other Material Information.

The prospective financial information has not been audited by a qualified auditor.

The principal assumptions on which the prospective financial information is based are set out in Section 6.3 *Principal Assumptions for Prospective Financial Information*. A full description of accounting policies and assumptions relating to the prospective financial information can be obtained on the Offer Register in the document titled Prospective Financial Information. The prospective information was calculated assuming the Fund fulfils the purpose of the Offer, achieving the Target Equity Raise, with no additional bank borrowings drawn to fund future property investments.

All monetary information in this section is presented in New Zealand Dollars (NZD) and rounded to the nearest thousand dollars unless otherwise indicated. All other metrics are rounded to the number of significant figures shown.

6.1 PROSPECTIVE INCOME, EXPENSES AND RETURNS

	Actual			Prospective	
Financial Year to 31 March	2021	2022	2023	2024	2025
Statement of comprehensive income					
Total revenue	\$11,561,000	\$13,722,000	\$13,331,000	\$12,556,000	\$11,599,000
Total expenses	\$(5,005,000)	\$(4,902,000)	\$(4,057,000)	\$(3,468,000)	\$(3,429,000)
Fair value movement on investment property	\$9,709,000	\$4,128,000	\$(21,967,000)	\$(9,941,000)	\$-
Gain/(loss) on disposal of investment property	\$(285,000)	\$(477,000)	\$33,000	\$831,000	\$-
Fair value movement on interest rate swaps	\$397,000	\$1,929,000	\$(68,000)	\$(257,000)	\$-
EBITDA	\$16,377,000	\$14,400,000	\$(12,728,000)	\$(279,000)	\$8,170,000
Net finance expense	\$(2,569,000)	\$(3,631,000)	\$(3,809,000)	\$(3,625,000)	\$(3,761,000)
Total comprehensive income	\$13,808,000	\$10,769,000	\$(16,537,000)	\$(3,904,000)	\$4,409,000
Statement of changes in equity					
Opening equity	\$54,825,000	\$99,491,000	\$104,621,000	\$82,624,000	\$83,040,000
Units issued net of issue costs	\$35,719,000	\$-	\$-	\$9,361,000	\$-
Total comprehensive income	\$13,808,000	\$10,769,000	\$(16,537,000)	\$(3,904,000)	\$4,409,000
Distributions declared	\$(4,861,000)	\$(5,639,000)	\$(5,460,000)	\$(5,041,000)	\$(5,976,000)
Closing equity	\$99,491,000	\$104,621,000	\$82,624,000	\$83,040,000	\$81,473,000
Statement of financial position					
Current assets	\$14,996,000	\$1,828,000	\$2,570,000	\$2,713,000	\$3,503,000
Non-current assets	\$183,301,000	\$190,161,000	\$156,827,000	\$135,875,000	\$137,527,000
Total assets	\$198,297,000	\$191,989,000	\$159,397,000	\$138,588,000	\$141,030,000
Current liabilities	\$4,414,000	\$2,547,000	\$2,397,000	\$1,512,000	\$3,162,000
Non-current liabilities	\$94,392,000	\$84,821,000	\$74,376,000	\$54,036,000	\$56,395,000
Total liabilities	\$98,806,000	\$87,368,000	\$76,773,000	\$55,548,000	\$59,557,000
Total equity / net assets	\$99,491,000	\$104,621,000	\$82,624,000	\$83,040,000	\$81,473,000
Statement of cash flows					
Cash and cash equivalents at beginning of period	\$164,000	\$486,000	\$201,000	\$804,000	\$547,000
Net cash inflow/(outflow) from operations	\$4,902,000	\$4,577,000	\$5,110,000	\$3,826,000	\$5,844,000
Net cash inflow/(outflow) from investing	\$(78,149,000)	\$10,353,000	\$11,403,000	\$11,976,000	\$(1,834,000)
Net cash inflow/(outflow) from financing	\$73,569,000	\$(15,215,000)	\$(15,910,000)	\$(16,059,000)	\$(3,626,000)
Cash and cash equivalents at end of period	\$486,000	\$201,000	\$804,000	\$547,000	\$931,000

This table should be read in conjunction with Section 6.3 *Principal Assumptions for Prospective Financial Information*. In addition, when considering the comparability of this information, it should be noted that equity was previously raised during the year ending 31 March 2021 and various assets have been purchased or disposed of in the historic financial years. The prospective financial information also includes the assumed outcomes from the current offer, and the disposal of two properties during the financial year ending 31 March 2024. The accounting policies of the Fund have not changed materially over time. No forecast fair valuation movements have been recognised beyond 30 September 2023 given the inherent uncertainty of these movements.

6.2 KEY RETURN INFORMATION FOR INVESTORS AND FINANCIAL MEASURES OF THE FUND'S BORROWING

The measures in this section are based on the actual and prospective performance and position of the Fund. Prospective information is based principally on the assumptions as outlined in this PDS in Section 6.3 *Principal Assumptions for Prospective Financial Information*.

	Actual			Prospective	
Financial year ending 31 March	2021	2022	2023	2024	2025
Key Return Information					
Net Profit/(Loss) per Unit	19.73 cents	13.81 cents	(21.20 cents)	(4.79 cents)	4.98 cents
AFFO per Unit	7.71 cents	7.55 cents	7.01 cents	6.70 cents	4.98 cents
Gross distribution per Unit	6.94 cents	7.23 cents	7.00 cents	6.18 cents	6.75 cents
Distribution payout ratio	90.1%	95.8%	99.9%	92.3%	135.5%
Adjusted distribution payout ratio	90.1%	95.8%	99.9%	97.2%	87.1%
Financial Measures of the Fund's Borrowings					
Interest-bearing liabilities (Total Debt)	\$94,392,000	\$84,821,000	\$74,376,000	\$54,036,000	\$56,395,000
Bank borrowings	\$74,752,000	\$65,182,000	\$54,732,000	\$34,377,000	\$36,727,000
Average interest rate	3.65%	3.66%	4.43%	5.76%	7.44%
Interest cover ratio	2.4 times	2.3 times	2.4 times	2.7 times	2.2 times
Gearing ratio	47.6%	44.2%	46.7%	39.0%	40.0%
Bank loan-to-value ratio	41.8%	38.0%	39.5%	30.2%	32.2%

Net Profit/(loss) per Unit is a measure of the Fund's net profitability. It is annualised and expressed as cents before tax per weighted average Unit on issue. Unrealised valuation movements, gains/(losses) on disposal of properties, and performance fees have not been forecast beyond 30 September 2023, but have occurred in the financial periods prior.

Gross distribution per Unit is annualised and expressed as cents before tax per weighted average Unit on issue. In addition to regular distributions of 5.85 cents per unit per annum, a special distribution to be declared on 30 April 2024 of 0.90 cents per unit is included in the amount disclosed in the year ending 31 March 2025 above. The special distribution is forecast to be declared as a one-off gross distribution to manage the expected tax obligations of investors associated with the Surrender Payment in April 2024.

AFFO per Unit is a measure of the Fund's gross distributable income. It is annualised and expressed as cents before tax per weighted average Unit on issue. Distribution Payout Ratio is a relative measure of the Fund's gross distribution per Unit compared to the Fund's AFFO per Unit. Adjusted Distribution Payout Ratio is the Distribution Payout Ratio, adjusted to account for the Surrender Payment (being material one-off income received in cash) on a cash basis, available for distribution on and from the Surrender Date but not yet fully recognised for accounting purposes in AFFO. See Section 4.4 *Distributions* for further information in relation to AFFO, the Distribution Payout Ratio and the Adjusted Distribution Payout Ratio.

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 (including ground lease expense accounted for as a financing cost). The higher the ratio, the greater the ability of the Fund to pay interest on bank loans. The ratio differs in definition from the interest cover ratio defined by ASB, which is based on projected Net Rental Income divided by projected interest costs (including financing costs except for upfront fees).

The Gearing Ratio equals the Fund's total interest-bearing liabilities (**Total Debt**) as a proportion of the Fund's total assets. Total Debt may differ from the total bank borrowings drawn due to the accounting policies for bank borrowings and other items that impact total interest-bearing liabilities (such as lease liabilities totalling \$19.7 million).

The Bank Loan-to-Value Ratio (**LVR**) equals the Fund's total bank borrowings drawn as a proportion of the latest independent valuations of the Existing Properties. The LVR calculation is applicable for banking purposes and is measured by ASB. The higher the LVR, the greater the 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 average interest rate is a measure of the Fund's effective interest cost. It is annualised and expresses interest expense, after accounting for the impact of interest rate swap arrangements, as a percentage of the Fund's weighted average borrowings.

Further information on any non-GAAP financial measures above can be found in the document titled Other Material information on the Offer Register under Offer Number OFR13655, including a reconciliation to GAAP information where relevant.

The Fund's borrowing facilities

The assumptions in relation to the Facilities are set out in Section 6.3 *Principal Assumptions for Prospective Financial Information*, under the subheading Bank Borrowings and Interest Expense. The bank facilities themselves, including any maturity dates, are set out in Section 2.7 Borrowings.

6.3 PRINCIPAL ASSUMPTIONS FOR PROSPECTIVE FINANCIAL INFORMATION

The principal assumptions on which the prospective financial information has been prepared are set as follows. These assumptions should be read in conjunction with the risks set out further in Section 7 *Risks to Returns From PMG Direct Office Fund*.

A prospective financial information statement (together with the assumptions underlying those statements) is available on the Offer Register under Offer Number OFR13655, providing further detail.

- Preparation Period:** The prospective financial statements of the Fund have been prepared for the years ending 31 March 2024 and 31 March 2025. For the year ending 31 March 2024, the prospective information includes actual management reporting results for the period 1 April 2023 to 31 August 2023, and prospective information for the period 1 September 2023 to 31 March 2024.

- b. **Offer Settlement and Costs:** It is expected that 10,530,000 units at \$0.95 each will be issued on 30 November 2023, when the Offer is expected to settle. The Fund is assumed to incur \$642,000 of costs associated with the Offer. The costs are accounted for within equity. Offer costs include an underwriting commitment fee, contribution fee, legal and other due diligence fees, and marketing costs – among other expenses related to the Offer.
- c. **Change to Material Lease – One New Zealand:** It is assumed the Surrender Agreement transacts as documented. Under the Surrender Agreement, One New Zealand will surrender the Surrendered Area on the Surrender Date (1 April 2024). The Surrendered Area represents 42% of the net lettable area at the Tuam Street Property (17% of the net lettable area of the Fund's Property Portfolio). The Fund will recognise the Surrender Payment (\$3,100,000) as income on a straight line basis between the date of the Surrender Agreement (October 2023) and the date the lease to One New Zealand currently expires (August 2028).
- d. **Rent from Investment Properties:** Net Rental Income has been presumed as follows:

For the prospective year ended 31 March	2024	2025
Tuam Street Property – base rent	\$3,853,000	\$2,910,000
Tuam Street Property – Surrender Payment	\$–	\$3,100,000
Fanshawe Street Property	\$3,524,000	\$3,756,000
Main Highway Property	\$1,789,000	\$1,902,000
Victoria Street Property	\$602,000	\$633,000
143 Durham Street Property – now disposed of	\$80,000	–
127 Durham Street Property – now disposed of	\$205,000	–
Net Rental Income from the Property Portfolio	\$10,053,000	\$12,301,000
Net impact of incentives and fixed rental growth adjustments	\$(102,000)	\$(232,000)
Impact of accounting adjustments for Surrender Payment	\$279,000	\$(2,455,000)
Rent from Investment Properties (Accounting)	\$10,230,000	\$9,614,000

Occupancy rates forecast for the Fund overall are as follows:

As at date	1 Apr 2023	30 Nov 2023	31 Mar 2024	1 Apr 2024	31 Mar 2025
Occupancy (sqm NLA leased)	99.4%	99.4%	97.8%	79.8%	91.6%

Income is presumed to be received in accordance with current signed lease agreements for each currently leased space. Several further assumptions are made in connection with the timing of vacancy, leasing up and rent reviews during the forecast period based on the expectations of the Manager.

In the years ending 31 March 2024 and 31 March 2025, approximately 91% and 80% (respectively) of total property operating expenses plus building management fees charged to tenants are expected to be recoverable from tenants.

In general, expiring leases are expected to renew, or new leases signed in relation to the occupied space, near their respective expiry dates. While the Fund aims to lease space before it falls vacant, the prospective periods do allow for levels of vacancy prior to

lease up, which includes a reduction in Net Rental Income and operating expenditure recovered. There are existing lease agreements expiring during the prospective periods, without certainty of renewal at the date of this document, representing annualised Net Rental Income of \$2,220,000 (22.5% of forecast Net Rental Income at Settlement Date, annualised). Within this amount, annualised Net Rental Income associated with the Surrendered Area at the Tuam Street Property totals \$1,443,000 (14.6% of forecast Net Rental Income at Settlement Date, annualised). On the Surrender Date the Surrendered Area is assumed to be vacant. It is then assumed 1,891 sqm (21% of the property's net lettable area) is leased from September 2024 to a single tenant at \$390 per sqm. The remaining vacant space representing 1,860sqm (21% of the property's net lettable area) is assumed to remain vacant until September 2025 (beyond the prospective financial periods presented). While Net Rental Income includes the Surrender Payment on 1 April 2024, Rent from Investment Properties per the prospective financial information is adjusted to account for the Surrender Payment being recorded for the period from the date of the Surrender Agreement (October 2023) to the date the current lease to One New Zealand expires (August 2028) in line with the Fund's accounting policies.

- e. **Fund and Property Management Fees:** The management fees payable to the Manager have been estimated at \$858,000 for the year ending 31 March 2024, and \$841,000 for the year ending 31 March 2025. For further information on fees payable to the Manager, see Section 8.2 *Aggregated Fees and Expenses*.
- f. **Performance Fees:** No performance fee has been presumed for the two years to 31 March 2025, as the Manager's benchmark for charging performance fees is not forecast to be reached, as a result of no forecast revaluation gains on the Property Portfolio in those periods. For further information, see Section 8 *What Are the Fees?*
- g. **Bank Borrowings, and Interest Expense:** The Facilities from ASB are presumed to be available and utilised as documented in Section 2.7 *Borrowings*. The Manager expects the Fund to be fully compliant with existing banking covenants at all times throughout the prospective periods, and to retain sufficient headroom between bank borrowings drawn and bank facility limits at all times.

Bank interest is presumed to be charged on a Floating Base Rate plus Bank Margin basis, with the Floating Base Rate assumed to increase from 5.06% per annum at 1 April 2023 to 5.81% per annum by 31 March 2024, reducing to 5.19% by 31 March 2025.

The Fund is presumed to hold swaps with a notional value of \$25,000,000 at 30 November 2023 (73% of total borrowings drawn), changing over time as swaps expire and swaps are placed, to \$24,000,000 by 31 March 2025 (65% of total borrowings drawn).

Overall, it is projected that the weighted average interest rate charged on all bank borrowings, including the effect of interest rate swap arrangements, will be 5.76% per annum for the year ending 31 March 2024, and 7.44% per annum for the year ending 31 March 2025.

- h. **Gross Cash Distribution Return:** For the prospective period to 30 November 2023, regular distributions of 5.75 cents per unit annualised are forecast. For the prospective period from 1 December 2023 to 31 March 2025, regular distributions of 5.85 cents per unit annualised are forecast. In addition to the above, a special distribution equal to 0.90 cents per unit is forecast to be declared on 30 April 2024. The special distribution is forecast to be declared as a one-off gross distribution to manage the expected tax obligations of investors associated with the Surrender Payment in April 2024.

The regular distributions from April 2024, as well as the special distribution, include distribution of the Surrender Payment to investors. The distribution of the Surrender Payment is forecast to occur over a shorter time frame than the prospective recognition of Rent From Investment Properties for accounting purposes as noted in assumption (d) earlier in this section.

i. **Investment Properties:**

Valuations: The valuation of investment property includes the following information derived from independent valuation reports:

Property	Valuer	Valuation as-at	Valuation
Tuam Street Property	Jones Lang LaSalle	30 September 2023	\$52,000,000
Fanshawe Street Property	Jones Lang LaSalle	30 September 2023	\$31,000,000
Main Highway Property	Aim Valuation	22 September 2023	\$24,300,000
Victoria Street Property	Aim Valuation	22 September 2023	\$6,700,000
Total			\$114,000,000

It is assumed that the fair value above applies at 30 September 2023. Future values during the prospective financial periods presented are deemed to be this value, plus capital expenditure forecast for each property in the remaining period to 31 March 2025 (including any capitalised Property Project Fees). It has been assumed there will be no revaluation gains or losses in the fair value of the Property Portfolio, beyond those generated by the valuations and approach described above. Future gains or losses beyond this date cannot be reliably predicted.

Transactions: The 127 Durham Street Property and 143 Durham Street Property were disposed of on 31 July 2023 for \$16,750,000 less costs of disposal.

Capital expenditure: Budgeted capital expenditure (excluding any property transaction fees charged by the Manager and any costs associated with the disposal of 127 Durham Street Property and 143 Durham Street Property) is forecast as \$4,466,000 and \$1,591,000 for the years ending 31 March 2024 and 31 March 2025 respectively. Material capital expenditure projects included in the forecast capital expenditure to 31 March 2025 account for approximately 55% of total capital expenditure forecast, being:

- \$1,350,000 for new entrance doors and lobby upgrades at the Tuam Street Property;
- \$500,000 for works at the Tuam Street Property to enable multi-tenant use;
- \$892,000 for tenancy split and fitout works at the Fanshawe Street Property; and
- \$600,000 for façade works at the Main Highway Property.

Property transaction fees: related to Property Project Fees and Disposal Fees payable to the Manager have been estimated at \$390,000 for the year ending 31 March 2024, and \$61,000 for the year ending 31 March 2025.

- j. **Additional Property Investments:** It has been assumed that the Fund does not make any additional property investments during the prospective periods presented.
- k. **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.
- l. **Other Assumptions:** Other assumptions can be found disclosed throughout this PDS, including in Section 8 *What Are the Fees?*, and additional information can also be obtained in the prospective financial information statement included on the Offer Register.

7 RISKS TO RETURNS FROM 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 steps, 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 Units.

The description of risks in this section does not consider the personal circumstances, financial position, or investment requirements of any person. It is therefore important that, before deciding to invest in Units, you consider the suitability of an investment in 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.

7.1 PROPERTY INCOME RISK

Manager's assessment of nature and magnitude

The Fund is reliant on income from the Property Portfolio to pay expenses, bank interest, and distributions. It impacts the Fund's AFFO, in addition to the value of the Property Portfolio and therefore value of Units. A loss or reduction in rental income may have a detrimental impact on all of the above. Income from the Property Portfolio could stop or decrease for several reasons, including:

- if a lease is terminated, surrendered, or expires without being renewed;
- if a tenant defaults and/or is unable to meet its rental obligations on an ongoing basis;
- if the rent decreases following a rent review or change in tenant;
- if there is difficulty obtaining replacement tenants based on relative demand for the Fund's lettable areas; or
- if access to a property is restricted.

WALT summarises the contractual term of existing lease arrangements and is seen as a measure of relative certainty or vulnerability with respect to ongoing rental income. The Fund's WALT is expected to be 3.7 years at 30 November 2023. The lease expiry profile and rental income diversification across the Property Portfolio are summarised in Section 2 *What PMG Direct Office Fund Invests In*.

The Fund's largest tenant by rental income, One New Zealand, have the most significant impact on the Fund's income (39% of forecast annual Net Rental Income at Settlement Date). The market rent review for the lease has been settled (approximately \$383 per sqm in relation to floor three and four in the Surrendered Area). The Surrender Agreement, related to the One New Zealand lease, is expected to generate a material level of vacancy from April 2024.

The Surrendered Area represents 17% of the Fund's NLA, and the Surrender Agreement effectively reduces the Fund's operating income by \$153,000 per month (being \$1,443,000 per annum plus operating expenditure recovered). It has been assumed in the prospective financial information that the Surrendered Area is leased at market rates (\$390 per sqm assumed for floor three and four in the Surrendered Area), with approximately half of the vacancy leased by September 2024, and the remainder leased by September 2025. It is possible the space may not be leased at market rates, or may not be leased for the foreseeable future.

Another tenant, Capgemini at the Fanshawe Street Property, has a lease expiry due in December 2023, and accounts for 6% of forecast annual Net Rental Income at Settlement Date. A reduction in their leased area, and/or temporary vacancy, may arise associated with this leased area and is considered likely to have an immaterial impact on the Fund's total income (allowed for in the prospective financial information).

Aside from these leases, there are only two lease agreements (excluding casual car parks) that are due to expire by 31 March 2025, representing 2% of the Fund's annual Net Rental Income forecast at Settlement Date.

There are currently no material tenant defaults, and no expectation of such defaults in future.

Leasing outcomes are not guaranteed and may vary from current expectations. Default rates, total arrears, or vacancy could rise due to issues with a specific property, tenant, tenant sector, or a general deterioration in the macroeconomic environment.

Mitigating Factors

The Manager aims to minimise rental income risk through its strategy to maintain or extend WALTs over time on each property, maintain or lift occupancy rates at each property, and to ultimately continue diversifying the Property Portfolio by property, region, tenant, and tenant sector, reducing reliance on any single property, location, tenant or industry.

The Manager utilises its specialist in-house property management experience to find leasing opportunities to increase rental income across the Fund's property investments over the long term. The Manager is experienced in both managing existing lease obligations to support occupancy levels, as well as achieving new leasing results to maximise rental income received by the Fund. The risk associated with income at the Tuam Street Property as a result of the Surrender Agreement is initially mitigated by the value of the Surrender Payment (\$3.1 million), which equates to approximately 20 months of the Surrendered Area being vacant at market rates (rent plus operating expenditure). The Manager is confident that the Surrendered Area will be leased within 20 months at market rates, such that the Surrender Payment more than offsets the reduction in income because of the expected vacancy.

Aligned with the Fund's long-term strategy to rely less on any single tenant and continue to diversify sources of income, assuming successful leasing to alternative tenants, the Tuam Street Property is expected to have a longer WALT, two additional tenants from diverse sectors, and a higher level of passing rental income compared to before the Surrender Agreement. Given the demand for high-quality office space in Christchurch, and the relatively low levels of available supply, it is believed multiple tenants will be attracted to lease space in the Tuam Street Property.

The market rent review being settled with One New Zealand at the Tuam Street Property means that, for the foreseeable future, ongoing income from One New Zealand will increase annually at a fixed rate of 2.25% per annum.

The Manager maintains a close understanding of the specific economic circumstances and lease terms of each of the Fund's tenants, and further aims to maximise the Fund's rental income through due diligence on new properties and tenants, in addition to the establishment of guarantee and security deposit arrangements where possible. The total amount of guarantees from tenants and vendors to mitigate potential rental income risk at the date of this PDS, combined with income from Government tenants, exceeds \$2,000,000, or 20% of the forecast annual Net Rental Income at Settlement Date. Notable arrangements or tenants are summarised in Section 2.2 *The Fund's Property Portfolio*.

Many of the Fund's leases include fixed or CPI rental increases during the prospective financial periods, in addition to hard ratchet clauses that prevent rental income from falling below current levels following a rent review. In addition, given general trends of increasing market rent rates, market reviews of rental income periodically are expected to support increased rental income over the long term. Provided access to property is not restricted, and tenants continue to meet their lease obligations, this directly reduces the risk of factors applying downward pressure on the Fund's rental income.

The Fund's six material tenants by Net Rental Income are all either Government agencies, or large, well-established businesses with diverse tenant sector exposures. The ability of all material tenants to meet ongoing rental commitments is considered strong based on information available to the Fund. The Fund is focused on retaining these tenants and identifying opportunities for rental income growth and diversification. (continued overleaf)

7.1 PROPERTY INCOME RISK (CONTINUED)

Manager's assessment of likelihood of circumstance arising

- High likelihood of material vacancy associated with the Tuam Street Property in April 2024.
- Low likelihood of the combination of the vacancy period and rental rates achieved on leasing costing the Fund significantly more than the value of the Surrender Payment.
- Very low likelihood that the Surrendered Area is never leased.
- Moderate likelihood of one or more leases expiring without renewal, low likelihood of a material tenancy (or multiple immaterial tenancies considered material in aggregate) expiring without renewal or being terminated with no alternative tenant contracted within six months.
- Moderate likelihood of one or more tenants defaulting, low likelihood of a default for a period that materially impacts the Fund.
- Very low likelihood of a material reduction in rental income following rent reviews in the prospective periods presented.

Manager's assessment of the impact, were the circumstances to arise

- The impact on rental income and investor returns as a result of vacancy at the Tuam Street property would be significant if the Surrendered Area is never leased, is leased after a vacancy period of more than two years, or is leased at significantly below-market rent rates.
 - If rental income reduces related to a single immaterial tenancy, or multiple tenants backed by a guarantee or bond, the impact on investors' returns would be low.
 - If a material tenant, or multiple immaterial tenants (considered material in aggregate) have their leases terminated early, or do not renew their leases, and no alternative tenants are able to be contracted within a reasonable period of time, or if tenants default or are unable to access a property for a long period of time, the impact on investor returns could be significant.
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7.2 INTEREST RATE RISK

Manager’s assessment of nature and magnitude

The Fund is reliant on bank borrowings that incur interest, and interest incurred as a material expense of the Fund. The Fund uses a combination of forecasts from the Reserve Bank of New Zealand (RBNZ), as well as various retail banks, to estimate the Fund’s future borrowing rate. It is probable that actual interest rates will vary from these forecasts, as interest rates are inherently subject to change for reasons beyond the Fund’s control. Interest expense may therefore vary materially from expectations.

Interest rates charged to the Fund are currently based on the Floating Base Rate plus bank margin, with the Floating Base Rate tied closely to the OCR. New Zealand is experiencing above average inflation, and the RBNZ have raised the OCR from 0.25% in September 2021 to its current level of 5.50% at the date of the PDS, in an attempt to bring inflation back to its target range of 1% – 3% per annum. While the level of inflation remains above the RBNZ’s target range, it is probable that the OCR will remain elevated, and it is possible the OCR may rise further. The Manager has presumed the OCR will not increase further during the prospective financial periods presented – remaining comparable to current levels until September 2024, following which it is forecast to reduce to 5.25% by February 2025, the Manager’s interpretation of a range of industry forecasts. A material increase in interest rates in this period is not expected, but possible.

The Fund’s interest expense is also affected by its level of bank borrowings. A change in the level of bank borrowings may occur during or after the prospective periods, depending on multiple factors including the extent to which capital is raised, the level of capital expenditure required in the Fund’s Property Portfolio, and the extent to which borrowings are repaid, or redrawn to purchase further property investments.

Should the Fund default on its banking obligations, a default interest rate of 22.5% may apply.

The Fund utilises interest rate swaps to manage interest rate risk. 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 floating rate to a fixed rate (the swap rate) or vice versa. The swap rates associated with the swap agreements are tied to future expectations of floating interest rates. It is possible that new swap arrangements will be entered into at swap rates that are higher than occur in reality. Furthermore, fair value losses on swap agreements will be recorded if they go ‘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). If any swap agreement is exited before the date existing swaps expire, penalties may be payable.

Under the Fund’s SIPO, the Fund is permitted to invest the Fund’s assets in interest rate swaps, with a target asset allocation of between 0–10% of the Fund’s Gross Asset Value. The fair value of the Fund’s interest rate swaps at 31 August 2023 was less than 1% of the Fund’s Gross Asset Value.

Manager’s assessment of likelihood of circumstance arising

· The likelihood of a material adverse movement in the Fund’s interest expense in the prospective financial periods presented in this PDS due to movement in interest rates, combined with the impact of interest rate swaps, is moderate.

Manager’s assessment of the impact, were the circumstances to arise

· The impact of a material adverse movement in interest rates could be significant on investor returns, and may significantly impact the value of the Units.

Mitigating Factors

Interest rate swaps are used by the Fund to hedge interest rate risks for the Fund. The Fund maintains a hedging policy that aims, at least partially, to mitigate the actual effect of an increase in interest rates in the short to medium (0–5 year) term.

The Fund actively manages the risk of interest rate movements by entering interest rate swap agreements with the Fund’s lenders. Interest rate swaps fix the interest rate charged on a portion of the Fund’s borrowings, for a set period. The Fund has entered into a combination of short-term and long-term swap agreements historically, combined with floating rate borrowings, and will continue to do so. The current policy is to have between 60% and 85% of the Fund’s interest-bearing borrowings hedged with interest rate swaps.

At Settlement Date, if the Target Equity Raise is achieved, the Fund expects to have 73% of its interest rate risk hedged with interest rate swaps. This is expected to change to 65% coverage by 31 March 2025. Further interest rate swap arrangements will be entered into as considered appropriate by the Fund as part of mitigating unexpected interest rate changes associated with existing or new borrowing.

Should material adverse changes in interest rates occur, the Fund could dispose of one or more assets from the Property Portfolio, or raise further capital, to reduce borrowings and thus the magnitude of interest risk. This has already been evidenced through the Fund’s disposal of the Durham Street Properties during the prospective financial periods.

Should interest rates reduce from those currently forecast in the prospective financial information, the Fund’s interest expense may be lower than forecast (to the extent not offset by interest rate swap arrangements that fix the interest rate).

A breach of banking obligations to trigger the default interest rate of 22.5% is considered unlikely based on the headroom the Manager expects the Fund to retain compared to its banking covenants.

7.3 VALUATION RISK

Manager's assessment of nature and magnitude

The market value of each property within the Property Portfolio is influenced by numerous inputs. The economic environment, property market conditions, fluctuations in supply and demand for commercial properties and lettable areas, and recent property and leasing transactions relevant to the Fund, will affect the value of the Property Portfolio. It may be further impacted by contractual lease terms, assumptions on prospective rental income, vacancy and capital expenditure, and other expert opinions and assumptions. The value of the Property Portfolio directly impacts the value of the Units and the Fund's loan-to-value ratio (LVR), among other key metrics. Changes to the LVR may impact the Fund's compliance with banking covenants (see Section 7.5 *Bank Funding Risk*).

All valuations consider a range of inputs and market evidence in forming an opinion on value. Notwithstanding this, there may be a greater range around the assumption of market value than would normally be the case. During times of economic uncertainty, values may change more rapidly and significantly than under normal conditions. Some valuation reports recommend caution when relying on past valuations at a later date, and due to the uncertainties in the current economic environment they recommend that values should be reviewed more regularly. The Fund revalues all investment property no less than annually.

A material change in the valuation of the Property Portfolio may have a material impact on all of the metrics noted above. The Property Portfolio has been revalued in March each financial year and has been revalued further in September 2023. The unrealised fair valuation reduction related to the Property Portfolio totals \$2,116,000 over the 3-year financial periods presented in this PDS to 31 March 2023, and \$9,941,000 in the six-months to 30 September 2023 (for further information, see Section 6 *PMG Direct Office Fund's Financial Information*). During these periods, the size of the Property Portfolio has varied between \$90,151,000 and \$178,725,000. Material increases and decreases in valuation have occurred between recent financial periods, and such material movements may continue to occur either up or down.

To illustrate the potential impact of this risk, if the Target Equity Raise is achieved, a further 10% movement in property valuations by 31 March 2025 related to all four properties forecast to be owned by the Fund would reduce the value of the Property Portfolio by \$11,400,000, and the value of each Unit would reduce by approximately 12.9 cents (14% of Offer price).

Mitigating Factors

The Fund has obtained independent valuation reports on the Property Portfolio during September 2023. The current economic environment has been factored into the valuations as at the date of the valuation reports. Since the date of the valuation reports, no material adverse changes have been observed by the Fund that would cast material doubt on these valuations.

As a result, the value of the Property Portfolio (before and on Settlement Date), and offer price per Unit, is considered by the Fund to represent expected fair value as at Settlement Date, based on the facts and circumstances known to the Manager at the date of this PDS. Beyond Settlement Date, given the types of inputs that drive property and Unit valuations, it is not possible to accurately predict the future valuation of the Property Portfolio.

The Fund's highest value property, the Tuam Street Property, has been revalued factoring in reasonable assumptions made in respect of the impact of the Surrender Agreement, including forecast periods of vacancy. Provided leasing of any Surrendered Area occurs in accordance with the Manager's expectations, the potential for material reductions in the value of the Tuam Street Property will be reduced. The strategy for the Tuam Street Property outlined in Section 2.2 *The Fund's Property Portfolio* further demonstrates mitigating actions to improve the value of the Tuam Street Property over time (compared to the previous status quo of One New Zealand leasing the entire property on their previous lease terms).

Other factors that may have the most impact on mitigating valuation risk include some of those noted in Section 7.1 *Property Income Risk*, in addition to the general strategies and specific property strategies of the Fund summarised in Section 2.2 *The Fund's Property Portfolio*.

Manager's assessment of likelihood of circumstance arising

- High likelihood of an individual property valuation, the valuation of the Property Portfolio, and overall valuation of Units moving up or down over time.
- Low likelihood of a long-term, sustained reduction in valuation of the Property Portfolio and the Units.

Manager's assessment of the impact, were the circumstances to arise

- Property valuation fluctuations may be material over the course of property ownership, based on the property market and economic environment throughout ownership among other factors.
- Typically, the larger the rental income from a property, and the shorter the lease term associated with a property, the larger the potential risk for fluctuation in the value of both the property and the Units.
- A material reduction in Property Portfolio valuation would materially reduce the value of the Fund's Units.

7.4 EQUITY FUNDING RISK

Manager's assessment of nature and magnitude

The prospective financial information, forecast returns, and key metrics in the PDS assume the Target Equity Raise is achieved, and the balance of bank borrowings is reduced with residual funds raised that are not held as cash on hand to support upcoming capital expenditure projects.

The Fund may raise capital as low as the Minimum Equity Raise, or as high as the Maximum Equity Raise. Given the purpose of the Offer, a difference in capital raised from the Target Equity Raise will directly impact:

- the amount of borrowings the Fund holds with its lenders and the Bank LVR (lower capital raised, higher borrowings, and higher LVR);
- the number of Units on issue and therefore total distributions (lower capital raised, lower Units on issue and distributions); and
- interest expense, and in turn AFFO and the Bank ICR (lower capital raised, higher interest expense, lower AFFO and lower Bank ICR).

The acceptance of additional capital will only occur where the Fund believes a proportionate increase in AFFO from repayment of existing borrowings is possible to enable maintenance of the current forecast Distribution Payout Ratio.

The Distribution Payout Ratio is not expected to materially vary based on the amount of equity raised. However, the amount of capital raised will impact the amount of borrowings repaid, and therefore the capacity the Fund has to acquire property investments in future prior to another capital raise. The greater the amount of capital raised, the larger the potential value of property investments that may be purchased in future from additional borrowings.

In addition, if capital is called and borrowings are not repaid as planned, this may lead to surplus cash on hand. The Fund must also not carry more than 10% of its Gross Asset Value in cash, in accordance with its SIPO. Holding higher levels of cash without action would also lead to the Fund generating a higher Distribution Payout Ratio if current distribution levels are maintained, or alternatively may lead to a reduction in the amount of distributions paid to Unitholders if the level of distributions is no longer considered sustainable. The greater the amount of cash held, and the greater the duration cash is held prior to AFFO accretive deployment, the greater the Distribution Payout Ratio is likely to become (or alternatively, the greater the risk that distribution levels may need to be reduced to remain sustainable). It is possible that excess cash held is never deployed by the Fund into income generating assets.

Mitigating Factors

The Fund retains the right to accept between the Minimum Equity Raise and the Maximum Equity Raise to ensure the Fund accepts the most appropriate amount of capital to fulfil the purpose of the Offer.

Given the current elevated inflation and interest environment, and the uncertainty of the Fund's future property investment pipeline, the Fund's strategy associated with the Offer is to initially repay borrowings with any capital raised above that held as cash on hand to support committed capital expenditure projects. This strategy will avoid holding a material amount of surplus cash on hand for a period without certainty of being able to deploy that cash into income-generating assets that align with the Fund's SIPO.

The repayment of bank borrowings will also beneficially impact the Fund's Bank LVR, hedging cover, and interest expense. In turn this would improve the Fund's AFFO and Bank ICR. The raising of additional capital to enable reduction of bank borrowings will be offset by the effective cost of any additional Units issued and distributions paid related to the surplus capital accepted and any cost of reducing existing borrowings drawn.

Raising additional capital now to repay borrowings will provide the Fund with greater flexibility to continue its diversification strategy in future, after considering the cost of raising capital versus the cost of utilising borrowings.

It is expected that the Distribution Payout Ratio and therefore investor returns would not be materially impacted by a change in borrowings profile, provided any change is made after considering the current interest rate on borrowings and any change in income from future property transactions.

Manager's assessment of likelihood of circumstance arising	<ul style="list-style-type: none"> · High likelihood of accepting subscriptions above the Minimum Equity Raise. · Very low likelihood of holding surplus cash on hand that is not used to repay borrowings, or deployed in future into other property investments in line with the SIPO, within a short (0-3 month) time frame.
Manager's assessment of the impact, were the circumstances to arise	<ul style="list-style-type: none"> · If only the Minimum Equity Raise is achieved, there would be minimal surplus cash on hand. The impact on borrowings, interest expense, AFFO, LVR and the Bank ICR would be low. · If the Maximum Equity Raise is achieved, and surplus cash on hand is used to repay bank borrowings, the impact on borrowings, interest expense, AFFO, LVR and the Bank ICR would be low to moderate. · If borrowings are subsequently increased in future to fund the acquisition of other office properties centres in line with the SIPO, the impact on borrowings, interest expense, AFFO, Gearing Ratio and the Bank ICR could be moderate. · In all the above scenarios, the impact on distributions to investors, and in turn the Distribution Payout Ratio, is likely to be low (the extent of the impact dependent on prevailing interest rates, the timing of bank borrowings or repayment, the return from future property investments, and any transaction costs).

7.5 BANK FUNDING RISK

Manager's assessment of nature and magnitude

The Fund is reliant on bank borrowings to support property acquisitions, capital expenditure on properties, property transaction fees and other working capital requirements. The Fund's bank borrowings have a maturity date, and bank covenants must be complied with to retain the bank facilities on existing terms. Renewal or extension of facilities is not guaranteed, and adverse changes in macroeconomic conditions, income, lease terms, property valuations, and interest rates may increase the likelihood of breaching bank covenants.

Bank borrowings at 1 April 2023 were \$54,372,000, and reduced to \$42,698,000 on disposal of the Durham Street Properties in July 2023. Should the Fund achieve the Target Equity Raise, total borrowings of \$34,377,000 are expected at Settlement Date, rising to \$36,727,000 by 31 March 2025, primarily because of planned capital expenditure. If a higher amount of capital is raised, borrowings may be reduced further. If a lower amount of capital is raised, the intended repayment of borrowings will be scaled back as appropriate.

Despite the intent to reduce bank borrowings in the short term, the Fund may increase its level of borrowings further in future in the normal course of business through arranging new facilities. This may include funding future capital expenditure to defend and potentially grow rental income and property value, the acquisition of additional properties, and working capital requirements. Currently, sourcing additional properties to acquire is uncertain and therefore not forecast.

Given the relatively low level of the forecast Bank LVR compared to the bank covenant, it is considered likely that additional bank funding would be accessible for one or more of the above purposes in the normal course of business.

Adverse market movements and operational circumstances may cause a breach of banking covenants – in particular, the requirements to maintain a Bank LVR below the maximum allowed per bank covenants, for interest cover levels against operating profits to be above the minimum allowed per bank covenants, and for WALT levels to be above the minimum allowed per bank covenants. The banking ratio expected to fall closest to its covenant limit is the Bank WALT – a measure of the Fund's WALT that factors in vacant space in the calculation. The Surrender Agreement will force a material level of the Tuam Street Property to have low to no lease term, increasing the risk of breaching the Bank WALT covenant.

If the Facilities cannot be extended beyond their current maturity dates (one facility expected at Settlement date, maturing October 2025), there is a risk that the Fund could be forced to find alternative funding arrangements. There is no certainty that alternative funding arrangements could be secured, or that the alternative arrangements, if secured, would be as favourable as the Fund's current financing arrangements.

If a breach of bank covenants occurs and is not remedied, or the Facilities expire without renewal, ASB may enforce its security and sell some or all of the properties within the Property Portfolio. If the Fund was required to sell one or more properties in a forced sale process a lower value is likely to be obtained than the prevailing market valuation at the time, which would impact investor returns and the value of Units.

Following an intentional reduction in facility limits, an additional facility of \$2,350,000 is forecast as being required in the year ending 31 March 2025.

Mitigating Factors

The Fund expects headroom in the Facilities, and headroom to banking covenants, for the foreseeable future. Increasing the amount of borrowings to enable the purchase of additional properties in future or fund capital expenditure in addition to what has been budgeted will only be undertaken if it is in the best interest of investors, including considering the effective cost of borrowing compared to the return expected from deployment of borrowed funds.

The Fund is intentionally holding a relatively conservative level of borrowings following a targeted borrowing strategy over time, including appropriately divesting assets to mitigate potential risks associated with a combination of downward pressure on property valuations, and upward pressure on interest rates. This has also supported the positive Bank ICR ratio reported below, despite the higher interest rate environment.

The Bank WALT covenant has been actively managed as part of entering the Surrender Agreement, and in October 2023, ASB reduced the covenant from greater than 3.5 years to greater than 2.75 years. Assuming leasing of the Tuam Street Property progresses as intended, other material rental income risks do not eventuate, and property valuations do not reduce significantly (20% or more) amongst other factors, the difference between the forecast ratios below, and the loan covenants as defined in the banking facility agreements give the Manager confidence that the Fund will continue to comply with key terms of its borrowing (in particular the Bank WALT covenant). The Surrender Payment has not been included in the below calculation of Bank ICR out of prudence.

Minor adverse market movements or operating circumstances should not lead to a breach of the other key measurable banking covenants during the prospective periods presented. Failure to lease the Surrendered Area however may impact banking covenant compliance in the year ending 31 March 2025.

	LVR	Bank ICR	Bank WALT
Limit per ASB	<45.0%	>1.75 times	>2.75 years
31 March 2023	39.5%	3.9 times	4.1 years
30 November 2023	30.2%	3.7 times	3.7 years
31 March 2024	30.2%	3.3 times	3.4 years
31 March 2025	32.2%	3.4 times	3.3 years

The extendible nature of the Facilities help to mitigate any renewal risk, whereby facilities may be extended (subject to mutual agreement) after each 12-month period, by a further 12 months, thereby resetting the facility term to its original length. Should agreement not be reached, the Fund will have a lead time to make alternative loan arrangements. Where required, the Fund may also be able to source funding from related parties to assist with temporary shortfalls in cash flow that may arise.

Manager's assessment of likelihood of circumstance arising	· Low likelihood of a circumstance arising with a material adverse impact on the Fund. The most likely circumstance that could cause a material adverse impact on the Fund is in relation to the Fund's compliance with the Bank WALT covenant.
Manager's assessment of the impact, were the circumstances to arise	· Potentially significant impact on asset allocation, investor returns, and the value of Units.

7.6 CAPITAL EXPENDITURE RISK

Manager’s assessment of nature and magnitude

The Fund will incur capital expenditure on the Property Portfolio from time to time. A total capital expenditure allowance (excluding any property transaction fees charged by the Manager) of approximately \$6,057,000 has been allowed for in the two years to 31 March 2025, equating to approximately 5.3% of the valuation of the Property Portfolio at Settlement Date. The largest individual capital expenditure projects are expected to relate to a lobby upgrade at the Tuam Street Property, façade upgrades at the Main Highway Property, and works to split a tenancy at the Fanshawe Street Property. Several other projects are also planned and unbudgeted work may be required for several reasons (such as upgrading lettable areas, adjusting the size of lettable area on a change of leasing arrangements, undertaking structural repairs and related work resulting from changes to current regulations and standards, or because general building improvements are required or desired). 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 bank funding risk.

Mitigating Factors

The Manager will minimise risk associated with future capital expenditure projects as they arise, using appropriate experts in assessing specific capital expenditure requirements associated with each property or project in advance (including prior to acquisition, where relevant). 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.

In general, prior to a property being purchased, a review of likely capital, repairs, and maintenance expenditure requirements is undertaken and factored into the price paid. The Manager further maintains regular maintenance plans across all properties, including planned preventative maintenance, and holds service contracts with key suppliers for regular or critical services. Any major capital works are also planned for, with budgets for both capital and operating expenditure reviewed no less than annually. Capital expenditure is typically considered over a 10-year period. All works will be subject to a suitable procurement approval process, including multiple quotes, tenders, and fixed price contracts or capped commitments to tenants where relevant.

Manager’s assessment of likelihood of circumstance arising

- Low likelihood of a material unbudgeted item of capital expenditure in the forecast periods.

Manager’s assessment of the impact, were the circumstances to arise

- Potentially moderate to significant impact on the valuation of the Fund’s property investments, total borrowings, level of gearing, and the value of the Fund’s units. The level of impact will be dependent on the quantum of unexpected capital costs.

7.7 UNIT LIQUIDITY RISK

Manager's assessment of nature and magnitude

Under the Trust Deeds, redemptions remain at the Manager's discretion. The Manager has determined it is currently not redeeming Units. A time frame to commence redemptions has not been established as the Fund is focussed on growing the Property Portfolio, and ensuring the Fund has sufficient working capital to fund distributions. Unitholders are not expected to be able to redeem Units for the foreseeable future (up to at least 31 March 2025).

As the Fund's Property Portfolio comprises inherently long-term investments that are not considered liquid (they cannot be readily converted into cash), it may not have cash resources or working capital to commence redemptions and satisfy redemption requests, and may suspend redemptions for a period of time or indefinitely.

If redemptions do not commence, or are suspended after commencement, this may restrict the ability of Unitholders to dispose of their Units and realise any growth in value of Units that may have occurred. Investors may only be able to realise the value of Units on the secondary market with a willing buyer, and the price achieved from such a sale may be below the price that would have been achieved had redemptions been available from the Fund.

Manager's assessment of likelihood of circumstance arising

- A sale on the secondary market cannot be guaranteed, and a buyer for the Units may not be available.
- Currently redemptions are not available, and in the short term it is virtually certain that redemptions will not be available.
- In the longer term (greater than 2 years), there is a moderate likelihood that redemptions will not be available. The Manager will continue to assess the growth of the Fund after the Offer and notify investors in accordance with the Trust Deeds if it determines that a redemption period will occur.

Manager's assessment of the impact, were the circumstances to arise

- Potentially significant impact on investors who want to realise their investment on a shorter-term time horizon than an investment in the Fund is intended for. The impact could be that Units cannot be disposed of by a Unitholder, or that Units are disposed of below expected value.

Mitigating Factors

Investors can sell their Units on the secondary market (subject to the Fund's minimum holding requirements), should they be able to find a willing buyer. The Manager can facilitate the transfer of Units on the secondary market should an investor wish to sell their Units, and should a willing buyer be available for the Units at a price agreed between the buyer and the seller.

The Manager has sole discretion on redemptions and has currently not established a timetable for the Fund to offer redemptions as the Fund continues to focus on strategic growth.

Should redemptions be offered in the future, the Fund expects to maintain a relatively low loan-to-value ratio that may allow for additional funds to be borrowed to support redemptions, if necessary.

7.8 TAXATION RISK

Manager's assessment of nature and magnitude

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.

If the Fund is not a multi-rate 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.

Manager's assessment of likelihood of circumstance arising

- Low

Manager's assessment of the impact, were the circumstances to arise

- Potentially significant impact on investor returns.

Mitigating Factors

The Fund and the Manager have processes in place to ensure investor and investment limits are not breached. The Fund has external advisors that have advised the Fund on its establishment, and provide ongoing advice as required to ensure active monitoring of the taxation landscape in respect of the Fund.

Further, given the Fund's size, number of investors, and intent to continue distributing all of its taxable income to investors, the risk of breaching many of the PIE eligibility requirements has been significantly reduced.

8 WHAT ARE THE FEES?

All fees in this section are exclusive of GST and rounded to the nearest thousand dollars unless otherwise indicated. It has been assumed in this section that the Target Equity Raise is achieved.

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 tables in Section 8.2 *Aggregated Fees and Expenses* and Section 1.9 *What Fees Will You Pay?* in the relevant periods.

Manager and associated persons' fees (estimated)	
Manager's underwriting commitment fee	\$267,000
Contribution fee	\$200,000
Offer costs payable to the Manager and associated persons	\$467,000
Other persons' fees (estimated)	
Marketing costs	\$40,000
Legal fees	\$70,000
Due diligence fees	\$20,000
Financial, administrative, and contingency costs	\$40,000
Supervisor's fees	\$5,000
Offer costs payable to other persons	\$175,000
Total Offer Costs of the Fund (estimated)	\$642,000
As a percentage of Target Equity Raise (estimated)	6.42%

- a. **Manager's underwriting commitment fee:** Equity totalling \$5,937,500 is pre-committed at the date of this PDS by the Manager, so the Offer will proceed. For the commitment, the Manager will receive a fee of 4.00% of the committed Unit subscription amount from the Fund (included above). If the Offer proceeds, but it does not successfully close, the Manager will only receive a fee of 1.00% of the committed Unit subscription amount. The underwriting commitment is enshrined in an unconditional agreement. A copy of the agreement between the Manager and the Supervisor relating to the Manager's underwriting commitment is available on the Offer Register under Offer Number OFR13655.

- b. **Contribution fee:** The contribution fee is payable to the Manager by the Fund as commission for subscriptions of Units under the Offer. The contribution fee is charged at 2.00% of the value of Units issued under the Offer.
- c. **Marketing costs:** The costs payable for designing this PDS, producing advertisements and content in relation to the Offer, marketing the Offer including events, and the costs associated with preparing and printing this PDS. Marketing costs include reimbursement made to the Manager for use of internal marketing and communications team resources and incurring external marketing costs.
- d. **Legal fees:** Legal fees are payable on a time and attendance basis for:
- (i) Simpson Grierson: the costs of advising on the PDS, compliance with the FMCA, and attending to registration of the Offer Information
- (ii) Cooney Lees Morgan: legal due diligence on the Underwriting Agreement; and
- (iii) Other advice related to the Offer, including any subsequent amendments or changes to this PDS, advertising, advice to the Manager relating to ongoing compliance with the FMCA or in relation to the Fund generally, and attending to registration of ongoing offer-related information.
- e. **Due diligence fees:** This includes property valuation fees and other disbursements and due diligence costs associated with the Offer.
- f. **Financial, administrative, and contingency costs:** Fees are payable to KPMG New Zealand for review of the prospective financial information (limited assurance engagement) and taxation information related to the Fund, and a third-party provider for review of the offer documentation for the Fund. Other administrative and contingency costs include PDS registration fees and FMA levies, bank fees and charges, compliance fees, and any other costs associated with preparing the offer documentation that may occur and are not included elsewhere in this section.
- g. **Supervisor's fees:** The fees payable to the Supervisor reflect an establishment fee related to the Offer calculated on a time and attendance basis (as notified by the Supervisor to the Manager from time to time).

8.2 AGGREGATED FEES AND EXPENSES

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 tables in Section 8.2 *Aggregated Fees and Expenses* and Section 1.9 *What Fees Will You Pay?* in the relevant periods.

Year ending 31 March	Actual			Prospective	
	2021	2022	2023	2024	2025
Fees and expenses charged by the Manager and associated persons					
Fund Management Fees	\$697,000	\$632,000	\$811,000	\$618,000	\$570,000
Manager Performance Fees	\$1,409,000	\$696,000	\$-	\$-	\$-
Fund costs	\$2,106,000	\$1,328,000	\$811,000	\$618,000	\$570,000
Property Management Fees	\$230,000	\$478,000	\$256,000	\$239,000	\$271,000
Property Project Fees	\$83,000	\$98,000	\$147,000	\$222,000	\$61,000
Property Transaction Fees (non-offer)	\$573,000	\$137,000	\$158,000	\$168,000	\$-
Property costs	\$886,000	\$713,000	\$561,000	\$629,000	\$332,000
Offer-related costs	\$2,421,000	\$-	\$-	\$467,000	\$-
Sub-total fees and expenses – Manager and associated persons	\$5,413,000	\$2,041,000	\$1,372,000	\$1,714,000	\$902,000
As a percentage of closing NAV	5.44%	1.95%	1.66%	2.06%	1.11%
Fees and expenses charged by other persons					
Auditor's Fees	\$71,000	\$56,000	\$62,000	\$74,000	\$82,000
Accountant's Fees	\$13,000	\$7,000	\$4,000	\$11,000	\$13,000
Valuation expense	\$30,000	\$111,000	\$51,000	\$46,000	\$38,000
Supervisor's Fees	\$61,000	\$60,000	\$63,000	\$51,000	\$49,000
Other Fund Overhead	\$100,000	\$114,000	\$83,000	\$88,000	\$100,000
Fund costs	\$275,000	\$348,000	\$263,000	\$270,000	\$282,000
Property Operating Expenditure	\$2,884,000	\$2,747,000	\$2,727,000	\$2,392,000	\$2,510,000
Property Capital Expenditure	\$2,202,000	\$2,316,000	\$3,107,000	\$4,466,000	\$1,591,000
Other property transaction fees	\$420,000	\$213,000	\$260,000	\$-	\$-
Property costs	\$5,506,000	\$5,276,000	\$6,094,000	\$6,858,000	\$4,101,000
Offer-related costs	\$392,000	\$-	\$-	\$175,000	\$-
Financing costs	\$2,571,000	\$3,631,000	\$3,809,000	\$3,694,000	\$3,785,000
Sub-total fees and expenses – Other	\$8,744,000	\$9,255,000	\$10,166,000	\$10,997,000	\$8,169,000
As a percentage of closing NAV	8.79%	8.85%	12.30%	13.24%	10.03%
Total fees and expenses charged	\$14,157,000	\$11,296,000	\$11,538,000	\$12,712,000	\$9,071,000
As a percentage of closing NAV	14.23%	10.80%	13.96%	15.31%	11.13%

a. **Management fees:** 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). Currently, the Manager is entitled to the following management fees:

i. a fund management fee equal to 0.50% per annum of the value of the Fund's Property Portfolio.

ii. a property management fee equal to 2.00% of the gross annual rental of the Fund's Property Portfolio.

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 yield plus 6%. The 10-year average government bond yield is the rate published each month by the Reserve Bank of New Zealand. The current rates may be viewed at www.rbnz.govt.nz/statistics/b2.

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 currently applies a 'high-water mark' to the Manager Performance Fee. The term high-water mark means the highest value that the Fund has achieved on previous performance fee calculation dates. A high-water mark ensures that if the Fund loses value over a period, the Manager must achieve investment returns above the high-water mark before receiving a further 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. The Fund's high-water mark does not reset.

c. **Property transaction fees:** The Manager is entitled to:

i. **Acquisition fee:** On acquisition of a new property investment by the Fund, a fee equal to the greater of \$150,000 or 1.00% of the acquisition price of any investment. This fee will not be payable if the value of the Fund's Property Portfolio exceeds \$250,000,000.

ii. **Disposal fee:** On disposal of a property investment held by the Fund, a fee equal to 1.00% of the sale price for the property investment.

- iii. **Project fee:** If construction or refurbishment is undertaken on an existing property investment held by the Fund, a fee equal to 5.00% of the development costs may be charged, provided that those development costs exceed \$50,000.
- iv. **Investigation fee:** On undertaking an investigation into a potential transaction, a fee on a time and attendance basis, as agreed between the Manager and Supervisor, may be charged. If the Manager is paid a Property Investigation Fee and the relevant transaction subsequently proceeds, an amount equal to the Property Investigation Fee will be deducted from the Acquisition Fee or Disposal Fee respectively.
- vi. **Consultant 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. Where Property Transaction Fees are incurred in relation to an offer of Units, these fees are included as offer-related costs.
- 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 annual base fee, as agreed between the Manager and Supervisor, based on the NAV of the Fund, subject to a minimum annual fee of \$20,000. The fee per annum must not exceed 0.06% of the NAV of the Fund; and
 - ii. 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) for certain fees and expenses. These include:
 - i. costs incurred in connection with the Offer and negotiation of additional property investments for the Fund
 - ii. the fees and expenses of the Fund's auditor
 - iii. 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; and
 - iv. 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. **Other fees:** If the Manager, with the approval of the Supervisor, undertakes any works related to the Property Portfolio that do not fit within any of the obligations contemplated by Schedule 4 of the Establishment Deed, the Manager is entitled to charge the Fund, and retain for its own use, such fees for those works calculated at a "time in attendance" market rate, as agreed between the Manager and Supervisor.
- i. **Interest expense:** Included in fees charged by other persons is predominantly the interest charged on bank borrowings. Refer to Section 6.3 *Principal Assumptions for Prospective Financial Information, assumption (g)* for further information.
- j. **Property capital expenses:** These relate to capital expenditure incurred on investment property after initial acquisition, excluding fees and expenses charged by the Manager that are capitalised (such as project management fees). The expenditure may include payments for remediation, change to fit outs, and upgrades including sustainability features.

Further information on fees and expenses can be found in the document titled Other Material Information disclosed on the Offer Register at <https://disclose-register.companiesoffice.govt.nz> under Offer Number OFR13655, and also in the Trust Deeds.

8.3 FEES CHARGED TO INDIVIDUAL INVESTORS

Transfer of Units: Units are intended to be a long-term investment. Should an investor wish to sell some or all their investment, the Manager has a database of investors, and, from time to time, the Manager will assist in facilitating secondary transfers of Units (subject to the Fund's minimum holding requirements). A fee of 1.50% plus GST if any is payable when using this service. This excludes any associated costs such as legal and professional adviser fees.

Information regarding the sales facility is set out in Section 4.3 *How Can I Withdraw My Investment From the Fund?*

There is no guarantee that this service will be available or that there will be any buyer for Units in the future.

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 a financial advice provider, does not provide any recommendations in relation to buying or selling Units, and does not handle investor funds in relation to secondary transfers.

Redemption Fee: The Manager, in its discretion, has decided to not redeem any Units at this time. Should redemptions occur, the Manager's current policy is that no fee will be charged directly to investors (a break fee may, however, apply, and be retained by the Fund, as documented in Section 4.3 *How Can I Withdraw My Investment From The Fund?*).

If Units are redeemed in future, the Manager reserves the right to change this policy and charge a fee directly to investors for facilitating redemptions, in addition to the break fee.

9 TAX

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

The Fund is a multi-rate Portfolio Investment Entity (PIE) for income tax purposes. Under the tax rules applicable to the Fund, as a PIE, 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: <https://www.ird.govt.nz/roles/portfolio-investment-entities/using-prescribed-investor-rates>.

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 Manager may be required to close your account and repay the balance of your investment. If you do not tell the Fund your PIR, a default rate of 28% may be applied.

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 and pay any resulting tax liability.

Where the IRD considers the wrong PIR is applied, it can 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 Manager of.

An end of year square-up calculation will be undertaken by the IRD 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 their correct PIR (and not the investor's personal marginal tax rate). If the rate applied by the Fund to your PIE income is lower than your correct PIR, you will be required to pay any tax shortfall as a part of the income tax year-end square-up process. Interest and penalties may also apply to any shortfall (a tax credit will be allowed for the tax already paid by the Fund based on your PIR). If the rate applied to your PIE income is higher than your PIR, any tax over-withheld will be used to reduce any income tax liability you may have for the tax year and any remaining amount will be refunded to you by the IRD.

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

If the Fund ceases to be a multi-rate PIE, any distributions paid will be taxable to Unitholders. Further, if the Fund ceases to be a multi-rate PIE, overall tax payable on the Fund's income by Unitholders is likely to be higher than it would be if the Fund retains its status as a multi-rate PIE. Additional tax rules will apply if a Unitholder is not a New Zealand tax resident.

A Unitholder may be taxed on the sale of 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.

Term	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%

For joint investments by Unitholders, including by partnerships, or unincorporated societies, the investment in the Fund will be split based on the respective holders' share of the investment, and each holder should notify the Fund of their IRD number and correct PIR using the table above.

In 2020, the then New Zealand Government reinstated depreciation on commercial buildings which had the effect of reducing income tax payable by the Fund on behalf of investors. This typically increased investors' net income (after tax) as compared to the case prior to the legislation being introduced.

The New Zealand National Party's 2023 election tax policies include a proposal to remove tax depreciation on commercial buildings. Should this change be enacted into law in the future, the PIE tax payable on behalf of investors by the Fund (or directly by investors with a 0% PIR on their attributed income) may increase.

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

10.1 ABOUT THE MANAGER

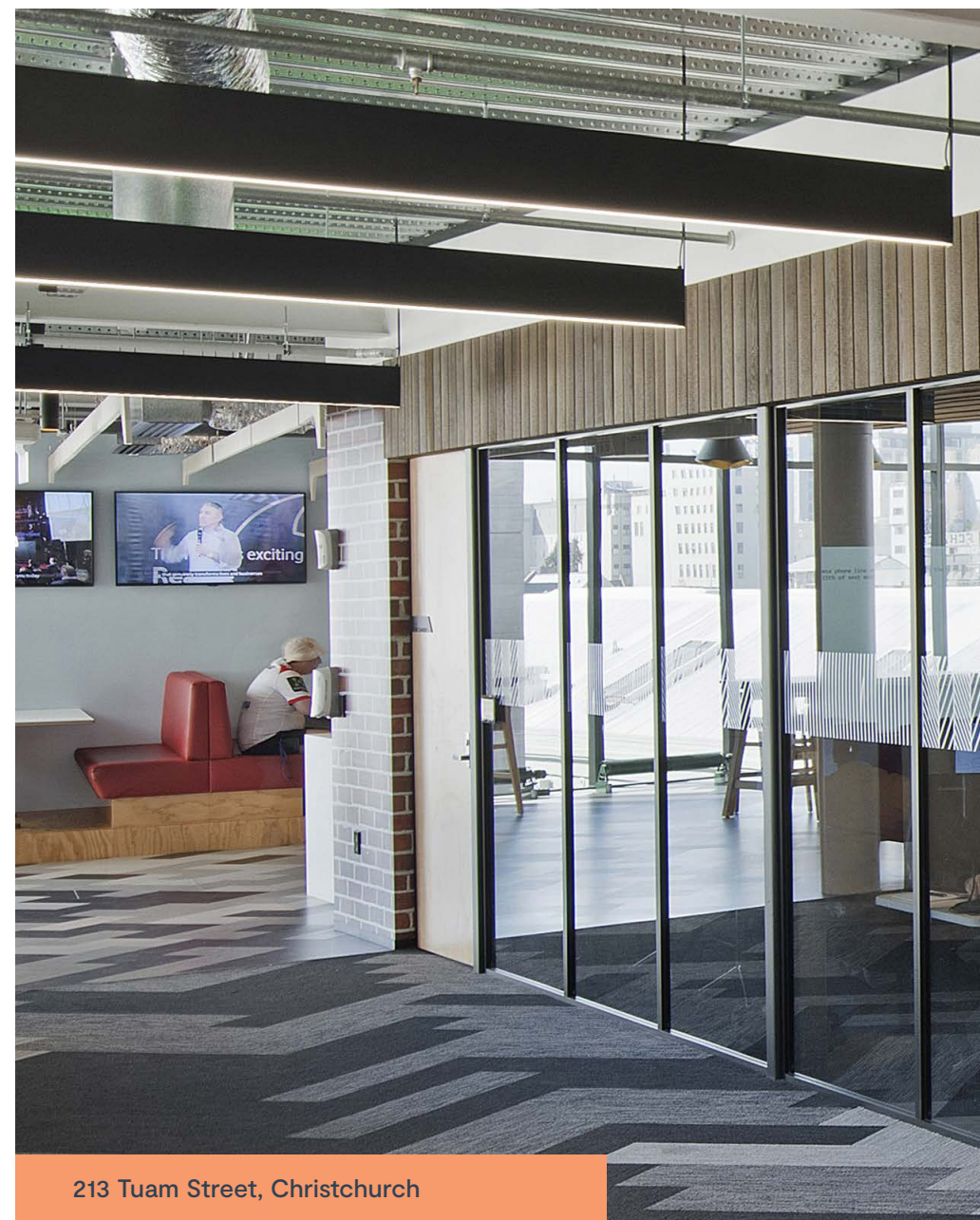
The Fund is managed by the Manager (PMG Property Funds Management Limited). For over 30 years, the Manager has been invested in delivering long-term sustainable income and the potential for value growth to investors through proactive management and portfolio diversification. The Manager was formed in 1992 and has established more than 40 commercial property investment offerings throughout New Zealand, giving it a well-established record in property and funds management, operating throughout multiple economic cycles. The Manager has a highly experienced team of property investment and management professionals and currently manages, or has under contract, assets with a value of over \$800 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 and/or invest in New Zealand property funds, listed New Zealand and Australian companies that invest primarily in real property, and Australian listed property trusts.

Further information about the Manager may be found at www.pmgfunds.co.nz, including the contact details for the Manager, summarised in Section 14 *Contact information*.

10.2 WHO ELSE IS INVOLVED

	Name	Role
Supervisor	Covenant Trustee Services Limited	The Supervisor monitors compliance of the Fund with the Trust Deeds and fulfils 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 holds all assets belonging to the Fund on bare trust on behalf of the Fund in accordance with the Trust Deeds.
Unit Registrar	Appello Services Limited	The Unit Registrar holds the details of all Unitholders and manages distributions and some communications to Unitholders.



213 Tuam Street, Christchurch

11 HOW TO COMPLAIN

A complaint about your investment may be through our How to Complain page on our website at <https://www.pmgfunds.co.nz/complaints>, or alternatively by contacting the below parties as applicable:

The Manager

The Chief Executive Officer

Refer to contact details provided in Section 14 *Contact Information*

The Supervisor

Covenant Trustee Services Limited

Refer to contact details provided in Section 14 *Contact Information*

Dispute Resolution Scheme

Financial Dispute Resolution Scheme

PO Box 2272
Wellington 6140

Phone: 0508 337 337
Email: enquiries@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.

12 WHERE YOU CAN FIND MORE INFORMATION

Further information relating to the Fund or Units (for example, the Trust Deeds and financial statements) is available on the Disclose Register under Scheme Number SCH10921.

A copy of the information on the Disclose Register is available on request to the Registrar (email registrar@fspr.govt.nz). The website for the Disclose Register is <https://disclose-register.companiesoffice.govt.nz>. Additional information relating to the Fund is available from this website, including on the Offer Register.

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 <https://www.pmgfunds.co.nz>.

Investors receive annual reports and annual audited financial statements for the Fund, as well as:

- Quarterly reports on the Fund; and
- Other communications as and when required to update you on the Fund's progress, as well as a notice stating the availability of such communications and how to subscribe, unsubscribe, or obtain copies.

This information will be made available to you, free of charge, upon a written request to the Manager at the contact details provided in Section 14 *Contact information*.

13 HOW TO APPLY

If you want to apply for Units under this offer you must fill in the Application Form associated with this PDS. The Application Form will be made available to you on contacting the Manager's Investor Relationships Team, who will be able to provide support completing the Application Form digitally or in paper form.

Applications from new investors must be for at least 10,000 Units and in multiples of 5,000 Units thereafter. Applications from existing investors in the Fund must be for at least 5,000 Units and in multiples of 5,000 Units thereafter. Completed and signed digital Application Forms will be collated by the Manager. Any paper forms must be scanned and forwarded via email to invest@pmgfunds.co.nz, or alternatively sent via post to the Manager at the contact details provided in Section 14 *Contact Information*.

Completed application forms are to be received no later than 5:00pm on 28 November 2023 (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 to be considered for acceptance.

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 Custodian

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

Phone: 09 302 0638

The Supervisor

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

Legal Adviser

Simpson Grierson
Level 27, 88 Shortland Street
Auckland 1010

Private Bag 92518
Auckland 1141

Phone: 09 358 2222

Auditor

Baker Tilly Staples Rodway Audit Limited
Level 1, ANZ Centre
247 Cameron Road
Tauranga 3110

Phone: 07 578 2989

Tax Adviser

KPMG
Level 2, ANZ Centre
247 Cameron Road
Tauranga 3110
Phone: 07 578 5179



65B Main Highway, Ellerslie, Auckland.

15 GLOSSARY

Term	Interpretation
\$	New Zealand Dollars, rounded to the nearest \$1,000 unless indicated otherwise.
Adjusted Distribution Payout Ratio	The Distribution Payout Ratio, adjusted to account for material one-off income received in cash (such as the Surrender Payment) on a cash basis, available for distribution but not yet fully recognised for accounting purposes in AFFO.
Adjusted NAV	Where applicable, adjustments are made to 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 each equity issuance. The relevant adjustments are set out in clause 5.3 of the Establishment Deed, and provided in the Other Material Information Document found on the Disclose Register.
AFFO	Adjusted Funds From Operations, being net profit before tax, after reversing out the following items (if applicable): (a) fair value adjustments for unrealised changes in the value of the Property Portfolio (plus right of use assets), and derivative financial instruments; and (b) realised gains and losses on the disposal of property investments and derivative financial instruments; (c) unrealised changes in the value of derivative financial instruments; and (d) performance fees payable to the Manager.
Application	An application to subscribe for Units under the Offer.
Application Form	The application form associated with this PDS that must be completed to subscribe for Units under the Offer (either physical or digital).
Bank	ASB Bank Limited.
Bank ICR	Similar ratio to the Interest Cover Ratio, but applied by the Bank in assessing bank covenant compliance. The ratio differs in definition from the Interest Cover Ratio as it is based on projected Net Rental Income (excluding tenants in arrears for more than two months) divided by Projected Interest Costs (including financing costs with the exception of upfront fees).
Bank WALT	Similar measure to the WALT, but applied by the Bank in assessing bank covenant compliance. The measure differs in definition to the WALT as it factors in vacant space in the calculation.
BKBM	Bank Bill Market.
Business Day	Any day (other than Saturday or Sunday) on which banks in Auckland, New Zealand, are open for business.
Companies Office	The New Zealand government agency responsible for the administration of corporate body registers.

Term	Interpretation
CPI	Consumer Price Index.
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 .
Distribution Payout Ratio	Gross distributions declared divided by AFFO for a relevant period.
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation.
Establishment Deed	The establishment deed between the Manager and the Supervisor dated 1 November 2016 (which replaced the original Establishment Trust Deed dated 28 October 2016) plus any subsequent amendments.
Existing Properties	Consists of: Tuam Street Property, Fanshawe Street Property, Main Highway Property, and Victoria Street Property.
Fanshawe Street Property	The property situated at 152 Fanshawe Street, Auckland.
FMA	Financial Markets Authority.
FMCA	Financial Markets Conduct Act 2013.
Fund	PMG Direct Office Fund.
Gearing Ratio	The Fund's total interest-bearing liabilities (or Total Debt, which includes interest-bearing lease liabilities) as a proportion of the Fund's total assets at a point in time.
Gross Asset Value	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. Full definition available in the Master Trust Deed.
GST	Goods and Services Tax.
Interest Cover Ratio	A multiple of the Fund's EBITDA, less unrealised gains, plus unrealised losses, compared to the Fund's interest expense.
ISA	Initial Seismic Assessment.
LVR	Loan-to-value ratio (total bank borrowings as a percentage of the sum of the latest independent valuations of the properties in the Property Portfolio).
Main Highway Property	The property situated at 65B Main Highway, Ellerslie, Auckland.
Manager	PMG Property Funds Management Limited.

Term	Interpretation
Manager Performance Benchmark	Average 10-year Government bond yield (as published by the Reserve Bank of New Zealand) plus 6%.
Master Trust Deed	The Master Trust Deed between the Manager and the Supervisor dated 28 October 2016 (plus any subsequent amendments).
Maximum Equity Raise	21,000,000 Units (\$19,950,000).
Minimum Equity Raise	6,250,000 Units (\$5,937,500).
MIS	Managed Investment Scheme.
NAV	The Gross Asset Value of the Fund as at the relevant date less any liabilities, costs, outgoing 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).
NBS	New Building Standard.
Net Rental Income	Rental income from property, stated before lease incentives and any lease adjustments for the purposes of New Zealand equivalents to International Financial Reporting Standards. This measure excludes property operating expenditure recovered.
NLA	Net Lettable Area (exclusive of external areas, where applicable), stated approximately in square metres.
Occupancy	Approximate leased area expressed as a percentage of NLA, rounded to the number of decimal places shown.
OCR	Official Cash Rate.
Offer	An offer of Units pursuant to this PDS.
Offer Closing Date	28 November 2023. The Manager reserves the right to close the Offer before this date, or to extend this date.
Offer Information	The PDS and all entries on the Offer Register relating to this offer.
Offer Price	\$0.95 per Unit.
Offer Register	The register containing information on the Offer available at www.business.govt.nz/disclose . Offer Number OFR13655.
Opening Date	13 November 2023, or such other date that the Fund may determine that falls at least 5 working days after the date the PDS is registered.
PDS	This document – the product disclosure statement for the Offer registered on or about 3 November 2023.
PIE	Portfolio Investment Entity.

Term	Interpretation
PIR	Prescribed Investor Rate.
PMG	The group of companies with the ultimate New Zealand holding company of PMG Group Limited.
Property Portfolio	The property investments owned by the Fund at a point in time, currently the aggregation of the Existing Properties.
Registrar	The Registrar of Financial Service Providers appointed under Section 35 of the Financial Service Providers (Registration and Dispute Resolution) Act 2008.
Settlement Date	The date the Offer is due to settle, being 30 November 2023. The Manager reserves the right to amend this date based on any amendments to the Offer Closing Date.
SIPO	Statement of Investment Policies and Objectives.
Sqm	Square metre(s), estimated on a 'more or less' basis.
Supervisor	Covenant Trustee Services Limited.
Surrender Agreement	The deed of rent review and partial surrender and variation of lease dated 25 October 2023 between the Fund and One New Zealand Group Limited.
Surrender Date	1 April 2024, the date the Surrendered Area will be surrendered in accordance with the Surrender Agreement.
Surrender Payment	\$3,100,000 plus GST (if any), the amount payable to the Fund by One New Zealand in accordance with the Surrender Agreement.
Surrendered Area	The aggregate of: <ul style="list-style-type: none"> · Level 3 of the Tuam Street Property – NLA of 1,749 sqm; · Level 4 of the Tuam Street Property – NLA of 1,777 sqm; · Areas of the ground floor of the Tuam Street Property – NLA 538 sqm; and 30 bike parks at the Tuam Street Property.
Trust Deeds	The Master Trust Deed and the Establishment Deed.
Tuam Street Property	The property situated at 213 Tuam Street, Christchurch and leasehold interest at 2/160 Lichfield Street, Christchurch.
Underwriting Agreement	The agreement between the Manager and the Fund dated 27 October 2023 where the Manager has agreed to subscribe for up to 6,250,000 of the Units being offered under the Offer.
Unitholder(s)	Parties owning Units in the Fund.
Unit(s)	Units in the Fund.
Victoria Street Property	The aggregate of the properties situated at 410 Victoria Street, Hamilton and 12 Alma Street, Hamilton.
WALT	Weighted Average Lease Term of lease arrangements (occupied lettable areas only).

pmg Direct Office Fund

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