

# OTHER MATERIAL INFORMATION

This Other Material Information Document has been prepared to meet the requirements of clauses 48(1)(b) and 50(e) of Schedule 5 to the Financial Markets Conduct Regulations 2014 (FMCRR) in relation to an offer of Units in the PMG Direct Office Fund, as set out in a product disclosure statement (PDS) dated on or around the date of this document.

Terms capitalised but otherwise undefined in this document have the meanings given to them in the PDS. This Document must be read alongside the PDS.

**Dated: 22 May 2020**

**Offer number: OFR12881**

## OTHER RISKS

Risks relevant to the PDS, but not considered the most significant risks, are summarised below.

### **Dilution Risk**

Nature and magnitude: If the Manager of the Fund seeks to raise further capital in order to fund development at any of the properties in the Property Portfolio or for the operating costs of any properties in the Property Portfolio or for the acquisition of any further properties into the Property Portfolio, the Unitholding of Unitholders may be diluted if a Unitholder is not able or willing to subscribe for further Units in the Fund.

Mitigation strategies: It is intended that existing Unitholders of the Fund will be provided the opportunity to participate in future capital raisings.

Assessment of likelihood of circumstances arising: Medium

Assessment of Impact: Low

### **Damage or Destruction Risk**

Nature and magnitude: There is a risk of damage or destruction to the properties in the Property Portfolio, and any other properties which are added to the Fund's Property Portfolio, by fire, earthquake or other event which may result in the Fund being required to outlay capital expenditure to repair or reinstate the damaged or destroyed property, the loss of rental income while the damaged or destroyed property is being repaired or reinstated, or, if the tenant terminates the lease and the Fund is unable to find a suitable replacement tenant, vacancy of the property. These could impact on returns to Unitholders.

Mitigation strategies: The Manager will ensure that the Fund's Property Portfolio will have comprehensive insurance cover, including consequential loss of rental cover.

Assessment of likelihood of circumstances arising: Low

Assessment of impact: Low

### **Management Related Risks**

Nature and magnitude: The Manager has been appointed as property manager for the Fund. The Manager is able to terminate the Management Agreements upon 12 months' notice. The Fund do not have the resources to manage the properties themselves and would need to engage another manager to do so on their behalf. There is a risk that the Fund may not be able to find a suitable manager, and/or will need to pay higher management fees than those applicable under the Management Agreements, which could have an adverse effect on performance.

Mitigation strategies: Some of the directors of the Manager are invested in the Fund. Given this relationship, it is highly unlikely that the Manager will terminate the Management Agreements. It is likely that if this scenario eventuated, a replacement manager would be identified prior to the termination of the Manager.

Assessment of likelihood of circumstances arising: Low

Assessment of impact: Low

## DISTRIBUTIONS

As indicated in the PDS, Section 4.4 Distributions, it is the Manager's intention to declare gross distributions of approximately 100% of the Fund's adjusted net profit before tax, after consideration of any required re-investment in capital expenditure programmes, redemptions, and movement in borrowings, on a monthly basis.

The Fund's adjusted net profit before tax is calculated using the "Net profit before and after income tax, and total comprehensive income" from the prospective financial statements and making the following adjustments to take into account the Fund's investment activity. The following adjustments are non-GAAP adjustments and therefore are not reflected in the Fund's financial statements.

Adjusted net profit before tax for the purposes of distributions	Actual Year ending 31 March 2018	Actual Year ending 31 March 2019	Actual Year ending 31 March 2020	Prospective Year ending 31 March 2021	Prospective Year ending 31 March 2022
<b>Net profit before and after income tax (total comprehensive income)</b>	3,995,845	2,730,757	7,702,235	3,574,364	6,123,887
Reversal of unrealised gains or losses on revaluation of investment property	(2,711,281)	(1,747,801)	(6,013,620)	1,127,101	-
Reversal of unrealised gains or losses on revaluation of derivative financial instruments	25,536	357,861	820,266	-	-
Reversal of realised gains or losses on revaluation of investment property	165,416	271,180	-	-	-
Reversal of manager performance fee primarily charged as a result of unrealised gain on revaluation of investment property	397,273	18,591	903,425		
<b>Adjusted net profit before tax</b>	<b>1,872,789</b>	<b>1,630,588</b>	<b>3,412,306</b>	<b>4,701,465</b>	<b>6,123,887</b>

### Assumptions for adjusted net profit before tax table above include:

- Changes in fair value of the Existing Properties beyond 31 March 2020, and the Acquisition Property beyond 30 June 2020, will only be as a result of capital expenditure as future revaluation gains and losses cannot be reliably predicted, therefore no revaluations have been included in the prospective financial information beyond 31 March 2020 (for Existing Properties) and 30 June 2020 (for the Acquisition Property).
- Changes in fair value of derivative financial instruments cannot be reliably predicted, therefore no revaluations have been included in the prospective financial information.
- Properties were disposed of during the years ending 31 March 2018 and 31 March 2019, generating a realised loss on disposal of investment property. There are no actual or prospective property disposals in any other periods presented, and therefore no realised gains or losses on disposal have been included in those periods.
- Additional borrowing is expected in the periods ending 31 March 2021 and 31 March 2022 within the current borrowings facilities to enable the Fund to meet the required reinvestment in capital expenditure programmes.
- There is currently no forecast reduction in borrowings.
- Any expenditure to be incurred on acquiring new properties, and associated borrowing required to acquire new properties, is not included in the above calculation as it is considered a financing activity that, in conjunction with equity raised from an offer, should be cash flow neutral in respect of funds available for distribution.
- Performance fees are primarily driven by the revaluation gains on investment property, and as a result are included in the estimate of adjusted net profit before tax available for distribution.

## EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION (EBITDA)

Earnings before interest, tax, depreciation and amortisation (EBITDA) referred to in the PDS at Sections 1.7, 6.1 and 6.3 is a Non-GAAP measure. The following reconciling items have been extracted from the historic and prospective financial information of the Fund and a reconciliation to GAAP information is provided below:

Financial Period	Actual	Actual	Actual	Prospective	Prospective
	Year ending 31 March 2018	Year ending 31 March 2019	Year ending 31 March 2020	Year ending 31 March 2021	Year ending 31 March 2022
Net Profit/(loss) after tax per Prospective Statement of Financial Performance	3,995,845	2,730,757	7,702,235	3,574,364	6,123,887
Net Financing Costs	864,208	1,061,807	1,377,739	2,277,636	2,641,006
<b>EBITDA</b>	<b>4,860,053</b>	<b>3,792,564</b>	<b>9,079,974</b>	<b>5,852,000</b>	<b>8,764,893</b>

Net Financing Costs in the case of the Fund constitutes interest expense on borrowings, plus finance charges associated with lease liabilities, less interest income on cash deposits.

## MANAGER'S PERFORMANCE FEES

The Manager is entitled to a performance fee equivalent to 20% of the excess performance above the Manager Performance Benchmark (Manager Performance Fee), as disclosed in the PDS Section 8.2 Aggregated Fees and Expenses.

An example calculation is provided below for information purposes only, to illustrate the calculation of the Manager Performance Fee. Actual results are likely to vary significantly from those set out in this example.

### Example Manager Performance Fee calculation (rounded where appropriate)

#### INPUTS

Manager Performance Benchmark:	6.00% (A)
10-year government bond yield	0.90% (B)
<b>Manager's Performance Benchmark</b>	<b>6.90% (C)=(A)+(B)</b>
Manager's Performance Fee Multiple	20.00%
Closing Adjusted NAV per Unit (before current Manager Performance Fee)	\$1.21
Opening Adjusted NAV per Unit	\$1.18
Distributions per Unit declared during the year (Distributions per unit)	\$0.065
Closing Adjusted NAV of the Fund (before current Manager Performance Fee)	\$90,000,000

#### CALCULATION

##### The Manager's Performance for the year is calculated as:

Formula:

$$\frac{(\text{Closing Adjusted NAV per Unit} - \text{Opening Adjusted NAV per Unit} + \text{Distributions per Unit})}{\text{Opening Adjusted NAV per Unit}}$$

**Example:**  $\frac{(\$1.21 - \$1.18 + \$0.065)}{\$1.18} = 8.05\%$  rounded to 2 decimal places.

##### The Manager Performance Fee is calculated as:

Formula:

$$((\text{Manager's Performance} - \text{Manager's Performance Benchmark}) \times \text{Closing Adjusted NAV}) \times \text{Manager's Performance Fee Multiple}$$

**Example:**  $((8.05\% - 6.90\%) \times \$90,000,000) \times 20\% = \$207,000$

## TOTAL ESTIMATED COSTS OF OFFER

The table below details the total of the amounts paid or agreed to be paid by, or on behalf of, the Manager in connection with the offer of Units in the Fund (this excludes fees and expenses payable to the Manager and associated persons).

Type of Cost	Amount	Cost paid to	Reason for cost and description of services
<b>Legal Fees</b>	\$125,000	Simpson Grierson and Cooney Lees Morgan	Legal fees are payable to: <ul style="list-style-type: none"> <li>· Simpson Grierson for costs relating to the costs of advising on the PDS, advising on the SIPO, advising the Manager relating to compliance with the FMCA, and attending to registration of the Offer Information.</li> <li>· Cooney Lees Morgan for the costs of legal due diligence on the Acquisition Property, negotiation of the sale and purchase agreement for the Acquisition Property and settlement of the purchase of the Acquisition Property.</li> </ul>
<b>Marketing Costs</b>	\$200,000	Various parties	The costs payable for designing the PDS, producing advertisements and holding events in relation to the Offer, and the costs associated with preparing and printing the PDS and associated marketing material.
<b>Due Diligence Costs - Valuation Fees</b>	\$10,000	Jones Lang LaSalle	The fees payable to registered independent valuation experts in relation to the fair valuation of the Acquisition Property.
<b>Due Diligence Costs - Other</b>	\$50,000	Various Parties	Provision for other costs associated with the purchase of the Acquisition Property including various technical and market due diligence requirements. This may include geotechnical assessments and seismic surveys.
<b>Accounting Fees</b>	\$20,000	Baker Tilly Staples Rodway Audit Limited	Compliance fees payable for review of prospective financial information
<b>Supervisor's Fees</b>	\$5,000	Covenant Trustee Services Limited	The fees payable to the Supervisor for their costs in relation to reviewing this PDS and oversight of the due diligence on the Acquisition Property.
<b>Administrative and Contingency Costs - PDS Registration fee and FMA levies</b>	\$5,000	Financial Markets Authority	The costs payable to the Offer Register and Financial Markets Authority on registration of the Offer Information.
<b>Administrative and Contingency Costs - Other</b>	\$45,000	Various parties	Provision for other costs associated with the preparation of the Offer for the Fund and all associated Offer documents.
	<b>\$460,000</b>		



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