

# **PMG GENERATION FUND**

## **FINANCIAL STATEMENTS**

**FOR THE PERIOD ENDED 31 MARCH 2020**

**PMG GENERATION FUND**  
**FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 MARCH 2020**

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FOR THE PERIOD ENDED 31 MARCH 2020

**DIRECTORY**  
AS AT 31 MARCH 2020

<b>Scheme Number</b>	SCH12827
<b>Registration Date</b>	20 February 2020
<b>Manager</b>	PMG Property Funds Management Limited PO Box 2034 Tauranga 3140
<b>Directors of the Manager</b>	Denis McMahon Scott McKenzie Nigel Lowe Daniel Lem Wayne Beilby
<b>Custodian</b>	PMG Generation Fund Trustees Limited
<b>Supervisor</b>	Covenant Trustee Services Limited Level 6, 191 Queen Street Auckland 1010
<b>Auditor</b>	Baker Tilly Staples Rodway Audit Limited Level 1, 247 Cameron Road Tauranga
<b>Bankers</b>	ASB Bank 518 Cameron Road Tauranga
<b>IRD Number</b>	131-725-230

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**Statement of Comprehensive Income**  
**For the Period ended 31 March 2020**

	<b>Note</b>	<b>2020 Actual (1 day) \$</b>	<b>2020 PDS Forecast (1 day) \$</b>
<b>Revenue</b>	12	0	9,871
<b>Expenses</b>			
Audit of Financial Statements		10,000	10,000
Property operating expenses		26	1,354
		<u>10,026</u>	<u>11,354</u>
<b>Operating profit/(loss) before finance costs and fair value changes</b>		(10,026)	(1,483)
Interest Received		4,225	
Interest Expense		0	(2,400)
<b>Net finance costs</b>		<u>4,225</u>	<u>(2,400)</u>
Increase/(decrease) in fair value of investment property	7	(982,428)	(1,067,169)
Fair value movement on derivative financial instruments	6	(349,817)	0
<b>Net profit/(loss) for the period</b>		<u><b>(1,338,046)</b></u>	<u><b>(1,071,052)</b></u>
Other Comprehensive Income		-	-
<b>Total comprehensive income for the period</b>		<u><b>(1,338,046)</b></u>	<u><b>(1,071,052)</b></u>



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**Statement of Changes in Equity**  
**For the Period ended 31 March 2020**

	<b>Issued Units</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>2020</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 19 February 2020	0	0	0
Net profit for the period and total comprehensive income	0	(1,338,046)	(1,338,046)
Transactions with investors in their capacity as investors:			
Units issued during the period	34,000,000	0	34,000,000
Issue costs	(1,484,226)	0	(1,484,226)
Distributions to investors	0	0	0
<b>Balance at 31 March 2020</b>	<u>32,515,774</u>	<u>(1,338,046)</u>	<u>31,177,728</u>
	<b>Issued Units</b>	<b>Retained earnings</b>	<b>Total equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Product Disclosure Statement Forecast 2020</b>			
Balance at 19 February 2020	0	0	0
Net profit for the period and total comprehensive income	0	(1,071,052)	(1,071,052)
Transactions with investors in their capacity as investors:			
Units issued during the period	33,000,000	0	33,000,000
Issue costs	(1,369,276)	0	(1,369,276)
Distributions to investors	0	0	0
<b>Balance at 31 March 2020</b>	<u>31,630,724</u>	<u>(1,071,052)</u>	<u>30,559,672</u>



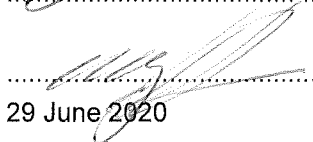
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**Statement of Financial Position**  
As at 31 March 2020

	Note	2020 Actual \$	2020 PDS Forecast \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	9,144	50,757
Trade and other receivables	9	796,308	321,973
<b>Total current assets</b>		<u>805,452</u>	<u>372,730</u>
<b>Non-current assets</b>			
Investment properties	7	52,950,000	52,950,000
<b>Total non-current assets</b>		<u>52,950,000</u>	<u>52,950,000</u>
<b>Total assets</b>		<u>53,755,452</u>	<u>53,322,730</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	8	627,907	13,058
Derivative financial instruments	6	349,817	0
<b>Total current liabilities</b>		<u>977,724</u>	<u>13,058</u>
<b>Non-current liabilities</b>			
Borrowings	10	21,600,000	22,750,000
<b>Total non-current liabilities</b>		<u>21,600,000</u>	<u>22,750,000</u>
<b>Total liabilities</b>		<u>22,577,724</u>	<u>22,763,058</u>
<b>Net assets</b>		<u>31,177,728</u>	<u>30,559,672</u>
<b>Equity</b>			
Issued units	5	32,515,774	31,630,724
Retained earnings		(1,338,046)	(1,071,052)
<b>Total equity</b>		<u>31,177,728</u>	<u>30,559,672</u>



Director, PMG Property Funds Management Ltd

  
29 June 2020

Director, PMG Property Funds Management Ltd



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**Statement of Cash Flows**  
**For the Period ended 31 March 2020**

	2020 (1 day)	2020 PDS Forecast
Note	\$	\$
<b>Cash flows from operating activities</b>		
Cash was provided from:		
Receipts from customers	0	9,871
Interest income	4,225	0
Cash was applied to:		
Payments to suppliers	(26)	1,703
Interest and other finance costs paid	0	(2,400)
GST received/(paid)	(333,764)	(321,973)
Net cash inflow/(outflow) from operating activities	11 (329,565)	(312,799)
<b>Cash flows from investing activities</b>		
Cash was applied to:		
Purchase of investment property and capital expenditure	(53,884,806)	(54,017,168)
Net cash inflow/(outflow) from investing activities	(53,884,806)	(54,017,168)
<b>Cash flows from financing activities</b>		
Cash was provided from:		
Proceeds from issue of share capital	34,000,000	33,000,000
Proceeds from borrowings	21,600,000	22,750,000
Cash was applied to:		
Unit issue transaction costs	(1,376,485)	(1,369,276)
Net cash inflow/(outflow) from financing activities	54,223,515	54,380,724
Net increase in cash and cash equivalents	9,144	50,757
Cash and cash equivalents at the start of the financial period	0	0
Cash and cash equivalents at the end of the financial period	4 9,144	50,757



# PMG GENERATION FUND

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE PERIOD ENDED 31 MARCH 2020

#### 1. Reporting Entity

PMG Generation Fund is a Managed Investment Scheme domiciled in New Zealand. The Fund is managed by PMG Property Fund Management Limited ('the Manager') and the supervisor of the Fund is Covenant Trustee Services Limited ('the Supervisor'). The Manager of the Fund is licensed under the Financial Markets Conduct Act 2013 ('FMCA') as a manager of Managed Investment Schemes. The Supervisor holds any properties in the Fund in trust on behalf of the Investors through a custodian company wholly-owned by the Supervisor, called PMG Generation Fund Trustees Limited ('the Custodian').

The Fund was established on 19 February 2020, pursuant to a Master Trust Deed and an Establishment Deed dated 28 October 2016 between the Supervisor and the Manager as varied by deed from time to time in compliance with the FMCA ('the Trust Deeds'). Copies of the Trust Deeds can be found at [www.business.govt.nz/disclose](http://www.business.govt.nz/disclose).

The Fund's primary purpose is to hold commercial property in a geographically diversified portfolio for rental income and potential capital appreciation.

These are the first financial statements for PMG Generation Fund as it started trading on the 31<sup>st</sup> of March 2020 and are therefore for a period of one day only, and there are no prior period comparatives.

#### 2. Basis of preparation

##### (a) Statement of compliance

The financial statements have been prepared for the Fund by the Manager, on behalf of the Supervisor, in accordance with the requirements of the Financial Reporting Act 2013 ('FRA'), the FMCA and the provisions of the Trust Deeds.

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP'). They comply with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS'), and other applicable Financial Reporting Standards, as appropriate for tier one for-profit oriented entities. The financial statements also comply with the requirements of International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors of the Manager on 29 June 2020.

As required by FRS-42 – Prospective Financial Statements, the prospective financial information provided in the Product Disclosure Statement of the Fund, issued 21 February 2020, has been provided for comparative purposes in these financial statements. Explanation for any major variances in actual financial information compared to the prospective financial information are provided in Note 18.

##### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis, and the going concern assumption and the accrual basis of accounting have been adopted. Where required under NZ IFRS fair value measurement has been applied – see Notes 6 & 7.

##### (c) Functional and presentation currency

The financial statements are presented in New Zealand dollars (\$), which is the Fund's functional currency and are rounded to the nearest dollar.



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**(d) Use of estimates and judgements**

The preparation of financial statements in conformity with NZ IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates including estimations in fair value of investment property - refer note 7 for further detail on the assumptions applied in relation to these.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in note 7 - valuation of investment property.

The outbreak of the Novel Coronavirus (COVID-19) declared by the World Health Organisations as a "Global Pandemic" on the 11<sup>th</sup> March 2020 has caused heightened uncertainty in both local and global financial markets. As at 31 March 2020 New Zealand was at COVID-19 Alert level 4, and a National State of Emergency had been declared which was expected to last for a period of 4 weeks commencing 26<sup>th</sup> March 2020.

This extraordinary event placed severe restrictions on the domestic economy, with only those businesses essential to the 'necessities of life' being allowed to operate and a mandatory social lockdown. The Government signaled that the real estate market did not fall into the 'essential' category and therefore the real estate market was effectively frozen during this period. As a result, at 31 March 2020 the property market was not functioning as normal, and the market response to this lockdown is as yet unknown.

This has resulted in valuation reports being prepared on the basis of 'material valuation uncertainty' and noting that less certainty, and a higher degree of caution should be attached to the valuations than would normally be the case. Generally less weight has been able to be given to previous market evidence for comparison purposes and valuers have recommended that valuations should be frequently reviewed, as values may change more rapidly and significantly than has previously been the case.

Refer to note 7 for further information on the investment property valuation.

**(e) New standards and interpretations**

The Fund has adopted all new, revised or amended Accounting Standards and Interpretations issued by the External Reporting Board ('XRB') that are mandatory for the current reporting period. This includes NZ IFRS 16 – *Leases*. As the Fund operates as a Lessor, there were no material changes to these financial statements as a result of adoption.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. These are not expected to have a significant impact on the financial statements.

**PMG GENERATION FUND**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 31 MARCH 2020

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

**(a) Financial instruments**

***Held at Amortised Cost***

**(i) Trade and other receivables**

Trade receivables, which include lease receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any loss allowance. They are classified as loans and receivables. Trade Receivables are generally due for settlement within 30 days. The Fund has elected to apply the simplified approach thereby recognising lifetime expected credit losses on trade and lease receivables. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.

**(ii) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

**(iii) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

***Held at Fair Value***

**(iv) Trade and other payables**

These amounts represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial period which are usually paid within 30 days of recognition. The carrying amounts of Trade and other payables are assumed to be the same as their fair values, due to their short term nature.

**(v) Derivatives**

A derivative instrument is classified as fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

**(b) Issued units**

Units issued are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds from issue of those units.

**(c) Distributions**

Distributions are recognised when they are declared and are no longer at the discretion of the Fund.

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**3. Significant accounting policies continued**

**(d) Investment property**

Investment Properties principally comprise freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Fund. Investment properties are initially recorded at cost and are then revalued annually and stated in the accounts at their fair value based on the latest valuation in compliance with NZ IFRS 13 - *Fair Value Measurement*.

Any gain or loss determined by these revaluations is included in the Statement of Comprehensive Income. When an item of investment property is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the sale price and the carrying value of the property. Depreciation is not charged on investment properties.

**(e) Income tax expense**

The Fund elected to be a Portfolio Investment Entity ('PIE') from the commencement date of the Fund and as such the Fund itself is not liable for income tax.

However, the Fund is required to allocate income to investors under one of the options available under the PIE rules, daily or quarterly. The Fund distributes 100% of adjusted net income (being surplus less adjustments for fair value recognition) to investors and as a result the Fund has no undistributed surplus that would be liable for tax.

The Fund deducts tax at the investors prescribed investor rate of either 0%, 10.5%, 17.5% or 28%. The tax rate is capped at 28%. The tax deducted is a debt due to the Crown and is paid directly to the Inland Revenue Department on the investors' behalf. If any income is not allocated to investors it is liable for tax at 28%.

**(f) Revenue**

The Fund receives income from tenants under commercial leases which set-out the terms that the tenant must meet including any renewals of the lease and the rent and operating expenses that must be paid and any review of the rental amount.

Revenue is recognised when a performance obligation is satisfied. Revenue is measured at the fair value of the consideration received or receivable.

*Rent*

Rent revenue from investment properties is recognised on a straight-line basis over the lease term. Lease incentives granted are recognised as assets and amortised as a reduction in rental revenue over the remaining lease term. Contingent rentals are recognised as income in the period when they are earned.

*Operating Expenses recoveries*

The tenants also pay the Fund Operating Expenses. These are recoveries of expenses incurred by the Fund in relation to the properties. The tenants are charged a monthly amount towards these operating costs based on an annual budget for each property and have annual wash-up reconciliations provided by the Fund to settle any under or overcharges of actual costs incurred versus costs recharged. Operating Expense cost recoveries are recognised when invoiced on a monthly basis which is in line with when the Fund meets the performance obligations for the services provided. The outgoings recovered are based on the terms of the tenants leases and the costs of the outgoings. There are no discounts provided or finance component in any of those costs so the transaction price is straight forward and easily allocated on a straightline basis.

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**3. Significant accounting policies continued**

**f) Revenue continued**

The rent revenue and some of the outgoings recovered from the tenants constitute being part of a lease and are dealt with under the scope of NZ IFRS 16 - *Leases*, and so are outside the scope of NZ IFRS 15 - *Revenue from Contracts with Customers*. The Outgoings recovered that are dealt with under the scope of NZ IFRS 16 - *Leases* are because they are closely related to the lease of the building and the tenant doesn't receive an additional separate service to the space when it reimburses those items to the Fund. These are expenses such as rates, insurance, lift expenses, valuation, fire expenses, plumbing and electricity maintenance and air conditioning services.

The outgoings recovered that the Fund has identified as being under the scope of NZ IFRS 15 - *Revenue from Contracts with Customers* are electricity, rubbish collection, cleaning, gardening services, management expenses and security expenses. This is because these are an additional service over and above the lease of rental space and so should be accounted for separate to the lease income.

*Interest*

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Dividend Income*

Dividend Income is recognised on the date that the Fund's right to receive payment is established.

**(g) Finance costs**

Finance expenses comprise interest expense on borrowings.

**(h) Goods and Services Tax (GST)**

All amounts are shown exclusive of Goods and Service Tax (GST), except for receivables and payables which are stated inclusive of GST.

**(i) Leases**

At inception of a contract, the Fund assesses whether a contract is, or contains a Lease. A contract is, or contains, a Lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Fund assesses whether:

- The contract involves the use of an identified asset;
- The Fund has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Fund has the right to direct the use of the asset.

In all cases the Fund is not a Lessee.

As Lessor, the Fund is exposed to Operating Leases – The Fund is a Lessor in lease contracts and enters into leases in which it retains substantially all the risks and benefits of ownership of the leased asset. Assets leased to third parties under operating leases are included in investment property in the Statement of Financial Position. As outlined above Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

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**4. Cash and cash equivalents**

	<b>2020</b>
	<b>\$</b>
Bank Balance – ASB Business account	9,144

**5. Issued Units**

Units fully paid				<b>2020</b>
				34,000,000
<b>Movements in issued units</b>	<b>Date</b>	<b>No of units</b>	<b>Issue Price</b>	<b>\$</b>
Issue of units	31 March 2020	34,000,000	\$1.00	34,000,000
Unit issue transaction costs, net of tax	31 March 2020			(1,484,226)
				-----
Closing Balance				32,515,774

**Units**

Units entitle the Investor to participate in distributions and the proceeds on the winding up of the Fund in proportion to the number of and amounts paid on the units held. The fully paid units have no par value and the Fund's limit on the number of authorised units on issue is currently being met.

On a show of hands every Investor present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

**Unit buy-back**

There is no current on-market unit buy-back.

**Capital risk management**

The Fund's objectives when managing capital (Total Equity) is to safeguard its ability to continue as a going concern, so that it can provide returns for investors and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to Investors, return capital to Investors, issue new units or sell assets to reduce debt.

The Fund would look to raise capital when an opportunity to invest in further investment property was value adding relative to the Fund's financial position and performance at the time of raising capital.

The Fund is subject to certain covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements.

**PMG GENERATION FUND**  
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**FOR THE PERIOD ENDED 31 MARCH 2020**

**6. Financial Instruments**

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Fund. The Fund uses derivative financial instruments such as interest rate swaps to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Fund does not apply Hedge accounting principles in relation to their Interest Rate swap.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks, ageing analysis for credit risk and a combination of occupancy and yield analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior executives ('Executives') under policies approved by the Supervisor ('the Board'). These policies include identification and analysis of the risk exposure of the Fund and appropriate procedures, controls and risk limits. Executives identify, evaluate and hedge financial risks within the Fund, and they report to the Board monthly.

**Liquidity risk**

Liquidity risk is the risk that there are insufficient cash reserves to meet commitments as they fall due. The Fund evaluates its liquidity requirements on an ongoing basis. In general, the Fund will keep sufficient cash reserves to meet its obligations arising from its financial liabilities and will have the ability to make a call on shareholders to cover potential shortfalls.

**Maturity analysis of liabilities:**

<b>2020</b>	<b>Total</b>	<b>0-12 months</b>	<b>1-2 Years</b>	<b>2-5 Years</b>	<b>5 Years &amp; over</b>
<b>Financial Liabilities</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Secured Bank Loan	23,414,400	604,800	604,800	22,204,800	0
Derivative Financial Instruments	455,700	133,000	133,000	189,700	0
<b>Other Financial liabilities</b>					
Trade and other payables	627,907	627,907	0	0	0

**Credit Risk**

Credit risk is the risk that the counterparty to a transaction with the Fund will fail to discharge its obligations, causing the Fund to incur a financial loss. Financial instruments which potentially subject the Fund to credit risk consist of cash and cash equivalents and trade and other receivables. The Fund's policy to limit credit risk is to assess the creditworthiness of prospective tenants, and rent payments are required in advance. Where tenants do fall into default, this is actively managed to collect arrears. Cash and cash equivalents are held with a registered bank, with Standard & Poor's credit rating of AA-. The Fund manages its exposure to credit risk on an ongoing basis.

Maximum exposures to credit risk at balance date are the carrying amounts of financial assets in the statement of financial position. The Fund has no concentration of credit risk.

**Market risk**

Market risk is the risk that changes in market prices such as interest rates will affect the Fund's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return on risk. The Fund's interest rate risk arises from bank borrowings (note 10). Borrowings issued at variable rates expose the Fund to cash flow interest rate risk. Borrowings issued at fixed interest rates expose the Fund to fair value interest rate risk. The Fund manages its cash flow interest rate risk by having a portion of the bank borrowings on fixed interest rates. This has the economic effect of providing certainty around Interest payments on the bank borrowings. The floating portion of the borrowings is exposed to market interest rate risk. This risk is managed by the Directors of the Manager regularly evaluating current market interest rates and conditions and the risks associated and responding appropriately, including entering into interest rate swaps.

**PMG GENERATION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 MARCH 2020**

**6. Financial Instruments continued**

**Market risk continued**

PMG Generation Fund has a loan facility with ASB Bank. The Loan facility limit is \$23,100,000 and \$21,600,000 is drawn down at balance date. The loan has a floating interest rate of 2.80% and a maturity date of 31 March 2023.

Trade and other receivables and payables are interest free and have settlement dates within thirty days. All other assets and liabilities are non-interest bearing.

**Interest rate risk**

In managing interest rate risks the Fund aims to reduce the impact of short-term fluctuations on the Fund's earnings. Over the longer-term, however, permanent changes to interest rates would have an impact on profit.

	<b>Weighted average Interest Rate</b>	<b>Balance</b>	<b>% of total loans</b>
<b>31 March 2020</b>			
Bank Loans	2.80%	21,600,000	100%
Interest Rate Swaps	1.35%	14,000,000	
<b>Net exposure to cash flow interest rate risk</b>		<b>7,600,000</b>	

**Sensitivity**

Sensitivity in changes to interest rates is normally relevant to financial instruments bearing floating interest rates but may be relevant to fixed rate financial instruments that are re-measured at fair value.

The following is a cash flow sensitivity analysis for variable rate borrowings. A change in 100 basis point in interest rates at 31 March 2020 would have increased (decreased) equity or profit and loss by the amounts shown below. This analysis assumes that all other variables remain constant.

	<b>Profit or Loss 100bp Increase \$</b>	<b>100bp decrease \$</b>	<b>Equity 100bp increase \$</b>	<b>100bp decrease \$</b>
<b>31 March 2020</b>				
Variable rate bank borrowings	(592)	592	(592)	592
<b>Cash flow sensitivity (net)</b>	<b>(592)</b>	<b>592</b>	<b>(592)</b>	<b>592</b>

**Derivatives financial instruments**

The Fund holds derivative financial instruments at fair value through the profit and loss in the form of interest rate swaps to reduce interest rate risk. At 31 March 2020, interest rate swaps had a notional value of \$14,000,000. Fair value has been determined by ASB Bank Limited. At 31 March 2020 the interest rate swaps were held in the name of PMG Capital Fund Limited but an agreement was in place to transfer these into PMG Generation Fund Limited, which was done subsequent to balance date.

**Fair values and fair value hierarchy**

The carrying amounts shown in the Statement of Financial Position are a reasonable approximation of the fair value of the financial instruments. The methods used in determining the fair value of financial instruments are disclosed in note 3(a)(v). The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**PMG GENERATION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 MARCH 2020**

6. Financial Instruments continued

**Derivatives financial instruments continued**

<b>Classification and fair values</b>	<b>Total Carrying Amount</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>31 March 2020</b>				
<b>Financial Liabilities Designated at fair value</b>				
Derivative Financial Instruments	349,817	0	349,817	0
<b>Total Financial Liabilities</b>	<b>349,817</b>	<b>0</b>	<b>349,817</b>	<b>0</b>

7. Investment property

Investment property comprises properties at the following locations:

- 26 Sharpe Road, Rukuhia, Hamilton;
- 32 Jamaica Drive, Grenada North, Wellington;
- 32A Jamaica Drive, Grenada North, Wellington;
- 32B Jamaica Drive, Grenada North, Wellington and
- 67 Vickers Road, Wigram, Christchurch

The Fund's investment properties are valued every year by external, independent valuation companies, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

As noted in Note 2, valuation reports are noted to have been prepared on the basis of 'material valuation uncertainty' due to the impact of the COVID-19 outbreak. Consequently, less certainty – and a higher degree of caution – should be applied when using valuations than is normally the case, and it is likely that values may change more rapidly and significantly.

It has been noted that the reporting date of 31 March fell within New Zealand's COVID-19 Alert Level 4 lockdown period and severe restrictions were in place within the domestic economy which meant that the real estate market was effectively frozen during this period, as the Government signalled that it did not consider the real estate market fell into the "essential" category. Accordingly, these circumstances contradict the definition of market value which is predicated on willing market participants and proper marketing, elements which did not exist at 31 March 2020. The measures at Alert level 4 were considered to be temporary and expected to be lifted in a relatively short period of time. In order to form a pragmatic view at 31 March, by necessity the Level 4 status was set aside as a short term aberration, and a functioning market was assumed in order to form a Market Value, however it has also been noted that it was not yet known how the market will react following the lockdown, and that in some cases less weight has been able to be given to previous market evidence for comparison purposes.

The impact of these events has been considered by the property valuers in various ways, based on their assessment of the individual property and the impact of the COVID-19 situation. This includes assessing rental relief likely to be provided and the quality and nature of tenants, when forming their opinion of value, which has been issued on a material uncertainty basis as noted above.

There are not expected to be any restrictions on realisation of the investment properties at such a time the investment properties are sold. Other than those detailed in Note 15, there are no contractual obligations to purchase, construct or develop property.

Refer table overleaf for valuation methods used by independent valuers.



**PMG GENERATION FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 31 MARCH 2020**

**7 Investment property continued**

**(i) Valuation methodology**

The fair value of the investment property was determined using a combination of the land and buildings approach (market comparison), income capitalisation and discounted cash flow methods. The valuation methodologies are summarised as follows:

**Land and building approach (market comparison)**

With the market comparison approach the sales of existing buildings are considered and, from the sale price, deductions are made for land value and other improvements associated with the property. This leaves a residual sum for the main building which is divided by the floor area to arrive at a building rate per square metre. The rates analysed from the sales evidence are then considered in comparison with the subject property and the reverse exercise undertaken.

**Income capitalisation**

The investor in the property expects a predetermined rate of return and with most investment properties this is derived from rentals received. The market investment required return varies according to the risk involved, the type of investment, location and expected capital growth. Two of the main variables (lease rental income and capitalisation rate) are analysed from available rental and sales evidence.

**Discounted cash flow**

Discounted cash flow considers the present value of future cash flows that could be, or is generated from the property under given parameters.

For further details of the valuation methods used and assumptions made a copy of the full valuation report can be requested from PMG Generation Fund. The revaluation is included in the statement of comprehensive income.

**(ii) Measurement of fair value - Reconciliation of fair value of investment property**

	26 Sharpe Road	32 Jamaica Drive	32A Jamaica Drive	32B Jamaica Drive	67 Vickers Road	Totals
	\$	\$	\$	\$	\$	\$
Opening balance	0	0	0	0	0	0
Cost of acquisition	27,756,521	7,050,000	3,400,000	4,300,000	10,190,132	52,696,653
Capitalisation of expenses	645,959	127,126	59,500	75,250	327,940	1,235,775
Increase/decrease in fair value	(502,480)	(117,126)	(69,500)	(75,250)	(218,072)	(982,428)
Valuation at 31 March 2020	27,900,000	7,060,000	3,390,000	4,300,000	10,300,000	52,950,000
Fair Value at 31 March 2020	27,900,000	7,060,000	3,390,000	4,300,000	10,300,000	52,950,000

**PMG GENERATION FUND**  
NOTES TO THE FINANCIAL STATEMENTS  
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7 Investment property continued

(iii) Key Valuation considerations

	Valuer	Net Market Rental	Yield on Net Market Rental	Residual Lease Term
26 Sharpe Road	Aim Valuation	\$1,551,434	5.56%	5.92 years
32 Jamaica Drive	Colliers International	\$445,445	6.33%	0.70 years
32A Jamaica Drive	Colliers International	\$212,095	6.26%	1.46 years
32B Jamaica Drive	Colliers International	\$285,194	6.96%	0.15 years
67 Vickers Road	Jones Lang LaSalle	\$682,905	6.46%	4.42 years

(iv) Fair value hierarchy

The fair values of the investment property are categorised into a fair value hierarchy based on the inputs used in the valuation technique adopted as follows:

**Level 1:** Quoted prices (unadjusted in active markets for identical assets and liabilities).

**Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the assets or liability, either directly (ie. as prices) or indirectly (ie. derived from prices).

**Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value measurement of investment properties has been categorised as level 3 fair value based on the inputs to the valuation technique used being observed and unobservable inputs.

If inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

(v) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about significant unobservable inputs used in measuring the fair value of investment property.

	<b>Fair value at 31 March 2020</b>
	<b>\$</b>
<b>Investment Properties</b>	52,950,000
<b>Significant Unobservable Inputs</b>	<b>Range of Inputs 2020</b>
Discount Rate	6.95% - 8.00%
Capitalisation	5.55% - 6.50%

The Inter-relationship between key unobservable inputs to fair value measurement is the estimated Fair Value would increase/(decrease) if the input was lower/(higher).

**PMG GENERATION FUND**  
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<b>8. Trade and other payables</b>	<b>2020</b>
	<b>\$</b>
Trade Payables	627,907
Trade and Other Payables	<u>627,907</u>
<b>9. Trade and other receivables</b>	<b>2020</b>
	<b>\$</b>
Trade and other receivables	462,544
GST receivable	333,764
Trade and Other Receivables	<u>796,308</u>

**10 Borrowings**

The borrowings are for investment properties, with the total amount owing at 31 March 2020 being \$21,600,000. These borrowings are all non-current borrowings at 31 March 2020. The borrowings are secured over the following properties: 26 Sharp Road, Rukuhia, Hamilton, 67 Vickers Road, Wigram, Christchurch, 32, 32A & 32B Jamaica Drive, Grenada North, Wellington. There is also a General Security Deed held by ASB over PMG Generation Fund Trustees Limited.

Under the terms of the ASB borrowing facility, the Fund is required to comply with the following covenants:

- Provision of annual financial accounts
- Updated tenancy schedule/leave variations for secured properties when requested
- Updated Registered Valuations to be provided to the bank on request
- Maintenance of adequate insurance on the secured properties and no less than 24 months loss of rents insurance, noting the Lender's interest as first general security interest holder
- Loan to value ratio not to exceed 45%
- Interest cover to be greater than 2.0 times (net committed rental income/ interest costs)
- Must maintain a Weighted Average Lease Term of not less than 3.0 years at all times
- No investor to hold more than 30% shareholding in the borrowing entity without ASB consent

The Fund has complied with the covenants of its borrowing facilities during the period ended 31 March 2020.

**11 Reconciliation of operating results and operating cashflows**

	<b>2020</b>
	<b>\$</b>
<b>Total net profit/ (loss)</b>	<b>(940,607)</b>
<b>Adjustments for:</b>	
Changes in fair value of investment property	(934,806)
	<b>(5,801)</b>
<b>Changes due to assets and liabilities used in operating activities</b>	
Accruals	10,000
GST	(333,764)
Net cash from/ (used in) operating activities	<b>(329,565)</b>

**PMG GENERATION FUND**  
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12 Revenue

Revenue is accounted for in accordance with NZ IFRS 15 *Revenue from Contracts with Customers* and NZ IFRS 16 *Leases*. Revenue is recognised when or as control of the promised services is transferred to customers, in an amount that reflects the consideration the Fund expects to be entitled to in exchange for those services.

	<b>2020</b>
	<b>\$</b>
<b>Revenue</b>	
Rental income from property leases	0

The following is a description of principal activities from which the Fund generates revenue.

**Property Ownership Services**

The Fund provides a suite of services to occupiers of the Fund's property, summarised as property ownership services. The Fund reports revenue from such services in the Property Operating Expenses Recovered line in the statement of profit or loss and other comprehensive income.

Property ownership services involve the management of the Fund's investment property leased to customers. Contracts for property ownership services are often structured so the Fund is reimbursed for subcontracted vendor costs as well as associated overhead expenses and management fees (operating expense recoveries). Property ownership services represent a series of distinct daily services rendered over time to deliver the overall performance obligation of managing the tenancy and property for each customer. The Fund is also often reimbursed for administrative and sub-contractor costs directly attributable to the properties under management.

The amount of revenue recognised is presented gross for all property ownership activities (with an offsetting expense recorded in cost of services provided) as these are reimbursements of costs of third-party services delivered to customers that are controlled by the Fund, therefore the Fund is considered to be the Principal for those services. In any instances where the Fund does not control third-party services delivered to the client, the Fund is considered to be an Agent and therefore reports revenues net of the third-party charges for the services performed.

The Fund assesses variable consideration, relating to expense recoveries on a contract by contract basis, and when appropriate, recognises revenue based on Management's assessment of the outcome (using a weighted probability approach) and historical results, if comparable and representative. Using management assessment and historical results and statistics the Fund recognises revenue if it is deemed probable there will not be significant reversal in the future.

**Accounts Receivable and Loss Allowance for Expected Credit Loss**

The Fund records accounts receivable for unconditional rights to consideration arising from performance under contracts with customers. The carrying value of such receivables, net of the loss allowance represents their estimated net realisable value. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually. As a practical expedient, the Fund does not adjust the promised amount of consideration for the effects of a significant financing component when the Fund expects, at contract inception, that the period between transfer of a promised service to a customer and when the customer pays for that service will be one year or less. The Fund does not typically include extended payment terms in contracts with customers.

**Remaining Performance Obligations**

Remaining performance obligations relate to future operating expense recoveries to be received over the remaining contracted lease periods. These recoveries are expected to be materially consistent per owned property.



**PMG GENERATION FUND**  
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**13 Related parties**

The Fund's related parties consist of the Manager, the Supervisor and members of key management personnel of the Manager and the Supervisor. PMG Capital Fund is also a related party of the Fund as it has common Directors as the Manager.

Transactions with related parties – the following transactions occurred with related parties

	<b>2020</b>
	<b>\$</b>
<b>Payment for goods and services:</b>	
Payment of Property Fund and management fees to the Manager	0
Payment of issue and property acquisition costs relating to the raise to the Manager	2,180,602

PMG Property Funds Management Limited purchased 1,458,000 units at \$1 each in PMG Generation Fund on the 31<sup>st</sup> of March 2020. At balance date PMG Property Funds Management Limited owed PMG Generation Fund \$154,740 for reimbursement of equity raise costs.

At Balance Date PMG Generation Fund owed the Supervisor \$17,983 for fees.

At Balance Date Denis McMahon, a Director of the Manager held 500,000 units in PMG Generation Fund.

During the period PMG Generation Fund purchased 32, 32A and 32B Jamaica Drive, Wellington from PMG Capital Fund Limited. The Purchase Amount was \$14,750,000 and was determined by independent valuation. PMG Capital Fund Limited has a vendor underwrite capped at \$300,000 in respect to the rent on this property for a period of two years from 31 March 2020.

Deposit fees were also paid to PMG Capital Fund Limited for the deposits on 26 Sharpe Road and 67 Vickery Street totaling \$261,662 plus GST. This amount was payable at balance date.

PMG Capital Fund Limited purchased 12,500,000 units at \$1 each in PMG Generation Fund on the 31<sup>st</sup> of March 2020.

**14 Lessor Operating Lease**

The Fund's investment property has the following minimum lease payments receivable under non-cancellable operating leases:

	<b>2020</b>
	<b>\$</b>
Not later than one year	2,938,843
Later than one year and not later than two years	2,457,385
Later than two years and not later than three years	2,217,345
Later than three years and not later than four years	2,217,345
Later than four years and not later than five years	1,832,576
Later than five years	1,432,712
<b>Total lease receivable</b>	<b>13,096,207</b>

The leases are subject to rent reviews and have renewal dates, whereby lessees have the right to renew for an agreed term.

**15 Capital commitments**

The Fund has no capital commitments at 31 March 2020.



**PMG GENERATION FUND**  
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**16 Contingent liabilities**

As at 31 March 2020 there were no contingent liabilities.

**17 Subsequent events**

As per Note 6 PMG Generation Fund had entered into an agreement with PMG Capital Fund Limited to take over the two ASB Interest Rate Swaps, totaling \$14million which have termination dates of 31 March 2023 and 2 April 2024 respectively. These transferred into PMG Generation Fund's name in May 2020 and have been accounted for as a liability in PMG Generation Funds financial statements.

The Fund has agreed Rent relief of approximately \$194,000 to help tenants due to the COVID 19 outbreak to-date. This is covered by Vendor Underwrite.

**18 Comparison to prospective financial statements**

As per the product disclosure statement (PDS) OFR12827 dated 20 February 2020, a comparison to the prospective financial statements has been prepared.

The key differences between actuals and the PDS are a result of the fair value of investment property decreasing less than forecast. The fair value adjustment on Interest Rate Swaps were not included in the PDS. An extra one million units were issued than in the PDS, which meant borrowings were less than forecast and issue costs were higher than forecast.

## INDEPENDENT AUDITOR'S REPORT

### To the Investors of PMG Generation Fund

#### Report on the Audit of the Financial Statements

##### Opinion

We have audited the financial statements of PMG Generation Fund ('the Fund') on pages 2 to 20, which comprise the statement of financial position as at 31 March 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period then ended, and notes to the financial statements, including significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at 31 March 2020, and its financial performance and its cash flows for the period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS').

Our report is made solely to the Investors of the Fund. Our audit work has been undertaken so that we might state to the Investors of the Fund those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Investors of the Fund as a body, for our audit work, for our report or for the opinions we have formed.

##### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with Professional and Ethical Standard 1 (Revised) *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor and provider of other assurance services we have no relationship with, or interests in, the Fund. The provision of these other assurance services has not impaired our independence.

##### Emphasis of Matter

As disclosed in Note 7, property valuations have been issued on a material uncertainty basis, as there was no evidence available to assess the future impact of the COVID-19 pandemic and the lockdown on the property market. As such the valuers recommended that less certainty and a higher degree of caution should be attached to the property values than is normally the case, and that valuations should be frequently reviewed as values may change more rapidly and significantly than has previously been the case. Our opinion is not modified in this respect.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters are selected from the matters communicated with the Directors of the Fund's Manager, but are not intended to represent all matters that were discussed with them.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>VALUATION OF INVESTMENT PROPERTIES</b></p> <p>As disclosed within Note 7, the Fund owns 5 investment properties situated within the Hamilton, Wellington and Christchurch areas. The market value of the properties as at 31 March 2020 was \$52.95m which is represented in the statement of financial position by Investment Property which makes up 99% of the total assets of the Fund.</p> <p>All of the properties had a valuation carried out by independent valuers (disclosed in Note 7) to value the property at 31 March 2020. The valuers engaged by the Fund performed their work in accordance with the International Valuation Standards and the Australia and New Zealand Valuation and Property Standards.</p> <p>We identified the valuation of investment property as a key audit matter, as the fair value involves significant judgement and estimation, particularly in selecting the appropriate valuation methodology and in determining the underlying assumptions. The valuations are sensitive to key assumptions applied, including the capitalisation rate, discount rate, and terminal yield rate.</p> <p>Due to the nature of the properties the valuers consider other market information when determining a market value for the properties.</p> <p>In addition, due to the timing of the Novel Coronavirus (COVID-19) pandemic and the fact that New Zealand was at Alert level 4 and a National State of Emergency had been declared, the future impact on the property</p>	<p>Our procedures in relation to management's valuation of investment properties amongst others included:</p> <ul style="list-style-type: none"> <li>• Reviewing the valuation reports for the Fund's investment properties, which have been used to form an estimate at balance date. We confirmed the valuation approaches for the properties were in accordance with professional valuation standards and IFRS 13 Fair Value Measurement and were suitable for determining the carrying value of the investment property as at 31 March 2020.</li> <li>• Evaluating the independent external valuers' competence, capabilities and objectivity including an assessment of the valuers' qualifications and expertise and their terms of engagement with the Fund to determine whether there were any matters that might have affected their objectivity or may have imposed scope limitations upon their work;</li> <li>• Assessing the methodologies used and the appropriateness of the key assumptions based on comparison to similar investment properties and valuations prepared by other valuers for similar property types, and/or market data available;</li> <li>• On a sample basis, reviewing the accuracy and relevance of the input data used, and assessing its consistency with information obtained during the audit.</li> </ul>



Key Audit Matter	How our audit addressed the key audit matter
<p>market was unknown at balance date. As such the valuations were issued on a material uncertainty basis.</p> <p>The Fund has adopted the assessed values determined by the valuers.</p>	<ul style="list-style-type: none"> <li>Evaluating the disclosures relating to the investment property valuations included in Note 7 of the financial statements, including the disclosure of the material uncertainty basis of valuation. We obtained confirmation from the valuers that reliance could be placed on the valuations for audit purposes.</li> </ul>

**Responsibilities of Directors of the Fund for the Financial Statements**

The Directors of the Fund’s Manager, PMG Property Funds Management Limited, are responsible on behalf of the Fund for the preparation and fair presentation of the financial statements in accordance with NZ IFRS, and for such internal control as the Directors of the Fund’s Manager determine is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors of the Fund’s Manager are responsible on behalf of the Fund for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Investors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor’s responsibilities for the audit of the financial statements is located at the External Reporting Board’s website at:

<https://xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-2/>

The engagement partner on the audit resulting in this independent auditor’s report is L M Stirling.



**BAKER TILLY STAPLES RODWAY AUDIT LIMITED**

**Tauranga, New Zealand**

29 June 2020