

# Statement of Investment Policy and Objectives (SIPO)

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**Scheme:** PMG Generation Fund

**Scheme number:** SCH12827

**Effective from:** 26 October 2023

## 1. Description of the PMG Generation Fund

- 1.1 The PMG Generation Fund (**Fund**) is a managed investment scheme registered under the Financial Markets Conduct Act 2013 (**FMCA**). The Fund was established under a Master Trust Deed dated 28 October 2016 and an Establishment Deed dated 19 February 2020 (together, **Trust Deeds**).
- 1.2 PMG Property Funds Management Limited (**the Manager**) is the manager of the Fund.
- 1.3 Units in the Fund (**Units**) are to be held by investors in the Fund (**Unitholders**). Each Unit is of equal value and confers an equal interest in the Fund.
- 1.4 Covenant Trustee Services Limited is the supervisor of the Fund (**Supervisor**). The assets of the Fund are held by PMG Generation Fund Trustees Limited (**Custodian**) on behalf of the Unitholders. The Supervisor holds the shares in the Custodian.
- 1.5 The Fund has no fixed term and may only be terminated by a special resolution of Unitholders or in accordance with the FMCA.
- 1.6 The Fund may provide redemptions or repurchase Units, at the option of the Manager. The Manager reserves the right to offer redemptions, or to suspend or defer redemptions or repurchases of Units, pursuant to the Trust Deeds.
- 1.7 The Fund intends to grow a portfolio of commercial property investments, diversified by sector, region, and tenant, to achieve greater resilience of income with scale. The portfolio of commercial property investments may include **Direct Property Investments** (being directly held real property in New Zealand) and **Indirect Property Investments** (being interests in New Zealand property funds and companies, listed New Zealand and Australian companies that invest primarily in real property, and listed Australian property trusts).

## 2. Investment Objectives

- 2.1 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.
- 2.2 The performance benchmark for the Fund is the average of the 10-year government bond yield (as published by the Reserve Bank of New Zealand) plus 4%, measured by the annual capital and income returns to Unitholders in the Fund (**Fund Performance Benchmark**). The length of investment horizon and length of measurement for the benchmark acknowledges that investment in property involves financial risk and is subject to cyclical fluctuation.

### 3. Investment Philosophy

3.1 The Manager believes that acquiring and actively managing Direct Property Investments and Indirect Property Investments focussed on commercial property will deliver Unitholders, over the medium to long term, the opportunity for income and income growth, together with capital appreciation.

### 4. Investment Strategy

4.1 The investment strategy of the Fund is to invest in a blend of Direct Property Investments and Indirect Property Investments over time, with underlying commercial property exposure diversified by region, sector, and tenant. Where appropriate, the Fund targets investments underpinned by national or international tenants operating at scale.

4.2 The Fund's investment strategy relating to Direct Property Investments is to:

- (a) invest directly into commercial buildings across New Zealand; and
- (b) grow the value of these properties by maintaining the properties, finding opportunities to add value to the properties and to find and retain quality tenants for the properties.

4.3 The Fund's investment strategy relating to Indirect Property Investments is to:

- (a) invest into entities that invest in commercial property across New Zealand;
- (b) invest into listed Australian entities that invest in commercial property across Australia; and
- (c) to actively manage investment in such entities with the aim of achieving a greater diversification of exposure by property sector, region, and tenant.

Where believed to be in the best interests of investors, the Fund has a preference to obtain interests in other property schemes managed by the Manager (including but not limited to PMG Direct Office Fund, PMG Direct Childcare Fund, and Pacific Property Fund Limited).

4.4 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.

4.5 The permitted investments of the Fund are:

<b>Asset Classes</b>	<ul style="list-style-type: none"><li>• Direct Property Investments</li><li>• Indirect Property Investments</li><li>• Interest rate swaps (for hedging purposes)</li><li>• Other assets associated with ownership of direct and indirect investments in commercial property; and</li><li>• Cash.</li></ul>
<b>Sectors</b>	<ul style="list-style-type: none"><li>• Commercial property (and assets underpinned primarily by investments in commercial property)</li></ul>
<b>Geographic location</b>	<ul style="list-style-type: none"><li>• New Zealand metropolitan and regional centres, and</li><li>• Australian metropolitan and regional centres (for investments in listed Australian entities only)</li></ul>

4.6 The target asset allocations (**Asset Allocations**) are set out below:

Asset Class	Target Allocation
Direct Property Investments	40% - 100%
Indirect Property Investments	0% - 40%
Interest rate swaps (for hedging purposes)	0% - 10%
Other assets associated with ownership of direct and indirect investments in commercial property	0% - 10%
Cash	0% - 10%

4.7 The weightings in each asset class will be reviewed at least monthly and rebalanced if appropriate. The Manager will have regard for transaction costs when considering whether a rebalancing is appropriate.

4.8 Indirect Property Investments are limited to the following asset sub-classes:

- (a) Investment in entities that invest primarily in real property in New Zealand:
  - o Managed investment products in managed investment schemes in New Zealand (including other schemes managed by the Manager); and
  - o Equity securities issued by companies in New Zealand that invest primarily in real property in New Zealand (including companies managed by the Manager); and
- (b) Investment in entities that invest primarily in real property in Australia; and
  - o Managed investment products issued by listed property trusts in Australia.
  - o Equity securities issued by listed companies in Australia.

4.9 The Fund has a target that:

- (a) no single directly held investment is to be more than 35% of the gross asset value of the Fund; and
- (b) no single interest held in Indirect Property Investments is to be more than 20% of the gross asset value of the Fund.

These targets can be exceeded with the consent of the Supervisor.

4.10 Target benchmarks for the Fund (**Investment Benchmarks**):

- (a) Weighted average lease term (**WALT**) not less than two years;
- (b) Occupancy greater than 80%; and
- (c) Fund loan-to-value ratio of not more than 50%.

The Investment Benchmarks are to be applied to the Fund as a whole (including Indirect Property Investments on a weighted, look-through basis).

4.11 The Board of Directors of the Manager (**the Board**) is responsible for monitoring the compliance of the Fund with the Asset Allocations, the performance of the Fund against the Fund Performance Benchmark, and the characteristics of the Fund against the Investment Benchmarks.

4.12 Any breaches of the parameters of the Asset Allocation set out are reported by the Board to the Supervisor of the Fund.

## 5. Investment Policies

- 5.1 Distributions:** It is the Manager's policy to distribute 100% of the Fund's Adjusted Funds From Operations (**AFFO**) to Unitholders. Distributions may be reduced below this policy where cash reserves are required to fund redemptions, or to pay for planned capital expenditure for Direct 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. AFFO is calculated as net profit before tax, after reversing the following items:
- (a) Unrealised changes in the value of Direct Property Investments and Indirect Property Investments
  - (b) Unrealised changes in the value of derivative financial instruments
  - (c) Realised gains and losses on the disposal of Direct Property Investments and Indirect Property Investments; and
  - (d) Performance Fees payable to the Manager.
- 5.2 Cash Reserves:** Where the Manager determines that cash reserves exceed the amount required to fund future capital works, the purchase of Direct Property Investments and/or Indirect Property Investments or funding redemptions of Units, the Manager will consider whether the surplus cash should be used to repay bank debt (if any) and/or allocated to a sinking fund, with any surplus distributed to Unitholders.
- 5.3 Leverage:** The Manager has been authorised by the Trust Deeds to borrow up to 50% of the Gross Asset Value of the Fund, as appropriate, secured by first-ranking mortgages over the properties in the Fund.
- 5.4 Hedging / Interest Rate Risk:** The Manager has a proactive approach to ensuring interest rates are managed. The Manager utilises interest rate swap contracts, where hedging is implemented based on risk profile and cash flow requirements of the Fund. This strategy is designed to mitigate the risk of future interest rate rises over a period of time and provides an element of interest cost certainty. The Manager works with banks to obtain accurate forecasting and achieve competitive margins for the Fund. It does not speculate on interest rates.
- 5.5 Valuation Policy:** The Manager will arrange annual valuations of each of the Direct Property Investments by a registered valuer. The valuation of Indirect Property Investments will be updated no less than annually. If there has been a significant event such as a material macroeconomic change, a major unexpected leasing or vacancy event, or other material event as determined by the Manager, the Manager may commission a valuation of one or more Direct Property Investments.
- 5.6 Conflicts of Interests / Related Party Transactions:** The Manager has adopted protocols to identify conflicts of interest and related party transactions. Each director and employee have an obligation to act in the best interests of Unitholders at all times.
- 5.7 Liquidity and Cash Flow Management:** The Manager is required to monitor the liquidity of the Fund and ensure sufficient liquidity to continue operations as a going concern at all times.
- 5.8 Limits Requiring Supervisor Approval:** The Fund will not:

- (a) enter into any transactions involving, or valued at, more than 35% of the Gross Value of the Fund; or
- (b) hold a single interest in Indirect Property Investments that reflects more than 20% of the Gross Asset Value of the Fund

without first obtaining the Supervisor's written approval (such approval not to be unreasonably withheld or delayed, having regard always to the Supervisor's duty to act in the interests of Unitholders generally).

- 5.9 Voting Policy:** Where a meeting is called by an entity in which the Fund holds an interest, the Manager will exercise the votes held by the Fund in the best interests of Unitholders in the Fund. Where a vote is held in relation to the performance of the Manager, the Manager will exercise the votes as directed by the Supervisor.

## 6. Investment Performance Monitoring

- 6.1** Each financial quarter (or more frequently if required), the Manager will provide a report to the Board which details:
- (a) accounting information over the period including a statement of profit or loss, balance sheet and transaction details;
  - (b) interest times cover and loan to value ratio (as defined in the bank loan facility) and compliance with other bank covenants;
  - (c) comment on past performance and the reason for over/under performance; and
  - (d) economic comment pertinent to the investment objectives and the outlook for future returns.
- 6.2** The Manager will provide to Unitholders, within three months following the end of the Fund's financial year, the audited financial statements for the Fund.
- 6.3** The Manager will provide Unitholders, within 5 months following the end of the Fund's financial year, an annual report that contains:
- (a) a description of any material changes to the Fund
  - (b) a report on the financial condition and performance of the Fund; and
  - (c) any other matter required by the FMCA.
- 6.4** A general meeting of Unitholders will be convened on an annual basis.

## 7. Investment Strategy Review

- 7.1 The Board (or sub-committee thereof) will, on a no less than annual basis, review the key metrics for the Fund's property investments and assess if any property investments should be sold. This review will include both Direct Property Investments and Indirect Property Investments. The key metrics to be considered include:
- (a) **Macro-economic conditions:** What are the underlying macro-economic conditions that may influence the Fund's future performance?
  - (b) **Forecast major capital expenditure:** When are the works due? How will this be funded? Will there be an impact on cash distributions?
  - (c) **Lease expiry profile:** Are all the leases expiring at a similar time, and is it likely that the tenants will renew their leases?
  - (d) **Weighted average lease term (WALT):** How long do the leases have to run?
  - (e) **The Fund's annual return against the benchmark:** Is the Fund delivering at or above any performance benchmark?
  - (f) **Property market conditions:** What are the prospects for the properties in the Fund's target sectors and geographic areas, including the properties within the Indirect Property Investments?
  - (g) **Property valuations:** Reviewing the latest property investment valuations and, where necessary, examining why there are value differences to the prior year.
  - (h) **Forecast net income:** Are the current cash distributions sustainable?
  - (i) **Forecast compliance with banking covenants:** Will the Fund (or any of the Indirect Property Investments) be at risk of breaching its banking covenants in the future? Standard bank covenants include loan-to-value ratio (level of debt versus value of property) and interest-times-cover (how much the income from the property investments exceed the bank interest payable).
  - (j) **Indirect Property Investments:** Is the gross distribution return and internal rate of return from the investment sufficient?
- 7.2 Acting in the best interest of Unitholders, if the Manager believes that a property investment should be sold (after consideration of relevant factors) it will prepare a report to the Board (or sub-committee thereof) for consideration. If the Board (or sub-committee thereof) approves the recommendation, the Manager will endeavour to sell the property investment provided the transaction remains in compliance with clause 5.8 of this SIPO.
- 7.3 If the review by the Board (of sub-committee thereof) identifies a material and sustained change in conditions, then the Investment Strategy may be amended by the Manager. This amendment in Investment Strategy may involve an amendment to the SIPO, in which case the SIPO review process (detailed below) will be triggered.

## **8. SIPO Review**

- 8.1** The Board (or sub-committee thereof) will formally review this SIPO on an annual basis, or more frequently if required in relation to market conditions and regulatory requirements.
- 8.2** If a change to the SIPO or Investment Strategy is proposed, the Board (or sub-committee thereof) must follow the procedure in their relevant charter to amend the SIPO. It will liaise with Unitholders and the Supervisor as required.
- 8.3** Should a breach of any SIPO benchmark occur at the time of annual monitoring, a review of the managed investment scheme and properties will be undertaken and the requirement of an ad-hoc review of the SIPO will be triggered.

## **9. Availability of this SIPO**

- 9.1** The most current version of this SIPO is available on the register entry for the Scheme on the Disclose Register website at <https://disclose-register.companiesoffice.govt.nz>.