Centuria

Statement of Investment Policy and Objectives

Centuria Shands Road Property Trust

Effective from: 12 November 2024

Description of the Trust

Centuria Shands Road Property Trust (the *Trust*) is a managed investment scheme established to acquire 146 and 166 Shands Road, Hornby, Christchurch (the *Property*) and fund an expansion of the existing building at the Property (the *Expansion*) pursuant to a development agreement (the *Development Agreement*) with General Distributors Limited (the *Tenant*).

Legal title to the Property is to be held by Shands Road Property Trust Nominee Limited as bare trustee for the Trust.

The Trust is managed by Centuria Funds Management (NZ) Limited (the *Manager*). The Trust's supervisor is Covenant Trustee Services Limited (*Supervisor*).

Investment objectives

The Trust has a long-term investment horizon and the primary objectives are to:

- pay investors a regular monthly cash distribution; and
- preserve and grow the value of the Property by funding and overseeing the successful completion of the Expansion on-time and to a high standard, and attending to necessary ongoing repairs, maintenance and capital expenditure once the Expansion is complete.

Investment philosophy

The Manager's philosophy, as a leading property funds manager, is to select and manage high quality commercial and industrial real estate which has quality tenant(s) with long lease term(s) in a good location. The approach is to ensure that any risks taken are appropriate and commensurate with the Trust's goals, protecting the investor's interests and to create satisfied investors who seek repeat investment opportunities. The Manager's philosophy is that the nature of property investment favours a long-term hold approach.

Investment strategy

The strategy of the Trust is to acquire the Property, oversee and fund the Expansion, continue to lease it to the Tenant or any replacement tenant and preserve and grow investors' equity by active management of the Trust and the Property.

Asset allocation

The only assets the Trust may hold are:

- The Property and any leases/licences of the Property;
- The Development Agreement with the Tenant and associated agreements, guarantees or warranties;
- Cash deposits with registered New Zealand banks; and/or
- Any other assets arising in connection with holding the Property including prepayments, accounts receivables, interest rate hedging agreements and insurance receivables.

There are no limits on the proportion of the above assets that the Trust may hold.

Investment policies

Cash flow management policy

The Manager will manage the Trust's cash flow in such a way to not cause undue risk or expense to the Trust by:

- Incurring only costs that are deemed appropriate and reasonable and permitted under the Trust Deed;
- Maintaining and regularly reviewing a cash flow budget and providing an early warning system for potential problems;
- Regularly reviewing the loan term, interest rate margin, key bank covenants such as the Interest Cover Ratio and LVR, hedging strategy, and assessing when it is prudent to amortise debt.

The following circumstances may result in the Manager reducing or ceasing investor distributions:

- Projected reduction or cessation of rental income;
- Risk of breach of lender interest cover ratio covenant;
- Risk of breach of lender LVR covenant;
- The bank account balance is forecast to breach internal liquidity policy measures;
- Unexpected expenditure;
- Interest rate movement;
- Where cash reserves are required to meet the budgeted expenditure of the Trust or
- Any other circumstance where the Manager deems appropriate.

The following circumstances may result in the Manager increasing investor distributions:

- There are sufficient funds in the bank account to fund all anticipated expenses, repairs and maintenance and CAPEX costs for the medium term;
- There is a regular monthly surplus from rent receipts after paying expenses and investor distributions; or
- Any other circumstance where the Manager deems appropriate.

Interest Cover Policy

The interest cost cover ratio is to be maintained at a level not less than the ratio required under the Trust's banking facilities.

Capital Expenditure Policy

The Manager's ongoing CAPEX policy is to work closely with the property manager to monitor the general condition of the Property and the building and to ensure ongoing routine repairs and maintenance are undertaken with a high level of workmanship. The Manager has sought a building condition report to assist in identifying future CAPEX requirements, which have been provisioned for at the Trust's establishment.

The Manager will request and review all tenders if and when required for any CAPEX needed for the Property, produce potential strategy(s) of how to fund costs and seek investor consent if it is necessary as per the Trust Deed. Furthermore, the Manager will ensure that any works being undertaken comply with current health and safety legislation.

Hedging/Interest Rate Policy

Investor returns are subject to interest rate variations on bank loans which cannot be accurately predicted. Interest rates on bank loans consist of a floating base rate and a margin that is generally fixed until loan expiry. Fixing base rates reduces the risk profile of the Trust by creating interest rate certainty and supporting more stable returns. The trade-off is that fixed base rates may exceed floating rates during the fixed period. The Manager will actively monitor interest rates and assess on a case-by-case basis whether it is in the interests of the Trust to fix interest rates and the appropriate term.

Leverage Policy

- The Trust can only incur additional bank debt where the that additional lending, together with the Trust's existing lending, is less than 55%[1] of the greater of:
    - the most recent independent valuation obtained for the Property (which may be an "as if complete" valuation prior to practical completion of the Expansion or if there is any other development, maintenance or capital expenditure being completed on the Property); and
    - the aggregate of the purchase price for the Property, the Trust's contribution to the Expansion costs of the Expansion and the establishment costs of the Trust.

  A refinance of existing lending is not considered additional bank debt unless the loan amount is increasing.
- In addition, the loan to value ratio must be maintained in line with the covenant level and definition in the Trust's bank facilities.
- The Trust's loan to value ratio for its bank covenant is expected to be tested at least annually against the independent market Property revaluation from a qualified registered valuer.
- If the Trust breaches its loan to value ratio for its bank covenant, anticipated strategies to remedy are:
    - Undertake a strategic review and assess options (such as a sale of the Property);
    - Debt reduction through principal repayments;
    - Reduce or cease investor distributions; and/or
    - Raise further equity, subject to compliance with applicable laws.

Investment performance monitoring

- The Manager's finance team and asset management team are jointly responsible for the management of investment risk by regularly monitoring the performance of the Trust.
- The Manager prepares an annual budget for the Trust and on a regular basis reviews actual figures against budgeted amounts.
- The Trust Deed requires that quarterly management accounts are provided to the Supervisor.
- The Manager will calculate the net tangible assets per unit and the distribution paid and provide these details in the annual report to investors.
- The Manager will provide investors with the Trust's audited financial statements within the timeframe prescribed in the Trust Deed.
- The Manager will hold an annual investor meeting, and special meetings as required.

<u>Investment Reporting</u>

The Manager will report in writing to investors biannually, on aspects of the Trust and the Property. Investor updates will include, at a minimum, data and/or commentary on the following:

- Tenant: WALE, updates and any concerns;
- Property: current independent market valuation, any issues or anticipated costs, keys risks or opportunities (if applicable); and
- Loan: loan amount, loan maturity, LVR and interest rate.

Investment strategy review

The Manager undertakes a full strategic review of the Trust and Property at least once per year. The long-term hold strategy will be reviewed annually, or as otherwise required by the Manager and is subject to the financial performance of the asset, market conditions and regulatory requirements.

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[1] Excluding any subordinated debt where the debt (A) does not have a stated maturity date, (B) has an interest rate that is less than or equal to the then current rate of distributions to investors; (C) is only repayable out of the proceeds of debt raised or from the proceeds raised from the issue of units to investors and (D) ranks equally with the claims of investors on liquidation of the Trust.

Review and amendment of SIPO

The Manager will undertake a formal review of the SIPO at least annually and otherwise when the Manager considers there has been a change in either market conditions materially affecting the Trust or the performance of the Property. The Manager will also review this SIPO as required due to any change in regulatory requirements. The investment objectives, policies and strategy will be taken into consideration in relation to the current market and regulatory environment. If necessary the SIPO may be updated with any proposed amendments to be made in consultation with the Supervisor.

Availability of this SIPO

The most current version of this SIPO is available on the register entry for the Fund on the Disclose website at https://disclose-register.companiesoffice.govt.nz