

PROSPECTIVE FINANCIAL INFORMATION RELATING TO AN OFFER OF UNITS IN PMG GENERATION FUND

Issuer: PMG Property Funds Management Limited
Scheme: SCH12827
Related to Offer: OFR13121

Basis of preparation

The prospective financial information included below is for the reporting entity PMG Property Funds Management Limited (the **Manager**) in respect of the PMG Generation Fund (the **Fund**). The Fund is established under the Financial Markets Conduct Act 2013 (**FMCA**) and registered and domiciled in New Zealand. The Fund is a Managed Investment Scheme and is principally involved in the ownership and management of investment property in New Zealand. The Fund was established on 20 February 2020 and commenced trading on 31 March 2020 as a Retail Managed Investment Scheme.

The Fund was established to grow a diversified commercial property investment portfolio in major metropolitan and regional centres of New Zealand. The Fund purchased three industrial properties on commencement of trading (the **Existing Properties**) and intends to purchase two additional properties on 30 July 2021. Further information about the Manager's investment strategy is set out in the Statement of Investment Policies and Objectives for the Fund. The supervisor of the Fund is Covenant Trustee Services Limited (the **Supervisor**).

The Manager is offering investors up to 69,000,000 units in the Fund at \$1.09 each (the **Offer**). The Manager is making the Offer to raise capital to provide funding for the Fund to acquire a further two properties (the **Acquisition Properties**). The Product Disclosure Statement (**PDS**) for the Offer dated on or around 10 June 2021 can be found at www.business.govt.nz/disclose, by searching "PMG Generation Fund" under "search for an offer".

The Prospective Financial Statements have been prepared for the purpose of the Offer as required by the Financial Markets Conduct Regulations 2014 (**Regulations**) and may not be suitable for any other purpose.

The Prospective Financial Statements for the Fund were prepared and authorised by the Directors of the Manager on 10 June 2021 for use in the PDS and not for any other purpose. The Manager is responsible for the Prospective Financial Statements including the assumptions underlying the Prospective Financial Statements and all other required disclosures.

The Prospective Financial Statements, which include a Prospective Statement of Comprehensive Income, Prospective Statement of Changes in Equity, Prospective Statement of Financial Position and Prospective Statement of Cash Flows, are prepared in accordance with Financial Reporting Standard 42: Prospective Financial Statements (**FRS 42**). Also included in the prospective information are the statement of accounting policies, key assumptions on which the Prospective Financial Statements are based, and a sensitivity analysis regarding those key assumptions.

The Prospective Financial Statements, including the assumptions on which they are based, are the responsibility of, and have been prepared by, the Directors of the Manager and are based on events and conditions existing as at the date of the PDS. The Directors of the Manager have given due care and attention to the preparation of the Prospective Financial Statements, including the underlying assumptions. These assumptions should be read in conjunction with the sensitivity analysis on page 22-24 of the Prospective Financial Statements, the risks set out in the PDS at Section 7 *Risks to Returns from PMG Generation Fund*, and the Fund's accounting policies, which can be found in the section entitled *Statement of Accounting Policies* below.

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Prospective Financial Statements, by their nature, are inherently uncertain. The Prospective Financial Statements are a prediction of future events that cannot be assured. They involve risks and uncertainties, many of which are beyond the control of the Fund and the Manager. These risks and uncertainties include, but are not limited to, the non-occurrence of anticipated events or alternatively events occurring that were not anticipated. Further risks are set out in the PDS at Section 7 *Risks to Returns from PMG Generation Fund*. Various risk factors and the management of those risk factors may influence the success of the Fund's business. Accordingly, actual results are likely to vary from the Prospective Financial Statements, and these variations may be significantly more or less favourable to the Fund. Therefore, the Directors of the Manager cannot and do not guarantee the achievement of the prospective financial information included within the Prospective Financial Statements.

The Prospective Financial Statements are based on one or more hypothetical but realistic assumptions. The actual results may differ from the Prospective Financial Statements if there are fluctuations in the various factors contributing to the Fund's performance, position, and cash flows. The resulting variance may be material. Neither the Fund, the Directors of the Manager, nor any other person give a guarantee or assurance that the Prospective Financial Statements presented will be achieved.

There is no present intention to update the Prospective Financial Statements or to publish Prospective Financial Statements in the future for the Fund, other than as required by the Financial Reporting Act 2013, the Regulations or New Zealand Equivalents to International Financial Reporting Standards (**NZ IFRS**). The Manager will present a comparison of the Prospective Financial Statements with actual financial results when reported in accordance with New Zealand Generally Accepted Accounting Practice (**NZ GAAP**) and Regulation 64 of the FMC Regulations.

It is presumed that the maximum equity to be raised from the Offer, 69,000,000 units at \$1.09 per unit, is achieved. The projected returns shown below are based on holding one or more parcels of 34,000,000 units from 1 April 2021 to 29 July 2021, and one or more parcels of 103,000,000 units from 30 July 2021 onwards, and calculated based on distributions planned from available funds from operations (**AFFO**).

The accounting policies assumed in the Prospective Financial Statements reflect the policies currently adopted by the Manager in the annual financial statements of the Fund for the year to 31 March 2021, which are also expected to be adopted by the Manager in future reporting periods.

The Fund has already entered the PIE regime and is not liable for income tax.

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PROSPECTIVE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDING 31 MARCH

	2022	2023
	\$	\$
Revenue		
Rental income from investment properties	7,967,000	10,284,000
Property operating expenses recovered	1,369,000	1,536,000
Total revenue	9,336,000	11,820,000
Less expenses		
Property operating expenses	(1,891,000)	(2,166,000)
Property & Fund management fees	(750,000)	(974,000)
Audit fees	(35,000)	(35,000)
Supervisor fees	(41,000)	(52,000)
Performance fees	-	-
Other overhead expenses	(160,000)	(207,000)
Total expenses	(2,877,000)	(3,434,000)
Operating Profit	6,459,000	8,386,000
Finance costs		
Interest income	-	-
Line fees	(54,000)	(72,000)
Interest expense	(1,625,000)	(2,134,000)
Net change in fair value of derivatives	-	-
Net financing costs	(1,679,000)	(2,206,000)
Unrealised loss on value of investment property	(3,215,000)	-
Profit before income tax	1,565,000	6,180,000
Income tax expense	-	-
Net profit for the year	1,565,000	6,180,000
Other comprehensive income net of tax	-	-
Total comprehensive income for the year	1,565,000	6,180,000

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PROSPECTIVE STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDING 31 MARCH

	Issued Units \$	Retained Earnings \$	Total Equity \$
Balance as at 1 April 2021	32,516,000	3,373,000	35,889,000
Net profit for the year and total comprehensive income	-	1,565,000	1,565,000
<i>Transactions with investors in their capacity as investors:</i>			
Issuance of units	75,210,000	-	75,210,000
Unit issue transaction costs	(3,480,000)	-	(3,480,000)
Distributions to investors	-	(4,777,000)	(4,777,000)
Balance at 31 March 2022	104,246,000	162,000	104,407,000
Balance as at 1 April 2022	104,246,000	162,000	104,407,000
Net profit for the year and total comprehensive income	-	6,180,000	6,180,000
<i>Transactions with investors in their capacity as investors:</i>			
Distributions to investors	-	(6,180,000)	(6,180,000)
Balance at 31 March 2023	104,246,000	162,000	104,407,000

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PROSPECTIVE STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH

	2022 \$	2023 \$
ASSETS		
Current assets		
Cash and cash equivalents	105,000	133,000
Trade and other receivables	283,000	253,000
Other current assets	497,000	652,000
	885,000	1,038,000
Non-current assets		
Investment property	167,862,000	169,120,000
	167,862,000	169,120,000
Total Assets	168,747,000	170,158,000
LIABILITIES		
Current liabilities		
Trade and other payables	650,000	560,000
Distribution payable	515,000	515,000
Derivative liability	265,000	265,000
	1,430,000	1,340,000
Non-current liabilities		
Secured bank borrowings	62,910,000	64,411,000
	62,910,000	64,411,000
Total Liabilities	64,340,000	65,751,000
Total Equity	104,407,000	104,407,000

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PROSPECTIVE STATEMENT OF CASH FLOWS
FOR THE YEARS ENDING 31 MARCH

	2022	2023
	\$	\$
Cash Flows from operating activities		
<i>Cash was provided from:</i>		
Receipts from tenants	8,655,000	11,662,000
Net GST recovered	27,000	14,000
<i>Cash was applied to:</i>		
Payments to suppliers	(2,942,000)	(3,505,000)
Interest paid	(1,679,000)	(2,206,000)
Net cash inflow from operating activities	4,061,000	5,965,000
Cash Flows from investing activities		
<i>Cash was applied to:</i>		
Purchase of investment property and capital expenditure	(113,029,000)	(1,258,000)
Net cash inflow/(outflow) from investing activities	(113,029,000)	(1,258,000)
Cash Flows from financing activities		
<i>Cash was provided from:</i>		
Proceeds from issue of units	75,210,000	-
Proceeds from borrowing	41,310,000	1,501,000
<i>Cash was applied to:</i>		
Unit issue transaction costs	(3,480,000)	-
Distributions to Investors	(4,427,000)	(6,180,000)
Net cash inflow/(outflow) from financing activities	108,614,000	(4,679,000)
Net increase/(decrease) in cash and cash equivalents	(354,000)	28,000
Cash and cash equivalents at the start of the financial year	459,000	105,000
Cash and cash equivalents at the end of the financial year	105,000	133,000

Statement of accounting policies

- (a) **Functional and presentation currency:** The Prospective Financial Statements are presented in New Zealand dollars (\$), which is the Fund's functional currency, and are rounded to the nearest thousand dollars.
- (b) **Relevant preparation periods:** The Prospective Financial Statements of the Fund have been prepared for the years ending 31 March 2022 and 31 March 2023.
- (c) **Financial instruments:**
Held at amortised cost
- **Cash and Cash Equivalents:** Cash and cash equivalents include 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 change in value, and bank overdrafts.
 - **Trade and Other Receivables:** Trade Receivables, which include lease receivables, are initially recognised 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 applies 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.
 - **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 the 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 through profit or loss*
- **Trade and Other Payables:** These amounts are held at fair value and 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 invoiced amounts or amounts expected to be invoiced, assumed to be the same as their fair values due to their short-term nature.
 - **Derivatives:** Derivatives consist of interest rate swaps that are only used for economic hedging purposes and not as speculative investments. The Fund has elected not to apply hedge accounting criteria to these instruments. As such, the interest rate swaps are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

- (d) **Investment property:** Principally comprises freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Fund. Investment properties are initially recognised at cost, including transaction costs and ongoing capital expenditure, and subsequently remeasured annually at fair value based on the latest valuation undertaken in compliance with NZ IFRS 13 – Fair Value Measurement.

Any gain or loss determined by these revaluations is included within 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 for accounting purposes.

Given the inherent uncertainty of revaluation movements beyond those valuations held as at the date of this Prospective Financial Information, revaluations are only recorded up to the date of the latest valuations (or, for Acquisition Properties, the date the properties are acquired, based on valuations held as at the date of this PDS). See assumptions, paragraph (k) for further details.

- (e) **Expenditure**

i) **Manager's fees:** The Manager charges the Fund for several types of fees:

Property and Fund Management Fees: The Manager is entitled to a management fee equal to 0.50% of the Fund's Gross Asset Value (as defined in the PDS). The Manager is also entitled to a property management fee of 1.50% of the gross annual rental of the investment property assets in the Fund (only payable to the extent management fees are recoverable from tenants by the Fund). The management fees are paid to the Manager monthly in respect of the property and funds management services provided by the Manager during the prior month and included within the Statement of Comprehensive Income when incurred by the Fund.

Fund Administration Fee: The Manager is entitled to charge the Fund an annual fee equivalent to 0.15% annually of the Fund's Net Asset Value (**NAV**, as defined in the PDS) to compensate the Manager for day-to-day administrative costs that are incurred by the Manager in the management of the Fund. This fee covers the Fund's administration expenses including accounting fees, AGM expenses, marketing fees, postage fees, bank fees, registry provider fees, consultant and legal fees not associated with property transactions, printing and stationery costs and routine valuation fees. Costs directly associated with an offer, or a property transaction, are not included in this fee. The Fund Administration Fee is included within other overhead expenditure in the Statement of Comprehensive Income when incurred by the Fund.

Performance Fee: The Manager is entitled to a performance fee equivalent to 15% of the excess performance above the Fund's performance benchmark. The current performance benchmark is the average 10-year government bond yield plus 6%. Performance is measured by the annual capital and income returns to unitholders at the end of each financial year against the performance benchmark. If this performance measurement is a negative return, no performance fee is payable in respect of that year. The Fund applies a "high water mark" to the Performance Fee. The fee is included within the Statement of Comprehensive Income in March of each financial year, when incurred by the Fund. The excess performance chargeable to the performance fee in a given year is capped at 5%. Any excess performance above this cap is carried forward and applied to the next calculation of performance fees (and may be carried forwards for up to two years). Any deficit performance (performance below the benchmark) is to be carried forwards in a similar manner for use in the next calculation of the performance fee and may be carried forwards for up to two years.

Property transaction fees: The Manager is entitled to several property transaction fees:

- On purchasing a property, an acquisition fee of 1.75% of the acquisition price of any investment (**Acquisition Fee**).
- On disposal of a property held by the Fund, a fee equal to 1.00% of the sales price for the investment is also payable to the Manager (**Disposal Fee**).
- In relation to construction or refurbishment related to property owned by the Fund, a fee equal to 4.00% of the costs (excluding GST) may be charged per project, provided the project costs exceed \$50,000 (excluding GST) (**Project Fee**).
- If the Fund undertakes an investigation into the acquisition of a new property or disposal of an existing property from the Fund, a fee (**Investigation Fee**), on a time and attendance basis, as agreed between the Manager and Supervisor, is payable. If the Manager is paid an Investigation Fee and the relevant transaction subsequently proceeds, an amount equal to the Investigation Fee will be deducted from the Acquisition Fee or Disposal Fee. The Investigation Fee is capped at \$100,000 unless otherwise approved by unitholders.
- The Manager is entitled to recover any costs incurred by the Manager from any consultants or advisers engaged in relation to property acquisition, disposal, investigation, construction, or refurbishment subject to those costs being approved by the Supervisor.

The Acquisition Fee and Project Fee are included within the carrying value of investment property in the statement of financial position. The Disposal Fee and Investigation Fee are included within the Statement of Comprehensive Income when incurred by the Fund.

Leasing fees: The Manager is entitled to charge a leasing fee for new lease arrangements entered into related to property directly held by the Fund. The fee will be based on the gross annual rental for the first year of the relevant lease agreement (disregarding any lease incentives) calculated as:

- (i) 6% of the gross annual rental for a lease; plus
- (ii) where a lease term exceeds three years, an additional 1% of the gross annual rent for a lease for each subsequent 12 months contracted (or part thereof).

Leasing fees are included within property operating expenditure in the Statement of Comprehensive Income when incurred by the Fund, and amortised over the length of the lease.

Other Property-related Fees: If the Manager, with the approval of the Supervisor, undertakes any works related to any of the properties in the Fund that do not fit within any of the obligations contemplated under schedule of the Establishment Deed related to fees, the Manager is entitled to be paid out of the Fund such fees for those works calculated on a “time in attendance” market rate, as agreed between the Manager and Supervisor.

Termination fee: If the Manager is removed as Manager of the Fund, the Manager is entitled to 1.75% of the Gross Asset Value of the Fund on termination.

ii) Supervisor’s fees – The Supervisor is entitled to:

- a) a fee for each additional real estate asset acquired by the Fund (calculated on a time and attendance basis)
- b) an annual base fee, as agreed between the Manager and the Supervisor, based on the NAV of the Fund. The fee is subject to a minimum annual fee of \$20,000 and a maximum annual fee of 0.05% of the Net Tangible Assets of the Fund.
- c) Special fees, in amounts agreed with the Manager, for any services provided by the Supervisor of an unusual or onerous nature outside of the Supervisor’s regular services.

iii) Recovery of other expenses – The Manager and Supervisor are entitled to be reimbursed from the Fund for certain fees and expenses. These include:

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- costs incurred in connection with the offer of units, the acquisition of properties, the acquisition of the Acquisition Properties and investigation and negotiation of additional properties for the Fund
- the fees and expenses of the Fund's auditor
- any fees or expenses incurred for any engagement by the Supervisor or as required by law, and any taxes, duties, imposts or levies charged to the Manager or Supervisor in connection with the Fund; and
- any other expenses properly and reasonably incurred by the Manager or the Supervisor in connection with carrying out their duties under the Master Trust Deed, not specifically covered by the Fund Administration Fee or elsewhere.

- (f) **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 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 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.

The Fund is not a lessee.

As lessor, the Fund is exposed to Operating Leases. The Fund is a lessor in lease contracts in which it retains substantially all risks and ownership of the leased asset. Such leases are classified as operating leases. Assets leased to third parties under operating leases are included in investment property in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

- (g) **Revenue recognition:** The Fund receives income from tenants under commercial leases that set out the terms that the tenant must meet so they are not in default of their lease. The leases state the term of the lease, 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, including contractually agreed fixed term rental growth and lease incentives. Fixed rental increases are recognised as assets and adjusted over time to allocate rent revenue on a straight-line basis over the lease term. Such assets are recognised within other current assets in the statement of financial position. Lease incentives granted are recognised as assets and amortised as a reduction in rental revenue over the remaining lease term. Such assets are included within other current assets in the statement of financial position. Contingent rentals are recognised as income in the period when earned.

Operating expense recoveries – Tenants pay the Fund for operating expenses. These are recoveries of expenses incurred by the Fund in relation to investment 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 monthly, which is in line with when the Fund meets their performance obligations for the services provided. The outgoings recovered are based on the terms of the tenant's leases and the costs of the outgoings. There are no discounts provided or finance components applicable to such costs, so the transaction price is allocated on a straight-line basis.

Rent revenue and some outgoings recovered from the tenants are considered 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 closely related to the lease of the building and the tenant does not 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, valuations, 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 are electricity, rubbish collection, cleaning, gardening services, management expenses, and security expenses. They are an additional service over and above the lease of rental space.

Other types of operating expenditure from time to time may be incurred and included as required in one of the above two categories of expense.

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.

- (h) **Finance costs:** All finance costs are expensed in the period in which they are incurred.
- (i) **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.
- (j) **Distributions:** Distributions are recognised when declared during the financial year and no longer at the discretion of the Fund.
- (k) **Goods and Services Tax (GST):** Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Inland Revenue Department. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

- (l) **Income Tax:** From commencement the Fund elected to be a multi-rate Portfolio Investment Entity (“PIE”) for income tax purposes under the Income Tax Act 2007. As a result, the Fund itself is not liable for income tax.

The Fund’s taxable income is instead apportioned amongst its unitholders based on the number of units they hold and their notified Prescribed Investor Rates (PIR). The Fund calculates and deducts tax based on each investor’s notified PIR and pays the tax to the taxation authorities on behalf of the investor. Any PIE tax liabilities at the end of each year are

including within distributions payable in the Statement of Financial Position, measured at the amount expected to be paid to the taxation authorities on behalf of the investors based on the investors' taxable income and their notified PIR.

- (m) **Impairment of non-financial assets:** Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

- (n) **Provisions:** Provisions are recognised when the Fund has a present (legal or constructive) obligation because of a past event, it is probable the Fund will be required to settle the obligation, and a reliable estimate of the obligation can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

- (o) **Fair value measurement:** When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs, and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in the fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

- (p) **Changes in accounting policies:** No material changes in accounting policies are included in these prospective financial statements, nor are anticipated in prospective reporting periods, compared to those included in the most recent financial statements prepared for the Fund.

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Assumptions

The principal assumptions on which the Prospective Financial Statements have been prepared are set out below. These assumptions should be read in conjunction with the risks set out in the PDS at Section 7 *Risks to Returns from PMG Generation Fund* and the sensitivity analysis shown further below in this section.

- (a) **Offer settlement and acquisition properties:** The Offer is expected to settle on 30 July 2021. On the same day, the Fund intends to settle the acquisition of the Acquisition Properties. The Prospective Financial Statements only include information related to the Acquisition Properties from the estimated acquisition date. The acquisition dates and purchase prices for the Acquisition Properties are derived from the sale and purchase agreements for the Acquisition Properties.
- (b) **Offer and property acquisition costs:** It is assumed that the maximum equity raise will be achieved by 30 July 2021, being 69,000,000 units at \$1.09 each. In this case, for the Offer, the Fund has estimated approximately \$6,977,000 of costs associated with the Offer. This includes \$3,480,000 of issue costs to be accounted for within equity, and \$3,497,000 of acquisition costs to be accounted for within Investment Property. Issue and property acquisition costs include property acquisition fees, underwriting commitment fees, contribution fees, deposit fees, legal and other due diligence fees, accounting fees, marketing costs and compliance costs – amongst other expenses.
- (c) **Rental Income:** The Prospective Financial Statements assume annual rental income will be received in accordance with current signed lease agreements for each lettable and currently leased space. A number of further assumptions are made in connection with the timing of vacancy, leasing up and rent reviews during the forecast period based on the expectations of the Manager.

Property operating expenses are generally recoverable to the extent a property is tenanted, with some exceptions specified in several semi-net / semi-gross leases. Approximately 72% and 71% of total property operating expenses recorded in the statement of comprehensive income are expected to be recoverable from tenants in the years ending 31 March 2022 and 31 March 2023 respectively.

The occupancy forecast for the Fund overall is as follows:

As at date	Occupancy Rate
1 April 2021	100%
Settlement Date	99%
31 March 2022	99%
31 March 2023	99%

The sole reason for the reduction in occupancy rate from Settlement Date is in relation to physically unoccupied space at the Bethlehem Town Centre. Whilst it is the Manager's intent to lease up this space as soon as practicable, the assumption for the prospective periods has been made that the current level of vacancy in square metres will be maintained across the site.

During the prospective periods presented, there are existing lease agreements expiring in the prospective periods ending 31 March 2023 representing annual revenue (inclusive of estimated operating expenditure recoverable, but before any lease incentives and fixed rental growth adjustments) totalling \$1,040,000 (8.8% of total property revenue for the year ending 31 March 2023). These leases are expected to renew, or new leases signed in relation to the occupied space, near their respective expiry dates.

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Rental income by property in the prospective periods has been summarised below, exclusive of recoverable operating expenses and any other property-related income. Rental income is only summarised from the date of acquisition where appropriate by property.

	2022	2023
Sharpe Road Property	\$1,552,000	\$1,567,000
Vickerys Road Property	\$674,000	\$683,000
Jamaica Drive Property	\$1,144,000	\$1,163,000
Bethlehem Town Centre	\$4,142,000	\$6,190,000
Gough Street Property	\$455,000	\$681,000
Total	\$7,967,000	\$10,284,000

No rental abatement has been provided for in the prospective periods on the basis that it is not currently expected to be required. This expectation is judgemental, based on the inherent level of uncertainty as to whether an event will occur that requires the Fund to pay rental abatement to tenants. In the previous year, rental abatement totalling \$115,000 was provided to tenants of the Existing Properties by the Fund (3% of annual rental income). The resulting reduction in income for the Fund was fully reimbursed through a combination of third-party vendor underwriting arrangements in relation to the acquisition of the Existing Properties (\$71,000) and a top-up contribution from the Manager (\$44,000).

Below is a summary of the key tenancies by building and the key assumptions that will impact revenue during the prospective financial periods ending 31 March 2023.

- i. *Sharpe Road Property* – Rental income for the year ending 31 March 2023 is forecast to be 15.2% of total annual rental income for the Fund. A sole tenant accounts for the rental income from lease of the property. This tenant, Torpedo7 Limited, is considered material and expected to generate rental income (excluding operating expenditure recovered) of \$1,567,000 in the year to 31 March 2023, with a lease expiry of March 2026. The lease is fully net, with several items of operating expenditure managed directly by the tenant. There is no forecast vacancy in the prospective periods.
- ii. *Vickerys Road Property* – Rental income for the year ending 31 March 2023 is forecast to be 6.6% of total annual rental income for the Fund. A sole tenant accounts for the rental income from lease of the property. This tenant, Euro Corporation Limited, is considered material and expected to generate rental income (excluding operating expenditure recovered) of \$683,000 in the year to 31 March 2023, with a lease expiry of August 2024. The lease is fully net, with several items of operating expenditure managed directly by the tenant. There is no forecast vacancy in the prospective periods.
- iii. *Jamaica Drive Property* – Rental income for the year ending 31 March 2023 is forecast to be 11.3% of total annual rental income for the Fund. Three tenants account for the rental income from lease of the property. The largest tenant at the property, Coca-Cola Amatil (N.Z.) Limited, is considered material and expected to generate rental income (excluding operating expenditure recovered) of \$590,000 in the year to 31 March 2023, with a lease expiry of December 2023. The lease is a gross lease, with rental income including a fixed amount related to outgoings recoverable (except for water rates, on-charged to the tenant). There is no forecast vacancy in the prospective periods.
- iv. *Bethlehem Town Centre* – Due to be acquired 30 July 2021, rental income for the year ending 31 March 2023 is forecast to be 60.2% of total annual rental income for

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the Fund. Approximately 54 tenants account for the rental income from lease of the property. The largest tenants at the property, Countdown (General Distributors Limited) and Kmart (Coles Group New Zealand Holdings Limited) are considered material and presumed to generate base rental income (excluding operating expenditure recovered) of \$1,060,000 and \$1,050,000 respectively in the year to 31 March 2023. The leases currently expire in December 2023 and March 2028, respectively. The leases are semi-gross leases, with a fixed amount of rental income related to some property operating expenditure. There is 655sqm of vacancy forecast in the prospective periods across the property.

- v. *Gough Street Property* – Rental income for the year ending 31 March 2023 is forecast to be 6.6% of total annual rental income for the Fund. A sole tenant accounts for the rental income from lease of the property. This tenant, HJ Asmuss & Co Limited, is considered material and expected to generate rental income (excluding operating expenditure recovered) of \$681,000 in the year to 31 March 2023, with a lease expiry of December 2029. The lease is fully net, meaning all property operating expenditure is generally recoverable from the tenant. There is no forecast vacancy in the prospective periods.

- (d) **Distributions:** For the period to 31 July 2021, distributions of 5.80 cents per unit annualised are forecast for existing unitholders only. For the period 1 August 2021 to 31 March 2023, distributions of 6.00 cents per unit annualised are forecast. All gross distributions are calculated as cents per issued unit. The policy is to declare the distribution on the last day of the month with payment on the 20th of the month following (or the next working day if a weekend or public holiday).
- (e) **Receipts from tenants and payments to suppliers:** It has been assumed that virtually all tenants pay their monthly rent and operating expenses in the month of invoicing. The Fund has been assumed to pay most expenses in the month following invoicing. From time to time any performance fees payable to the Manager may be deferred until a later date if approved by the Manager.

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- (f) **Borrowings:** The Fund currently holds debt with the ASB Bank. The Fund has arranged for the replacement of existing borrowing facilities into a syndicated funding arrangement (the **Banking Syndicate**). The Banking Syndicate is led by ASB Bank, who are the Arranger and Security Trustee of the Banking Syndicate. The funding facilities committed by the Banking Syndicate to the Fund total \$70,600,000, on the assumption that the Fund provide first mortgage security in relation to the five properties noted in this document (amongst other requirements). This total funding facility is an increase from the Fund's previous facility limit of \$23,100,000. The increase is primarily, but not solely, related to the Offer and the acquisition of the Acquisition Properties.

The total bank borrowing drawn at a point in time will depend on the total capital the Fund raises through the Offer (amongst other factors). Assuming the maximum equity raise of 69,000,000 units is achieved, the total bank borrowings drawn at Settlement Date will be \$61,100,000 (35.0% of the Fund's total assets, or 36.8% of the latest independent valuation report held in relation to each property in the Property Portfolio). Bank borrowings drawn will increase to \$63,050,000 at 31 March 2022 and \$64,500,000 at 31 March 2023 (being 37.3% and 37.9% of the Fund's total assets, or 38.0% and 38.8% of the latest independent valuation report held in relation to each property in the Property Portfolio). The unused bank facilities at Settlement Date are expected to be sufficient to fund future capital expenditure requirements of the fund to 31 March 2023 (if required). Should only the minimum equity raise be achieved, the Fund should have sufficient facility funding headroom to complete the purchase of the Acquisition Properties and undertake expected future capital expenditure of the Fund in the periods to 31 March 2023.

The expected funding facilities on 30 July 2021 are as follows:

Facility Name	Facility Type	Facility Expiry	Facility Limit	Drawn 30 July 2021
Revolving	Revolving Credit	July 2024	\$5,000,000	\$-
Tranche A	Term Loan	July 2024	\$11,550,000	\$11,550,000
Tranche B	Term Loan	July 2025	\$11,550,000	\$11,550,000
Tranche C	Term Loan	July 2024	\$21,250,000	\$21,250,000
Tranche D	Term Loan	July 2025	\$21,250,000	\$16,750,000
Total			\$70,600,000	\$61,100,000

All term loan facilities are extendible facilities, with the ability to extend the term by one year, every year, subject to annual lender review and confirmation. There is an expectation that all facilities will remain as non-current borrowings for the foreseeable future.

The funding facilities with the Banking Syndicate are subject to variation at the time of the loans being drawn and presume all conditions in the Offer, and the agreements, related to the Banking Syndicate facilities, are fulfilled.

The following has been assumed in relation to the funding facilities:

- No principal repayments are required during the term of the funding facilities.
- No recourse to investors; and
- Capital expenditure will be funded by the funding facilities to the extent that free cash flows are not available to fund such expenditure.

The funding facilities are, or are to be, secured by first registered mortgages over each property within the Property Portfolio, and a general security agreement over all present and future acquired assets of the Fund.

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- (g) **Bank interest and other bank fees:** The interest rates associated with the facilities are primarily structured on a floating BKBM plus a bank margin. To hedge the risk on the floating nature of the interest rate, the Fund has already entered into various swap agreements as at the date of the PDS with a notional value of \$40,000,000. The swap agreements mature between March 2023 and July 2024. Coverage of bank borrowings by swap agreements at Settlement Date is expected to be 66% of total borrowings drawn. The Fund will enter into further swap agreements to fix the interest rate for at least 60% of the Fund's borrowings over time and may enter swap agreements for up to 100% of the Fund's borrowings.

It is projected for the purposes of this prospective financial information that the weighted average interest rate charged on all bank borrowings, including the effect of interest rate swaps but excluding any revolving credit facility, will be 3.35% per annum. The revolving credit facility is not forecast to be utilised in the prospective financial information. In the event it is utilised, the interest rate is expected to be similar to that of other bank borrowings, presumed to have an interest cost of 3.35% per annum inclusive of a line fee which is charged on the total facility limit quarterly in arrears. Interest rates are inherently subject to regular fluctuation, and at a point in time may vary.

Other costs outside of the prospective effective average interest rate above will be incurred in relation to the Banking Syndicate. These include:

- i. One-off establishment fees for establishing the Banking Syndicate
- ii. One-off fees associated with the establishment of new funding facilities
- iii. An annual Facility Agent Fee and Security Trustee Fee; and
- iv. An underwrite fee (charged on unutilised approved facility limits) and a ticking fee (charged on undrawn loan facility limits).

All one-off establishment fees will be accounted for by amortising the fees over the initial number of years until maturity of the applicable facility. The carrying value is included as an offset within bank borrowings in the statement of financial position, given the accounting policy for measurement of borrowings under the amortised cost method.

Other bank fees will be considered covered by the Fund Administration Fee charged to the Fund by the Manager, and as such charged to the Manager as incurred.

- (h) **Manager's Fees:** The Manager expects to charge fees, including but not limited to property and fund management fees, fund administration fees, performance fees, property transaction fees and leasing fees, in accordance with accounting policy (e). No property disposal fees are forecast for the prospective periods presented.

The Manager's Fund Administration Fees in the prospective financial periods to 31 March 2022 and 31 March 2023 are expected to be \$122,000 and \$157,000, respectively.

The Manager's property transaction fees expected in the prospective financial periods are as follows:

	2022	2023
Acquisition Fees	\$1,883,000	-
Property Project Fees	\$73,000	\$49,000
Total Property Transaction Fees	\$1,956,000	\$49,000

The Manager's leasing fees expected to be invoiced in the prospective financial periods to 31 March 2022 and 31 March 2023 are \$237,000 and \$55,000, respectively. These fees are to be invoiced in full, but the financial impact is then amortised across the relevant expected lease terms.

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- (i) **Supervisor's fees:** The prospective financial periods include the following fees that the Supervisor is entitled to:
- an establishment fee for each additional real estate asset acquired by the Fund, with this fee to be calculated on a time and attendance basis
 - an annual base fee, as agreed between the Manager and Supervisor, based on the NAV of the Fund. The fee is presumed to be the maximum amount chargeable per the Establishment Deed of the Fund, being 5 basis points (0.05%) of the NAV of the Fund per annum.

- (j) **Capital expenditure:** Budgeted capital expenditure (excluding general property acquisition costs, and fees payable to the Manager for property acquisition and project management) is forecast as \$2,236,000 and \$1,364,000 for the years ending 31 March 2022 and 31 March 2023 respectively.

There are no individual capital expenditure projects planned that are considered material in isolation. The Company's budgeted capital expenditure in the prospective financial periods is based on:

- estimates prepared by the Manager based on the Manager's historical experience in carrying out works of a similar nature;
- a level of contingency or general allowance based on what the Manager considers to be reasonable for projects or properties of a similar nature;
- in the case of tenancy fitouts, the Manager's best estimate, based on its experience, of the likely cost. Capital expenditure requirements for tenancy fitouts are dependent on the individual lease agreements of future tenants and are therefore difficult to predict in advance. However, it should be noted that fixed price contracts are agreed upon prior to the commencement of capital projects and that where the costs of fit out is greater than what is contractually agreed, this will likely be reflected in increased rental income from the tenant.

- (k) **Investment Property and Fair Value:** The valuation of investment property includes the following information derived from independent valuation reports:

Property	Valuer	Valuation as at	Valuation
Sharpe Road	Aim Valuation	31 March 2021	\$29,850,000
Vickerys Road	Jones Lang LaSalle	31 March 2021	\$11,200,000
Jamaica Drive	Bayleys Valuations	31 March 2021	\$17,100,000
Bethlehem Town Centre	CBRE	4 May 2021	\$94,800,000
Gough Street	Bayleys Valuations	31 March 2021	\$13,100,000

The valuation of the Bethlehem Town Centre has 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 relying on the valuation than is normally the case, and it is likely that values may change more rapidly and significantly. The valuation reports for the remaining four properties are not prepared on the basis of material valuation uncertainty. They do however consider a range of inputs and market evidence in forming an opinion on value, and there may be a greater range around the assumption of market value than would normally be the case.

It has been assumed there will be no revaluation gains or losses in the fair value of the Existing Properties beyond 31 March 2021, as future gains or losses cannot be reliably predicted. It is assumed that the fair value of the Existing Properties at 31 March 2022 and 31 March 2023 is equal to the latest independent valuation received, plus capital expenditure forecast for each property up to the relevant period end date.

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It has been assumed that the Acquisition Properties are valued on Settlement Date (30 July 2021) at their respective independent valuations (each dated within four months of the date of the PDS) and valued at 31 March 2022 and 31 March 2023 based on that valuation plus capital expenditure forecast from the date of acquisition for each property up to the relevant period end date (including any capitalised Property Project Fees).

The valuation of the Bethlehem Town Centre includes a probability-based allowance for potential seismic works valued at \$1,897,000, on the basis that only an Initial Seismic Assessment (**ISA**) has been completed in relation to the entire property showing all buildings are at least 100% NBS (**New Building Standard**). If a Detailed Seismic Assessment (**DSA**) were completed, and no seismic works were considered necessary as a result, the property valuation may be revised upwards by approximately \$1,900,000. No specific allowance has been made for capital expenditure related to seismic works in the prospective financial information, on the assumption that:

- material seismic works will not be required
- any seismic works related to the building occupied by Countdown would be funded by the property vendor up to \$2,000,000; and
- a general allowance for capital expenditure has been made in the prospective financial information, from which any immaterial seismic works (not covered by the property vendor commitment) may be funded.

Should additional works be required at the cost of the Fund, more than any existing capital expenditure forecast for the Fund, bank borrowings and interest expense would increase from that currently forecast.

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Assumptions (continued)

(l) **Investment Property and Fair Value (continued):**

A summary of the movement in the carrying value of investment property is summarised below.

	Carrying value	Adjustments	Valuation	Purchase price	Capitalisation of offer expenses	Other capitalised expenses	Fair value movement	Valuation	Adjustments	Carrying value
	31 March 2021			Movement during year				31 March 2022		
Sharpe Road Property	\$29,850,000	-	\$29,850,000	-	-	\$18,000	-	\$29,868,000	-	\$29,868,000
Vickerys Road Property	\$11,200,000	-	\$11,200,000	-	-	\$366,000	-	\$11,566,000	-	\$11,566,000
Jamaica Drive Property	\$17,054,000	\$46,000	\$17,100,000	-	-	\$797,000	-	\$17,897,000	(\$166,000)	\$17,731,000
Bethlehem Town Centre	-	-	-	\$94,518,000	\$3,180,000	\$873,000	(\$2,898,000)	\$95,673,000	(\$291,000)	\$95,382,000
Gough Street Property	-	-	-	\$13,100,000	\$317,000	\$255,000	(\$317,000)	\$13,355,000	(\$40,000)	\$13,315,000
Total	\$58,104,000	\$46,000	\$58,150,000	\$107,618,000	\$3,497,000	\$2,309,000	\$3,215,000	\$168,359,000	(\$497,000)	\$167,862,000

	Carrying value	Adjustments	Valuation	Purchase price	Capitalisation of offer expenses	Other capitalised expenses	Fair value movement	Valuation	Adjustments	Carrying value
	31 March 2022			Movement during year				31 March 2023		
Sharpe Road Property	\$29,868,000	-	\$29,850,000	-	-	\$18,000	-	\$29,886,000	-	\$29,886,000
Vickerys Road Property	\$11,566,000	-	\$11,566,000	-	-	\$64,000	-	\$11,630,000	-	\$11,630,000
Jamaica Drive Property	\$17,731,000	\$166,000	\$17,897,000	-	-	\$11,000	-	\$17,908,000	(\$186,000)	\$17,722,000
Bethlehem Town Centre	\$95,382,000	\$291,000	\$95,673,000	-	-	\$1,277,000	-	\$96,950,000	(\$371,000)	\$96,579,000
Gough Street Property	\$13,315,000	\$40,000	\$13,315,000	-	-	\$43,000	-	\$13,398,000	(\$96,000)	\$13,303,000
Total	\$167,862,000	\$497,000	\$168,359,000	-	-	\$1,413,000	-	\$169,772,000	(\$652,000)	\$169,120,000

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- (m) **Regulatory Environment:** The Prospective Financial Statements have been prepared on the assumptions that there will be no material changes in the economic, legal or regulatory environment, including with respect to taxation.
- (n) **Contribution Fee:** The Fund will pay a contribution fee of \$1,504,200 plus GST to the Manager (assuming 69,000,000 units are issued under the Offer). The Manager is responsible for paying away some or all of this amount to the Manager's sales team and third-party referring agents, based on 2.00% of the total equity raised.
- (o) **Related party transactions:** The Fund's related parties include the Manager and members of key management personnel of the Manager and its holding company, PMG Holdings Limited (**Holdings**). The Fund is further related to PMG Capital Fund Limited (**PMG Capital**) as Scott McKenzie and Denis McMahon are directors of both PMG Capital Fund Limited and the Manager. 360 Capital FM Limited (as responsible entity of 360 Capital Active REIT) (**360 Capital**) are also related by virtue of holding 50% of the shares on issue in the Manager, and three members of key management personnel of 360 Capital are also directors of the Manager and Holdings.

The Manager is entitled to recover fees and expenses from the Fund as noted in this document, including an underwriting commitment fee of \$1,496,025 – representing 3.00% of the value of 45,750,000 units underwritten.

Parties related to the Fund may enter sub-underwriting arrangements with the Manager in relation to offers in the Fund. The Manager and PMG Capital currently own units in the Fund pursuant to an underwriting or sub-underwriting commitment on establishment of the Fund.

Related to the Offer, the Manager has further entered sub-underwriting arrangements with PMG Capital, 360 Capital and multiple members of PMG's key management personnel.

PMG Capital will provide funding for the deposits relating to both Acquisition Properties. A fee equating to 5% of the deposit amount, plus GST if any) will be paid on acquisition of Acquisition Properties to PMG Capital by the Fund.

The key management personnel of the Manager may invest in the Fund on the same basis, terms, and conditions as any other investor, from which they will be entitled to distributions.

Forsite Limited, who has two directors in common with the Manager, provide a software service to the Fund. The cost for the prospective periods is forecast to be \$5,400 plus GST for the year to 31 March 2022 and \$6,000 plus GST for the year to 31 March 2023.

All of the above transactions are considered to be arm's length transactions on normal commercial terms.

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Sensitivity analysis

Prospective Financial Statements are inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from Prospective Financial Statements, and this variation could be material. A summary of the likely effects of variations in key assumptions on the Prospective Statement of Comprehensive Income are detailed overleaf. Any cents per unit assessment is based on the weighted average number of units on issue during the relevant period.

The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set out overleaf. The approach taken in respect of the sensitivities has been to determine those variables most likely to significantly affect results in years ending 31 March 2022 and 2023, using the Manager's judgement. Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions unless stated, which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. Furthermore, the sensitivity analysis does not consider any potential mitigating actions that the Fund and the Manager may take from time to time.

Rental income risk: Exposure to rental income risk is in the normal course of the Fund's business. The sensitivity result overleaf is based on a gross rental income increase/decrease of 5% throughout the prospective periods. This could occur due to various factors including a variation in vacancy and vacancy periods, tenant defaults, or lease terms from those forecast. The sensitivity adjustments have been applied to total monthly revenue from April 2021. A reduction in rental income could also occur due to inability to access property, such as experienced in the financial year to 31 March 2021 due to emergency provisions related to COVID-19. Should a similar event reoccur, the actual amount, duration, and timing of any rental reduction is likely to differ from the hypothetical sensitivity estimate and may be above or below a 5% reduction.

Interest rate risk: Exposure to interest rate risk is in the normal course of the Fund's business. The sensitivity results overleaf are based on a 50-basis point shift (bps) (0.5% rate movement) in the bank borrowings interest rate above or below the rate assumed for the prospective periods, and does not factor in the impact that interest rate swaps would have on the total effective interest cost.

Capital expenditure risk: Total capital expenditure is subject to variation in both timing and value and is a material cost to the Fund with an inherent risk of being incurred above or below the amounts projected. The sensitivity results overleaf are based on an increase/(decrease) of \$1,200,000 in required capital expenditure over two years, that are not recoverable from other parties. The sensitivity adjustments have been applied to total monthly capital expenditure from April 2021 (including Property Project Fees).

Valuation risk: Investment Property is valued at fair value. Fluctuations in value will directly impact the Fund's performance. The value of investment property is sensitive to changes in various assumptions over a period of time, including future tenancy risk, the discount rate applied, and projected operational and capital expenditure. The value of investment property will also impact the fund management fee charge, which is predominantly based on the value of investment property managed. The sensitivity adjustments are based on increasing / (decreasing) assumed fair value by 5% of the assumed fair value as at 30 July 2021 (with no further reductions).

Offer funding risk: Units issued and funding available is influenced by the success of the Offer. Should the total number of units issued under the Offer fall short of 69,000,000 units, but be at least 63,000,000 units, an equity funding reduction compared to forecast of up to a maximum of \$6,540,000 (before equity raise costs are accounted for) may occur. Any shortfall must be funded by additional borrowings available within the Fund's banking facilities. The sensitivity result of offer funding overleaf presumes the minimum number of units are issued under the Offer (63,000,000 units for \$68,670,000 consideration), with additional borrowings drawn to compensate for this at 30 July 2021.

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Sensitivity item	Increase/ (Decrease)	Measure impacted	FY2022		FY2023	
			Increase item	Decrease item	Increase item	Decrease item
Rental Income	5% / (5%) across 24 months	Revenue	455,000	(455,000)	584,000	(584,000)
		Property and Fund Management Fees	8,000	(8,000)	12,000	(12,000)
		Other Expenses	-	-	2,000	(2,000)
		Net Profit	447,000	(447,000)	570,000	(570,000)
		Cash and Cash Equivalents	446,000	(446,000)	1,018,000	(1,018,000)
		Trade and Other Receivables	9,000	(9,000)	7,000	(7,000)
		Trade and Other Payables	8,000	(8,000)	9,000	(9,000)
		<i>Change in Net Profit per unit</i>	<i>0.56 cpu</i>	<i>(0.56 cpu)</i>	<i>0.55 cpu</i>	<i>(0.55 cpu)</i>
Interest Rate	50bps / (50bps) across 24 months	Property and Fund Management Fees	(1,000)	1,000	(2,000)	2,000
		Other Expenses	-	-	(1,000)	1,000
		Interest Expense	243,000	(243,000)	318,000	(318,000)
		Net Profit	(242,000)	242,000	(316,000)	316,000
		Cash and Cash Equivalents	(242,000)	242,000	(558,000)	558,000
		<i>Change in Net Profit per unit</i>	<i>(0.30 cpu)</i>	<i>0.30 cpu</i>	<i>(0.31 cpu)</i>	<i>0.31 cpu</i>
Capital Expenditure	\$1,200,000 / (\$1,200,000) across 24 months	Other Expenses	1,000	-	4,000	-
		Interest Expense	3,000	-	15,000	-
		Net Profit	(5,000)	-	(19,000)	-
		Cash and Cash Equivalents	45,000	550,000	26,000	1,150,000
		Investment Property	600,000	(600,000)	1,200,000	(1,200,000)
		Trade and Other Payables	50,000	(50,000)	50,000	(50,000)
		Borrowings	600,000	-	1,200,000	-
		<i>Change in Net Profit per unit</i>	<i>(0.01 cpu)</i>	<i>0.00 cpu</i>	<i>(0.02 cpu)</i>	<i>0.00 cpu</i>
Property Valuation	5% / (5%) at Settlement Date	Property and Fund Management Fees	28,000	(28,000)	41,000	(41,000)
		Manager Performance Fee	414,000	-	-	-
		Other Expenses	11,000	(11,000)	15,000	(17,000)
		Interest Expense	-	-	12,000	-
		Increase/(Decrease) in Fair Value	8,303,000	(8,303,000)	-	-
		Net Profit	7,850,000	(8,264,000)	(68,000)	58,000
		Cash and Cash Equivalents	(38,000)	36,000	232,000	94,000
		Trade and Other Receivables	-	-	-	-
		Investment Property	8,303,000	(8,303,000)	8,303,000	(8,303,000)
		Trade and Other Payables	415,000	(3,000)	3,000	(3,000)
		Borrowings	-	-	750,000	-
		<i>Change in Net Profit per unit</i>	<i>9.81 cpu</i>	<i>(10.33 cpu)</i>	<i>(0.07 cpu)</i>	<i>0.06 cpu</i>

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Offer Funding	N/A / (\$6,540,000) at Settlement Date	Other Expenses	N/A	(9,000)	N/A	(12,000)
		Interest Expense	N/A	143,000	N/A	213,000
		Net Profit	N/A	(134,000)	N/A	(201,000)
		Distributions Paid	N/A	(240,000)	N/A	(360,000)
		Unitholder Capital (net of expenses)	N/A	(6,409,000)	N/A	(6,409,000)
		Cash and Cash Equivalents	N/A	16,000	N/A	175,000
		Distributions Payable	N/A	(30,000)	N/A	(30,000)
		Trade and Other Payables	N/A	(1,000)	N/A	(1,000)
		Borrowings – non-current	N/A	6,350,000	N/A	6,350,000
		<i>Change in Net Profit per unit</i>	N/A	(0.07 cpu)	N/A	0.16 cpu