**Mainland Retail Fund 2 Trust**

**Statement of Investment Policies and Objectives**

April 2024

**Signed on behalf of**

Mainland Capital Investment Management Limited

# Mainland Retail Fund 2 Trust
## Statement of Investment Policies and Objectives (SIPO)

*12 April 2024*

## 1. Description of the Trust

The Mainland Retail Fund 2 Trust (the Trust) is a unitised investment management scheme that is registered under the Financial Markets Conduct Act 2013 (FMC Act).

The Trust was established under a Retail Master Trust Deed and an Establishment Deed, both dated 1 November 2017 (together “the Trust Deed”). The Trust Deed governs the operation of the Trust.

The Manager of the Trust is Mainland Capital Investment Management Limited (the Manager or Mainland).

The Supervisor of the Trust is Covenant Trustee Services Limited (the Supervisor).

The Trust owns the property at 347 Moorehouse Avenue, Christchurch (the Property). Legal title to the Property is held by MRF2 Custodian Limited as custodian for the Supervisor (the Custodian). The Custodian is a nominee company of the Supervisor.

The commencement date for this SIPO is the date of settlement of the Property (1 February 2018). It has been amended on 12 April 2024.

The most current version of the SIPO is available on the Schemes’ Register (Disclose): http://www.business.govt.nz/disclose

## 2. Investment Objectives

The Trust’s investment objectives are:

- to generate income through investment in commercial property; and
- capital preservation and long-term growth,

by investing primarily in real property in New Zealand.

## 3. Investment Philosophy

The Manager’s investment philosophy is to select properties that will provide a stable income return for investors and, in certain circumstances, where the Manager can identify opportunities to add value. The Manager only commits to purchasing a property after it has conducted extensive due diligence and research. The Manager takes a long-term approach to investing and investments are limited to markets and asset classes it has a strong understanding of.

## 4. Investment Strategy

### 4.1 General Principles

- The Trust’s investment strategy is to invest in commercial property. There is also a limited ability to invest in short term cash management deposits. The Trust is actively managed.
- Mainland intends to strategically manage the Trust, recommending to Investors where necessary development, disposal or additional acquisition to ensure that the Property remains current in the market and maximises the Trust’s potential.

## 4.2 Benchmarks

Investment objectives are to invest in the Property as a long-term hold and are measured as follows:

- **Income objective:** annualised gross distributions per unit over a rolling ten year period to be at or above the average six-month term deposit rates +2.0% over the same period. Where the Fund has not been in existence for 10 years, the relevant rolling period will be since the inception date of the Fund.
- **Loan to Value Ratio (LVR) Objective:** maintain the LVR at or below 55% of the value of any direct property holdings of the Trust in New Zealand at the time of borrowing the funds.

### 4.3 Authorised Investments

The Trust's authorised investments are:

- real property;
- cash or cash equivalents including deposits with a New Zealand registered Bank; and
- property securities (unlisted and listed) where the underlying investment is primarily in real property in both New Zealand and/or Australia including without limitation shares and convertible notes in property companies or property trusts.

### 4.4 Asset Allocations

| Asset Class | Asset Allocation Range |
|---|---|
| Property (direct and property securities) | 95-100% |
| Cash | 0-5% |

## 5. Investment Policies

Set out below is an outline of the key investment policies that we follow in investing the Trust's assets and otherwise carrying out our functions as Manager of the Trust.

### 5.1 Liquidity and Cashflow 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. The Manager actively manages the Trust's liquidity and cashflow by preparing an annual budget and monitoring actual results against that budget. The Manager reviews the Trust's performance and forecasts the cash available for distribution based on that actual performance and the expected financial performance for the remainder of the financial year. The annual budget is prepared using robust methodologies and the forecast distributions are based on conservative and achievable measures.

The Manager may reduce or withhold investor distributions in the following circumstances:

- Any projected reduction or cessation of rental income;
- Breach of lender interest cover ratio or LVR covenants;
- Unexpected expenditure; or
- Any other circumstance deemed appropriate by the Manager.

The Manager may increase investor distributions in the following circumstances:

- There are sufficient funds in the bank account to fund all anticipated expenses and costs for the medium term;
- There is a regular monthly surplus from rent receipts after paying expenses and investor distributions; or
- Any other circumstances deemed appropriate by the Manager.

Because of the illiquid nature of a commercial property investment, redemptions are not permitted from the Trust.

### 5.2 Interest Rate Hedging Policy

The Trust has implemented an interest hedging strategy to mitigate the market risk associated with interest rate changes to its credit facilities. The Manager may manage the benchmark component of the interest rate with a combination of short-term and long-term interest rate swap agreements and/or floating rates. The Manager will actively monitor economic and market conditions including interest rate movements (actual and expected) on a regular basis as well as seeking advice from its bankers in order to assess that its interest hedging strategy remains relevant. The Manager will also assess if current economic and market conditions would compromise investor yield expectations. If deemed necessary as a result of such review, the Manager will, where possible, adjust the Trust's interest hedging strategy as appropriate to mitigate interest rate risk. Derivatives are to be utilised strictly for hedging for the protection of investor returns and not with the aim of achieving short-term gains. The Trust will not speculate or take short term trading positions. Mainland's Audit and Compliance Committee (AC Committee) monitors the Trust's interest hedging strategy for compliance with the SIPO. All interest hedging positions are taken in the best interests of the Trust, with a view to maximising Trust performance. All hedging is in accordance with the Manager's Interest Rate Hedging Policy.

### 5.3 Related Party Transactions Policy

Mainland's related party transactions policy sets out how it endeavours to identify and deal with potential related party transactions appropriately. This is complemented by the restrictions it places on itself, its Directors and staff when trading on its or their own account (a confirmation is required from the person trading that they are not in possession of material information). Mainland's guiding principle is that it cannot use information obtained through its respective positions, or use those positions, to gain an improper advantage or cause detriment to investors in the Trust.

Transactions with related parties of the Manager or the Supervisor are permitted only where permitted by the Trust Deed and the Financial Markets Conduct Act 2013. Examples of permitted transactions are those consented to by the Supervisor on the basis they are in the best interests of investors or have been approved by investors, and those entered into on ordinary commercial arm's-length terms.

## 6. Investment Performance Monitoring

### 6.1 Internal Performance Monitoring

The Trust's performance (net of fees and expenses) is monitored on a monthly basis by the the AC Committee. Each month a report is prepared for the AC Committee that details accounting information over the period including a balance sheet, that enables the AC Committee to monitor that the Trust continues to meet its investment objectives.

### 6.2 Reporting to Investors

- The Trust's annualised performance net of fees and expenses is reported to investors on a quarterly basis.
- Within 5 months following the end of the Trust's financial year, the Manager will make available to investors audited annual financial statements for the Trust.
- Within 6 months following the end of the Trust's financial year, the Manager will make available to investors the Annual Report for the Trust.

## 7. Investment Strategy Review

The Manager reviews the Trust's investment strategy at least annually. The purpose of the review is to ensure that the Trust continues to achieve its investment objectives. Factors that will be considered in the Investment Strategy review are:

- **Lease**: review of the lease including the weighted average lease term and the likelihood that the tenant will renew the lease;
- **Property valuation**: review of most recent property valuation;
- **Funding**: review of funding including compliance with banking covenants;
- **Annual budget**: review of annual budget including forecast major expenditure on the Property and sustainability of distribution levels.

Changes to the investment strategy will only occur following consultation with the Supervisor.

## 8. SIPO Review

The AC Committee is responsible for ensuring the Trust's compliance with the SIPO. The AC Committee reviews the operation of the Trust against the SIPO throughout the investment cycle, and during that process considers whether any changes are required. In doing so, the AC Committee will assess whether any further resources are needed in order to implement and manage the SIPO.

The SIPO as a whole is to be reviewed on an annual basis by the Manager.

### 8.1 Considerations for Review of the SIPO

In reviewing the SIPO, the following factors will be taken into account:

- Historic performance against objectives; and
- The impact of any transactions that have or will change the asset profile.

### 8.2 Ad hoc review of SIPO

The SIPO must be reviewed:

- at the time of the acquisition or divestment of any real property assetsincluding if such purchase or divestment is necessary for the Trust to comply with legislative obligations; or

- following any transaction representing 10% or more of value of the Trust where such transaction affects the Trust's investment policies and objectives.

The Manager will liaise with the Supervisor and investors as required regarding any changes to the SIPO.