33 BROADWAY TRUST – STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

Description of the Unit Trust

33 Broadway Trust (the *Trust*) is a unit trust investment of 1670 units to acquire 33 Broadway, Newmarket, Auckland (the *Property*) and to fund the development of an office building on the Property.

Legal title to the Property will be held by 33 Broadway Nominee Limited as bare trustee for the Trust.

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

A SIPO has been in place since 30 June 2017 and this replaces the SIPO dated 30 June 2017 and is effective from 10 July 2019.

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

- Preserve and grow the value of 33 Broadway by doing everything possible to ensure the Development is completed on-time and to a high standard, and attend to necessary ongoing repairs, maintenance and capital expenditure once the Development is complete;
- Sustain distribution levels as per the forecast pre-tax cash return of 7.00% per annum set out in the Product Disclosure Statement; and
- Achieve lease extension options for 33 Broadway to increase lease terms and/or rent where possible.

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 terms 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. While the Property will be under Development, the Manager considers the risks are still fairly mitigated by the monies retained through a cost to complete mechanism and other retention amounts as well as the buffer period to the sunset dates in the development agreements with prospective tenants. The prospective tenant(s) are also considered to be quality tenants.

Investment Strategy
The strategy of the Trust is to acquire the Property, oversee the Development and do everything possible to allow it to be completed on time, continue to lease it to quality tenants and preserve and then grow equity by active management of the Trust and the Property. Below are the parameters and minimum investment performance monitoring benchmarks against which the performance of the Trust will be monitored:

Benchmarks:

1. Provide investors a minimum cash return as of 7% per annum before tax on the investor's original equity amount until 31 March 2020. The cash return does not take into account any increase or decrease in the value of the Property or any other non-cash items;

2. During the Development Phase:

    - All milestone dates are achieved and the development progresses in accordance with the construction programme; and

    - There are no material cost increases incurred by the Developer (while the Trust is not responsible for cost increases, this will be an indicator of the Developer's ability to perform).

3. Weighted average lease expiry *(WALE)* not less than four years, post Project Completion;

4. Property occupancy greater than 75%, post Project Completion (as defined in the Development Agreement with Mansons Broadway Limited);

5. There is to be a period of at least 12 months remaining on the loan term - from the Trust's latest annual financial reporting date of 31st March;

6. Maintain the loan to value ratio (*LVR*):

    - At any time prior to Project Completion, at 60% of the as if complete valuation referred to in the Trust's initial product disclosure statement;

    - At any time after Project Completion, at 55% of the greater of the:

        - consideration paid for 33 Broadway under the Mansons Development Agreement; and

        - most recent valuation obtained for 33 Broadway (which may be an "as if complete" valuation if there is any development, maintenance or capital expenditure being completed on the Property).

7. Following Project Completion, maintain the interest cover ratio at a level not less than two times (i.e. the income from the Property is at least two times the interest cost);

8. Net tangible assets (NTA) not less than 85% of NTA when the Property was acquired; and

9. The Trust's bank account holds funds equivalent to at least:

    - Prior to Project Completion, one month of interest payments due from Mansons Broadway Limited;

    - Following Project Completion, one month of rent.

The benchmarks will be reviewed as necessary and a minimum of four times per year.

Asset Allocation
The only assets that the Trust may hold are:
- The Property and any leases/licences of the Property;
- The Development Agreement with Mansons Broadway Limited 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 swap 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;
- Maintaining and regularly reviewing a cash flow budget for a minimum of two years in advance and provide an early warning system for potential problems;
- Undertaking 6 monthly reviews with the Trust's lender to assess the steps required to ensure that the best finance package and interest rate management strategy is in place. These will include a review of the loan term, interest rate margin, LVR and assessing when it is prudent to amortise debt;

- The circumstances in which the Manager may reduce or withhold investor distributions:
  - Projected reduction or cessation of rental income;
  - Breach of lender interest cover ratio covenant;
  - Breach of lender LVR covenant;
  - The bank account balance is less than the equivalent of one month of rent;
  - Unexpected expenditure;
  - Interest rate movement; or
  - Any other circumstance where the Manager deems appropriate.
- The circumstances in which the Manager may increase 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 cover ratio is to be maintained at a level that is not less than two times, post Project Completion.

Development Monitoring Policy

During the Development Phase, the Manager will monitor progress of the Development and Mansons Broadway's work, and do everything possible to ensure it is being done on-time and to a high standard and as required under the Mansons Development Agreement, the Mercury Development Agreement and the Tegel Development Agreement (in particular through its participation in the Project Liaison Group for the Development).

Capital Expenditure Policy

The Manager's ongoing capex policy is to work closely with the property manager to monitor the general condition of the site and the building and to ensure ongoing routine repairs and maintenance for plumbing, air conditioning, roofing and other relevant building services are undertaken with a high level of workmanship.

The Property will be a modern building complex when completed in late 2018/early 2019 (the expected timeframe for completion). The Manager is not expecting significant, if any, liability for capex or rectification of defects until at least 2029 due to the Deed of Warranty being provided by Mansons Broadway Limited and Mansons TCLM Limited (*Mansons)*. Mansons will be generally liable for any defects of the Property that become apparent prior to March 2029 and warrant to the Trust that (subject to certain exceptions) it will not be required to incur unrecoverable capital expenditure on the Property prior to that date.

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's governing document. Furthermore, the Manager will ensure that any works being undertaken comply with current health and safety legislation.

Hedging/Interest Rate Policy

The Manager has fixed the interest rate applying to the Trust's debt from 1 July 2019 to 29 January 2021 by fixing the margin under the Trust's bank facilities and entering into various swap agreements to fix the floating component of the interest rate. For the periods following 2021, the Manager will 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. Assessments will be made depending on the following factors:

- Current and predicted economic and market conditions (in consultation with economists and interest rate specialists);

- Overall Trust risk profile;
- Remaining WALE;
- Cash flow impacts – assessing if there is a material impact on the short term and investor yield expectation is compromised;
- The condition of the Property and any requirements for structural repairs, maintenance or capital works; and
- Flexibility requirements of the Trust – potential future development, sale and/or wind up of the Trust.

The Trust's interest rate policy is regularly reviewed and is subject to change.

Leverage Policy

- The maximum allowable loan amount for the Trust is set out above at Benchmark 6. In addition, the facility agreement with the bank provides that the maximum amount outstanding to the bank does not exceed 52% of the value of the bank's security (but subject to change by agreement between the bank and the Manager).
- Following Project Completion, the Trust's lending leverage will be tested at least annually against the independent market Property revaluation from a qualified registered valuer.
- If the maximum allowable loan amount exceeds this policy anticipated strategies to remedy are:
    - Undertake a strategic review and assess options (such as a sale of the Property or part of it);
    - Debt reduction through principal repayments;
    - Reduce or cease investor distributions; and/or
    - Raise further equity, subject to compliance with applicable laws.
- The Manager may also commence repayments of loan principal where the Trust's total return increases above 7.5%.

Investment Performance Monitoring

The Manager's finance and asset management team are jointly responsible for the management of investment risk by monitoring the benchmarks set out in this document. These are designed to be measured and reported in a transparent manner. They are tested every quarter or more frequently if necessary if a potential problem has been identified. This monitoring provides an early warning system for any issues.

During the Development, the Manager will monitor the development through its participation in the Project Liaison Group (under the Development Agreement) and the Project Control Group (under the Construction Contract). In particular, progress of the development will be monitored through the following key indicators:

- Cost to complete certifications provided by the Trust's consultant;
- Progress to the construction programme and achievement of milestones in the Development Agreement, including the buffer period to the sunset dates with tenants;
- Review and approval of proposed variations;
- Compliance with resource and building consent conditions;
- Compliance with health and safety obligations;
- Approval of leasing requests;
- Certification of practical completion and release of retentions.

Following Project Completion, quarterly performance tests will include:

- Sustainability of investor distribution;
- WALE;
- Property occupancy rate;

- Term remaining on the Trust's loan;
- LVR;
- Interest cover ratio;
- NTA; and
- The Trust's bank account balance.

Performance is measured against the result from the previous quarter. If any result has deteriorated beyond what is expected or breaches the benchmark it is communicated to the Manager's Chief Financial Officer and Chief Operating Officer and, if applicable, to the Manager's Compliance Committee. Furthermore, any downward trends in performance are monitored relative to benchmark indices and investment objectives.

Investment Reporting

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

- Tenant: Development progress and, post Project Completion, 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.

The Manager will hold an annual investor meeting, and special meetings as required.

Investment Strategy Review

The long term hold strategy is subject to rigorous review as follows:

- Reviewing the cash flow budget for a minimum of two years in advance, assessing liquidity, LVR projections, sustainability of investor distribution rate, future repairs and maintenance, capex requirements and tenant inducement requirements;
- Reviewing the bank facilities and interest rate management strategy, researching interest rate forecasts and implementing opportunities to hedge interest loan interest rates where appropriate;
- Reviewing the annual Property revaluation and, where necessary, examine why there are value differences to the prior year;
- Reviewing and placing suitable insurance cover for the Property including a provision for two years of loss of rents cover;
- Assessing the tenant's business operations and gather financial information where possible to ascertain their financial standing;
- Proactively negotiating rent reviews and lease extensions;
- Reviewing potential development opportunities to attract or retain quality tenant(s) and to add value to the Property;
- Researching and investigating any potential external factors relating to the location of the Property that could affect the use and/or value; and
- Reviewing opportunities for a sale of the Property (and therefore an end to the Trust), making assessments of return on capital, and if a recommendation to sell is made, put a plan into place to ensure the Property is in good saleable condition.

Review and Amendment of SIPO

The Manager undertakes a full strategic review of the Trust and Property at least once per year. This review will analyse the strategic position by considering or discussing the following factors:

- Any material changes in the Development;
- Any delays in the Development;
- Any cost overruns in the Development;
- The cashflow budget out for a minimum of two years;
- Assess sustainability of investor distribution rates;
- The age of the Trust;
- Bank funding;
- Whether to hold or sell the Property;
- Current versus prior year valuation - examine any changes and the reason why;
- Review of lease expiries. If any lease is due to expire within two years, consider a strategy of retaining the existing tenant or marketing for a replacement tenant;

- Consider any potential tenant inducements and/or re-leasing costs;
- Examine the rent review dates;
- Study the Property's rent levels against current market rent to determine if an over or under rented situation exists and the potential impact on the Trust;
- What is the future capital spend, considering building age and tenant inducements;
- Calculate LVR projections;
- Explore the Property adaptability for future or alternative uses;
- Evaluate interest rates and an appropriate interest rate management policy; and
- Assess if there are any opportunities to add value to the Property, for example early lease renewal and increasing occupancy percentages.

At the time of the strategic review the SIPO benchmarks will be measured and if it is deemed appropriate a formal review of the SIPO may be undertaken at this time.
If necessary, the SIPO may be updated with any proposed amendments to be made in consultation with the Supervisor.

<u>Ad-hoc SIPO Review</u>

Should a breach of any SIPO benchmark occur at the time of quarterly monitoring, a full strategic review of the Trust and Property may be undertaken and the requirement of an ad-hoc review of the SIPO will be triggered.