

## STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

### CENTURIA NZ PROPERTY FUND

Effective from: 12 November 2021

In this document references to Stage 1 apply from the effective date. References to Stage 2 reflect additional policy and objectives that are intended to apply subject to Centuria Funds Management (NZ) Limited receiving a licence variation from the Financial Markets Authority.

### DESCRIPTION OF THE FUND

The **Centuria NZ Property Fund** (the Fund) is a managed investment scheme registered under the Financial Markets Conduct Act 2013.

Units in the Fund (**Units**) are held by investors in the Fund (**Investors**). Each Unit is of equal value and confers an equal interest in the Fund. The Fund intends to issue new Units to Investors under a continuous issue Product Disclosure Statement that it intends to issue in the future.

The Fund will hold a diversified portfolio of property investments. Initially the Fund will invest in properties either directly or indirectly through holdings in property managed investment schemes/funds. The Fund may also act as an underwriter for property managed investment schemes/funds capital raising. In Stage 2 the Fund may also invest in listed property vehicles (LPV's), property companies and act as underwriter when these entities raise capital.

The Fund has no fixed term. The Fund may be terminated by a special resolution of Investors.

The Fund is managed by Centuria Funds Management (NZ) Limited (the Manager). The Fund's supervisor is Covenant Trustee Services Limited (Supervisor). The assets of the Fund are held by custodian entities, which may be subsidiaries of the Supervisor or a separate specialist provider depending on the nature of the asset.

The Fund intends to provide limited monthly redemptions of Units from April 2023. The Manager reserves the right to not offer redemptions or to offer redemptions at other times.

### INVESTMENT OBJECTIVES

The Fund has a long-term investment horizon. The primary investment objectives of the Fund are to:

- provide Investors a regular monthly cash distribution;
- diversify and grow the Fund's investment portfolio by acquiring additional properties and property related investments; and
- increase the Net Asset Value of the Fund and, as a consequence, increase the value of Units.

## INVESTMENT PHILOSOPHY

The Fund's goal is to enhance returns and reduce risk through acquiring over time a diversified portfolio of property investments. The Manager considers a diversified property investment portfolio should include investments in a wide range of asset classes, including directly owned and listed property, which experience different levels of volatility and liquidity. The Manager acknowledges that the Fund will have a lower level of diversification at establishment which may present a higher risk profile. The ability to grow the Fund is key to achieving greater diversification.

The Manager's philosophy, as a leading property funds manager, is to actively manage property investments throughout the investment cycle (acquisition, ownership and disposal). The Manager seeks to add value to the Fund by identifying and completing comprehensive due diligence on acquisitions and underwrite positions, improving property management and tenant relationships, renegotiating leases, and undertaking refurbishment, upgrades and/or development works. The approach is to ensure that any risks taken are appropriate and commensurate with the Fund's investment objectives.

The Manager believes an active management approach will outperform a passive approach through the full economic cycle.

## INVESTMENT STRATEGY

The Fund will invest in property, either directly or indirectly, to generate a stable income stream to support the Fund's monthly distribution over time. Underwriting positions will be taken to enhance returns. The Fund intends to hold a range of property investments providing diversification by property, sector, geographic location and tenancy mix.

To achieve the Fund's investment objectives, in Stage 1 the Fund may:

- acquire or develop single or mixed-use property;
- acquire property exposure indirectly through managed investment schemes/funds (e.g. unit trusts, limited partnerships etc.);
- acquire assets that have income streams derived from the operational performance of the property rather than reliance on tenant covenant strength, including but not limited to hotels, car parks, marinas and student accommodation;
- acquire mispriced or under-performing property assets that can be transformed through asset management strategies, change of use or greater utilisation of land or buildings;
- procure acquisitions in an off-market, open-book or restricted tendering process;
- act as an underwriter for managed investment schemes/funds capital raising;
- hold cash deposits with registered New Zealand and Australian banks; and/or
- hold any other assets arising in connection with holding property investments including prepayments, accounts receivables and derivatives (interest rate and foreign exchange).

Additionally, in Stage 2 the Fund may:

- acquire property exposure indirectly through LPVs and property companies;
- act as an underwriter for LPVs and property company capital raising; and/or
- acquire property and associated operating businesses connected with the property;
- invest in property development or investment joint ventures, e.g. through structuring of equity/preferential equity/debt participation, which could enable the Fund to access investments off-market, reduce the Fund's equity requirement or participate in deals not otherwise investible.

Cash reserves will be held for working capital, to acquire investments and to fund redemptions. These reserves may be increased by the Manager to allow for purchase of new investments, completion of capital works or payment of lease incentives for property owned directly by the Fund.

## ASSET ALLOCATION

The authorised investments are:

### ***Stage 1 – Current Authorised Investments***

- Directly owned real estate
- Interests in property managed investment schemes
- Interests in property managed funds
- Underwriting of property managed investment schemes' and property managed funds' capital raising
- Cash
- Derivatives
- Other assets arising in connection with the above

### ***Stage 2 – Proposed Authorised Investments***

- Stage 1 investments
- Interests in property companies
- Interests in LPVs
- Underwriting of other property entity's capital raising, including property companies and LPVs
- Interests in operating businesses associated with or connected to directly owned real estate acquired by the Fund
- Debt securities
- Loans to entities in which the Fund holds or intends to hold an equity investment in
- Other assets arising in connection with the above

Allocations are made at the discretion of the Manager.

The Fund cannot invest directly in Centuria Capital Group shares but may hold an investment indirectly through externally managed funds.

## INVESTMENT POLICIES

### ***Distributions***

Distributions are made at the discretion of the Manager. The Manager's policy is to pay out up to 110% of Adjusted Operating Profit to Investors over the medium term<sup>1</sup>. The Fund may pay less than 110% of Adjusted Operating Profit when amounts are required to fund redemptions, or cash reserves are required to be built up for a future event, such as acquisitions, planned capital expenditure or lease incentives for directly owned property. Due to fluctuations in the Fund's income and expenses, it is possible that the Fund may pay more than 110% of Adjusted Operating Profit in a particular period using surplus capital or debt, but this will only occur where it is commercially sustainable over the life of the Fund.

Adjusted Operating Profit is calculated by adjusting net profit after tax (determined in accordance with NZ IFRS) for certain non-cash, one-off, irregular and/or equity raising items including:

- reversing unrealised fair value gains or losses on investments;
- reversing unrealised fair value gains or losses on derivative financial instruments;
- reversing unrealised foreign exchange gains or losses on investments (excluding foreign cash balances);
- reversing gains or losses on disposal of investments;
- removing accruals for fixed rental growth;

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<sup>1</sup> Interest expense on loans that underwrite the Fund's capital raising is treated as a distribution when calculating the percentage of Adjusted Operating Profit paid out.

- reversing non-recoverable repairs and maintenance expenditure where gearing (excluding loans that underwrite the Fund's capital raising) is forecast to remain below 45% as this is intended to be funded from capital;
- reversing the amortisation of establishment or upfront payments in connection with entering into any derivative contract;
- reversing fair value gains or losses on vendor underwrites and retentions that are treated as financial assets;
- adding rental income on vendor leases that are treated as financial assets and not reflected in net profit;
- reversing the amortisation of lease incentives funded by vendor underwrites;
- reversing the amortisation of borrowing costs incurred at establishment of the Fund or in respect of future equity raising;
- reversing interest expense on loans that underwrite the Fund's capital raising;
- removing depreciation on right-of-use assets and subtracting the repayment of lease liabilities to mirror cash flows;
- adjusting for other one-off and unpredictable items including acquisition fees, marketing costs in relation to raising capital and performance fees.

### ***Cash flow and liquidity***

The Manager will manage the Fund's cash flow and hold liquidity reserves in such a way to not cause undue risk or expense to the Fund by:

- Incurring only costs that are deemed appropriate and reasonable.
- Maintaining and regularly reviewing a cash flow budget to allow early identification of potential problems.
- Maintaining discretion to offer redemptions and issue Units.

Where the Manager determines that cash reserves exceed the amount required for working capital and to fund future capital works, the purchase of property investments or funding redemptions of Units the surplus cash may be used to repay bank debt or be distributed to Investors. The Manager will only pay distributions out of surplus capital where the resulting capital structure is sustainable.

### ***Interest cover***

The interest cover ratio is to be maintained at not less than two times the interest expense. The interest cover ratio is measured by taking the Fund's EBITDA adjusted for unrealised gains and losses and dividing by the interest expense. Interest and fees on loans that underwrite the Fund's capital raising are excluded from interest expense for the purpose of this ratio.

### ***Gearing***

The Fund can borrow up to 55%<sup>2</sup> of the aggregate value of the Fund's assets, calculated on a look-through basis. Look-through gearing includes a proportionate share of the underlying debt in any indirect investments the Fund holds. Debt held by any LPV's the Fund invests in is excluded in calculating the Fund's look-through gearing.

The Fund has a long-term target gearing range of between 42.5% and 47.5%, with the ability to increase gearing above this level on a short-term basis to facilitate acquisitions, redemptions, capital expenditure and fund underwriting if called.

If the value of the Fund's assets falls and look through gearing increases above the cap, the Manager will implement a strategy to restore the level of gearing to 55% or below. This may include:

- suspending redemptions;
- selling investments to repay debt;
- reducing or ceasing investor distributions; and/or
- issuing new Units.

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<sup>2</sup> Excluding any subordinated debt where the debt (A) does not have a stated maturity date, (B) has an interest rate that is less than or equal to the then current rate of distributions to Investors; (C) is only repayable out of the proceeds of debt raised or from the proceeds raised from the issue of units to investors and (D) ranks equally with the claims of Investors on liquidation of the Fund.

### ***Hedging***

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

The Fund will report in NZ\$. Assets held in foreign currency will be revalued to NZ\$ for reporting purposes. The Fund will not hedge balance sheet foreign exchange revaluation risk, however the Manager will borrow in foreign currency to create a natural hedge where possible.

Operating cash flows from or to foreign denominated investments are exposed to changes in foreign exchange rates. The Manager may hedge up to 100% of forecast foreign currency cash flow requirements for periods up to 18 months.

### ***Valuation***

The Fund's assets will be valued in accordance with the Unit Pricing Policy that the Manager has adopted for the Fund.

### ***Conflicts of interest***

The Manager maintains and complies with a written group-wide conflicts of interest policy that governs the way conflicts and related party transactions are managed. Conflicts are dealt with on arm's length commercial terms. Each director and employee has an obligation to act in the best interests of Investors.

## **INVESTMENT PERFORMANCE MONITORING**

Each financial quarter the Manager will provide a report to the Board of the Manager detailing:

- performance against Statement of Investment Policies and Objectives (SIPO);
- the current investment portfolio;
- accounting information over the period including a statement of financial performance, statement of financial position and transaction details;
- compliance with bank financial covenants including loan to value ratio and interest cover ratio (as defined in the loan facility agreement);
- comment on performance and the reason for over/under performance against budget; and
- economic comment pertinent to the investment objectives and the outlook for future returns.

The Manager will provide Investors with the Fund's audited financial statements within four months following the end of the Fund's financial year. The Manager will also provide a half year report to Investors, and more frequent reporting if required, on aspects of the Fund and the investment portfolio.

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

## **INVESTMENT STRATEGY REVIEW**

Annually the Manager will review the key metrics for the Fund's investments and assess if the investments should be sold. Key metrics to be considered include:

- Lease expiry profile and weighted average lease term (WALT)
- Occupancy
- Internal rate of return for each investment
- Property market conditions

- Property valuations and future expectations
- Underlying net asset values
- Forecast capital expenditure and tenant incentives
- Forecast net income and sustainability of distributions
- Forecast compliance with banking covenants
- Investment portfolio asset allocations and diversification
- Economic conditions
- Borrowing conditions and loan expiries
- For LPV's, recent share price performance and comparison to market peers

If the Manager believes that an investment should be sold or redeemed it will prepare a report to the Board of the Manager for its consideration. If the Board of the Manager approves the recommendation the Manager will endeavour to sell or realise the investment.

If the review identifies a material change in conditions, the investment strategy may be amended. This may involve an amendment to SIPO.

## REVIEW AND AMENDMENT OF SIPO

The Board of the Manager undertakes a full strategic review of the Fund, investment portfolio and SIPO annually, or more regularly if there are material changes to market conditions.

If necessary the SIPO may be updated, with any proposed amendments to be made in consultation with the Supervisor.

## AVAILABILITY OF THIS SIPO

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