

SUPPLEMENTARY DOCUMENT

PASTORAL HOUSE PROPORTIONATE OWNERSHIP SCHEME

Date: 17 April 2020

This is a Supplementary Document for the Product Disclosure Statement dated 24 January 2020 ("PDS") for the issue of interests by the Pastoral House Proportionate Ownership Scheme.

This document is to be read together with the PDS, which it supplements.

Supplementary Information

1. Impact of Covid-19

The current Covid-19 pandemic has impacted all sectors of the New Zealand economy including commercial property. During the current Alert Level 4 lockdown tenants whose businesses are not "essential services" are required to vacate their premises and staff are working from home. Many businesses are experiencing a significant loss of revenue during this period and there is the potential for this to lead to the failure of some businesses. In addition to this there has also been significant changes to interest rates and funding costs. This situation could lead to a number of impacts for the Scheme, including:

1. Reduced rental income;
2. Reduced funding costs; and
3. Reduced value of the Scheme's property.

2. Review of the Scheme

Oyster has undertaken a review of the Scheme to assess the impact of Covid-19. This has included:

- a review of each lease to determine if the tenant has the right to reduce their rent payments during the lockdown
- an assessment of the financial risk of each tenant
- reviewing which tenants are providing "essential services" and are therefore still able to occupy the premises
- a review of the bank facilities and ability to comply with bank covenants including discussions with the Scheme's funding providers (Kiwibank and Wyborn)
- a review of any correspondence the vendor has had with the tenants on rent abatements or non-payment of rent

The key findings from this review are:

a) Tenants

- The Ministry of Business Innovation and Employment (MBIE) is an essential service. This Government tenant totals 90% of the rental income from the property.

- New Zealand Post (Kiwibank) and BNZ (which are also providing essential services), and MBIE are currently paying their full rent, being, in aggregate, 97% of the rental income from the property.
- The Scheme's rental income has increased due to the BNZ extending their lease so it now expires on 28 February 2026. In the PDS it was assumed that this lease would expire on 29 February 2020.
- The two retail tenants, Concorde Café and the Woodward Group (Wishbone) are in discussions with the vendor for rent relief.

b) Bank Funding

- The pandemic has led to a decrease in interest rates which will benefit the Scheme as it is expected to be able to fix the interest rate for the Term Loan at a lower rate than forecast in the PDS. The savings from the reduction in the interest rate will be in place for the three year term of the loan, which should be far longer than any reductions in rental income suffered by the Scheme.

3. Scenario Review Results

Using the information referred to above, Oyster has reviewed various scenarios to gauge the likely impact of Covid-19 on the Scheme. This involved testing different sets of assumptions to see how these affect the Scheme's financial position. The assumptions tested included:

- which tenants may be provided rent relief by the vendor or the Scheme; and
- the length of time that this rent relief will run for. The key variable is when the country will move from the existing level 4 to a lower level whereby tenants can reoccupy the premises and, as a result, lessen the impact on the Scheme's finances.

The results of the scenarios reviewed indicate that a reduction in income from rent relief that may be provided to tenants is offset by the decrease in the interest cost on the Term Loan and the extension of the BNZ lease.

We have also considered the working capital available to the Scheme with the decrease in the interest cost on the Term Loan and the extension of the BNZ lease. The forecast cash return to Investors of 6% per annum per Interest should be able to be maintained during the forecast period to 31 March 2021 by utilising the increased working capital amount to support any shortfall in cashflow. Under the scenarios tested the Scheme has sufficient income and working capital to pay the forecast return to Investors and still have sufficient working capital to complete the building maintenance and capital works scheduled under the 5 year capital expenditure plan.

It is clear that the impacts of Covid-19 could have material impacts on certain financial aspects of the Scheme, but in our view the overall impact on the Scheme is not expected to be materially adverse to Investors.

This conclusion is based on currently available information. It is unknown how long the Covid-19 pandemic will last and what further measures, if any, the government may put in place to support businesses and commercial landlords.

4. Amendments to the PDS

The PDS is amended as follows:

4.1. Section 7: RISKS TO RETURNS FROM PASTORAL HOUSE PROPORTIONATE OWNERSHIP SCHEME

- a) Page 46: Risk Tables- Availability of Debt Funding: in the column headed "Oyster's assessment of nature and magnitude" add:

The Covid-19 pandemic may create restraints on the availability of funding from banks.

- b) Add a new risk as follows:

Description of risk	Oyster's assessment of nature and magnitude	Mitigating factors
Returns		
Reduction in Cash Distributions	Cash distributions are made from the scheme's operating profit. There is a risk that cash distributions may decrease or be suspended if the Scheme has insufficient cash to make the distributions. This may, for example, be due to an increase in the Scheme's expenses, or a reduction in the income from Pastoral House, or a tenant defaulting under their lease or being provided rent relief due to the financial impact of the Covid-19 pandemic.	Oyster will work with any tenant that is impacted by the Covid-19 pandemic and assess if any support by the Scheme is appropriate. The drop in the forecast interest rate for the Term Loan will decrease the Scheme's expenses and help to offset any decrease in rental income. The Scheme's rental income has increased due to BNZ Branch Properties Limited extending their lease so it now expires on 28 February 2026.
Reduction in Value of Interests	Pastoral House will be independently valued annually. This valuation is subject to both cyclical changes in the property market and changes in the rent derived from tenants. These changes in value can increase or decrease the value of an Interest. The Covid-19 pandemic may have an impact on property values, at this time the extent of the impact is unknown.	Oyster will work with any tenant that is impacted by the Covid-19 pandemic and assess if any support by the Scheme is appropriate. The maintenance of long term rental income will assist in maintaining the value of the property.
Oyster's assessment of the likelihood of circumstances arising	Medium	
Oyster's assessment of the impact, were the circumstance to arise	Medium	