OTHER MATERIAL INFORMATION RELATING TO AN OFFER OF UNITS IN PMG GENERATION FUND

Issuer:	PMG Property Funds Management Limited
Scheme:	SCH12827
Related to Offer:	OFR13276

This Other Material Information Document has been prepared to meet the requirements of clauses 48(1)(b) and 50(e) of Schedule 5 to the Financial Markets Conduct Regulations 2014 (**FMCR**) in relation to an offer of Units in PMG Generation Fund, as set out in a Product Disclosure Statement (**PDS**) dated on or around the date of this document.

Except where the context provides otherwise, a capitalised term in this document has the same meaning given to that term in the PDS.

Except where presentation suggests otherwise, monetary amounts are presented in New Zealand Dollars, rounded to the nearest thousand.

This document must be read alongside the PDS.

Dated: 22 February 2022

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Other Risks

Risks relevant to the PDS, but not considered the most significant risks, are summarised below. This list is not exhaustive and other risks will exist in relation to the Fund.

Capital Expenditure Risk

Nature and magnitude: The Fund will incur capital expenditure on the Property Portfolio from time to time. A total capital expenditure allowance of approximately $2.5 million has been allowed for in the two years to 31 March 2023, equating to approximately 1.2% of the valuation of the Property Portfolio at Settlement Date. Material individual items of capital expenditure are not expected in the prospective financial years to 31 March 2023 based on the current condition of the Existing Properties and the Acquisition Property. However, unbudgeted work may be required for several reasons, including upgrading or adjusting lettable areas on a change of lease arrangements to assist with leasing space, undertaking structural repairs and related work to meet new requirements resulting from changes to current regulations and standards, or because general capital improvements are required or desired. The Fund may not be able to recover all, or any, of this expenditure from tenants, which may have an adverse effect on the Fund's performance and funding risk.

Although currently not included in the assumptions in the prospective financial information, the Fund may be indirectly exposed to capital expenditure on a similar basis to the above if it establishes the Investment Portfolio in future, as capital expenditure may be required on properties owned by investees within the Investment Portfolio.

Mitigation strategies: The Manager will minimise risk associated with future capital expenditure projects as they arise, using certified professional experts in assessing specific capital expenditure requirements associated with each property. The Manager has procurement processes in place to budget for and monitor capital works as they progress, holding contractors to account in their provision of services to expected standards. If the Fund commences investment into the Investment Portfolio, the property condition, quality, and capital expenditure budgets of underlying properties within each investee will also be considered before investing into an investee.

Manager's assessment of likelihood of circumstances arising: Low likelihood of a material, unbudgeted item of capital expenditure in the forecast periods.

Manager's assessment of impact were the circumstances to arise: Potentially moderate impact on the valuation of the Property Investments, total borrowings, level of gearing, and the value of the Fund's units.

Dilution Risk

Nature and magnitude: If the Manager of the Fund seeks to raise further capital in order to fund development at any of the properties in the Property Portfolio, the operating costs of any of the properties in the Property Portfolio, the acquisition of any further properties into the Property Portfolio, or the acquisition of investments into the Investment Portfolio, the relative unit holding of unitholders of the Fund may be diluted when a unitholder is not able or willing to subscribe for further units in the Fund if offered.

Mitigation strategies: It is intended existing unitholders of the Fund will be provided the opportunity to participate in future capital raising activity on the same terms as other potential investors.

Manager's assessment of likelihood of circumstances arising: High likelihood of further material capital being raised. Low likelihood of material capital being raised but not offered to existing investors first.

Manager's assessment of impact were the circumstances to arise: Low impact anticipated on investors. Where a capital raising is made available to existing investors, the investor can mitigate dilution risk should they have available capital they are willing to commit.

Damage or Destruction Risk

Nature and magnitude: There are risks of damage or destruction to the properties in the Property Portfolio, and any other properties which are added to the Fund's Property Portfolio (or indirectly through the Fund's Investment Portfolio), by fire, earthquake, or other event. Such events may result in a required outlay of capital expenditure to repair or reinstate the damaged or destroyed property, the loss of rental income while the damaged or destroyed property is being repaired or reinstated, or, if the tenant terminates the lease and the Fund (or investee) is unable to find a suitable replacement tenant, vacancy of the property. These factors could impact on funds available for distribution to unitholders and thus unitholder returns.

Mitigation strategies: The Manager will ensure that the Fund's Property Portfolio has comprehensive insurance cover, including consequential loss of rental cover. This is a further requirement of the terms of bank funding arrangements. The Manager will also consider the terms of insurance cover held by the investees in the Fund's Investment Portfolio on a comparable basis.

Manager's assessment of likelihood of circumstances arising: High likelihood of damage to a property at some point in time, very low likelihood of material damaged or destruction to an uninsured property.

Manager's assessment of impact were the circumstances to arise: Any damage or destruction to insured property is expected to only have a low impact on the Fund (including distributions to investors and the value of units in the Fund). If the length of time to recommence rental income from a property significantly exceeds any insurance coverage period, the impact on investor returns could be moderate (depending on the rental income generated from the relevant property in the context of the overall Property Portfolio and Investment Portfolio).

Management Related Risks

Nature and magnitude: The Manager has been appointed as property and fund manager for the Fund, pursuant to the Trust Deeds. The Manager may not perform effective services for the Fund, to the detriment of investor returns and the value of units in the Fund. The Manager is also able to terminate its engagement as manager upon 12 months' notice. The Fund does not have the resources to manage the properties and the Fund itself and would need to engage another manager to do so on their behalf. There is a risk that the Fund may not be able to find a suitable manager, and/or will need to pay higher management fees than those applicable under the Trust Deeds, which could have an adverse effect on fund performance and investor returns.

Mitigation strategies: The Manager can be removed as manager if a special resolution of unitholders resolves to remove the Manager from its role with the Fund, to protect investors from ongoing poor levels of fund management. It is likely that if the Manager ceased to manage the Fund on this basis, a replacement manager would be identified prior to the termination of the Manager.

Several of the directors and other key management personnel of the Manager are invested in the Fund, helped to establish the Fund, and have formulated the strategy for the Fund. Given this relationship, it is highly unlikely that the Manager will terminate their management role with the Fund without an appropriate plan for onward transition that is in the best interest of investors.

Manager's assessment of likelihood of circumstances arising: Low.

Manager's assessment of impact were the circumstances to arise: A potentially significant impact on the Fund and investor returns if the Manager fails to perform its duties adequately and effectively. An expected low impact if the management arrangement is terminated in accordance with the Trust Deeds in a timely manner.

Property Market Risk

Nature and magnitude: The Property Portfolio is concentrated in industrial and large format retail sector properties. In the event the Fund does commence investing into the Investment Portfolio, the Fund may become invested in a more diverse mix of commercial property sectors (such as the Office and Childcare sector). Property market conditions and fluctuations in supply and demand for these kinds of properties will affect the value of the Property Investments and will affect the Fund's (or the Fund's investees') rental income, costs, and other underlying property fundamentals. The Fund is reliant on the Property Investments to provide a return to investors. A change in the New Zealand economy (and the property sectors in which its invested, in particular) may result in unitholders not receiving the forecast return, not being able to recoup their original investment, or receiving more than their original investment.

Any impact from this risk will currently not be offset by exposure to other classes of assets.

Mitigation strategies: The Manager's mitigation strategy is to continue to diversify by property sector, region, tenant volume and tenant operating sector, to reduce the impact of inevitable changes in the property market and New Zealand economy (charts illustrating the Property Portfolio diversification are set out in the PDS at Section 2 *What PMG Generation Fund Invests In)*. In future, the Manager may further this strategy by also diversifying investment type, commencing investment into the Investment Portfolio that will have a similar strategy related to portfolio diversification.

Manager's assessment of likelihood of circumstances arising: High likelihood of market and economic fluctuation over time. Low likelihood of a material changes in the short term (0-2 years).

Manager's assessment of impact were the circumstances to arise: Potential impact of property market and general economic fluctuation on both investor returns, and the value of units in the Fund could range from low to significant at a given point in time. Over a long time-horizon (greater than five years), the potential overall impact on investor returns and the value of units in the Fund is expected to be low to moderate but is inherently uncertain.

Strategic Risk

Nature and magnitude: The Fund intends to achieve greater scale through the addition of further Property Investments with complementary characteristics to the current Property Portfolio. Such investment will consider increasing diversification in areas such as property sector, property region, and tenant (number and sector exposure). However, the only income generating assets of the Fund at Settlement Date are expected to be six directly held commercial properties from the industrial and large format retail sectors.

To achieve the strategic aims of the Fund, the Manager needs to source additional properties for the Property Portfolio that the Manager believes will help the Fund continue to meet its investment objectives. In addition, the Manager intends to invest its assets into the Investment Portfolio. There is no certainty that additional properties for the Property Portfolio, or new property investments for the Investment Portfolio, will be sourced that enable the delivery of the Fund's strategic aim, and as a result the achievement of the planned extent of diversification may not be possible.

Mitigation strategies: The Manager has experienced investment and transactions professionals with a proven track record of acquisitions that have performed for both the Fund and other funds managed by the Manager. The Manager believes that additional property can continue to be sourced without detriment to investor returns, provided sufficient capital or borrowings are available to fund such acquisitions.

If the Fund sources investments in commercial property through holding interests in other entities, instead of acquiring property directly, the Fund may also be able to diversify its asset mix (by property, sector, region, and tenant) quicker, and may be able to invest in potentially more liquid assets. The Manager has already received a variation to its MIS license to facilitate the Fund investing into the Investment Portfolio to support this strategy.

Manager's assessment of likelihood of circumstances arising: The likelihood of the Fund not being able to obtain suitable additional Property Investments in the short to medium term (0-5 years) is considered low.

Manager's assessment of impact were the circumstances to arise: If the Fund is not able to obtain further suitable Property Investments, the impact on the level of diversification achievable by the Fund compared to its intended strategy could be moderate to significant (and as a result, lead to an increased likelihood of variability in investor returns). However, the Fund's ability to forecast and provide distributions to unitholders should not be materially affected.

Redemption pricing

Should the Fund be offering redemptions, unit prices for redemptions will be determined in accordance with the Establishment Deed. The Fund intends to establish redemption pricing monthly, as at the last day of the month. Redemption pricing, in summary, is derived from the Fund's NAV per the unaudited management accounts of the Fund. It is adjusted for the Fund's establishment, equity issuance and property acquisition costs to derive Adjusted Net Asset Value (**Adjusted NAV**). Adjusted NAV is then subject to a 2% redemption spread adjustment, divided by the number of units on issue, and any deduction or withholding on account of taxes subtracted, to derive the redemption price. The redemption spread adjustment is effectively retained by the Fund.

Put simply, for each redemption, the Manager will set a redemption price in accordance with the following formula:

$$\frac{\text{Adjusted NAV} - (\text{Adjusted NAV} \times 2\%)}{U} - T$$

- Adjusted NAV means the Net Asset Value* (**NAV**) as determined in accordance with the Establishment Deed, adjusted as summarised further in the previous section titled *Unit Pricing*.
- U means the number of units on issue in the Fund as at the date that NAV is calculated for the purposes of this clause; and
- T means any deduction or withholding on account of taxes (including without limitation on account of PIE Tax attributable to income allocated to a unitholder).

*The calculation of NAV is primarily based on the most recent valuations of the Property Investments (which, at Settlement Date, means the Fund's Property Portfolio), less any associated liabilities of the Fund. The Fund's liabilities will include accruals for fees and expenses. This means that, given performance fees (described in greater detail in the PDS at Section 8 *What are the Fees?)* are calculated annually in arrears, if a performance fee is payable, the fee will be accrued into the calculation of NAV only at the time it is calculated.

Valuations of Property Investments are to be undertaken in accordance with the Establishment Deed, Schedule 5, clause (c). NAV is to be determined on the last day of a calendar month of the redemption period, or another date selected by the Manager that is no more than 30 Business Days before the relevant transaction date, unless the Supervisor approves another date for the purposes of calculating the redemption or repurchase price.

Adjustments in calculating Adjusted NAV are included to account for the cost of the Fund's investment activity over time. Further information on the adjustments to NAV can be found in the Establishment Deed.

Example redemption pricing calculation

Below are theoretical example calculations of redemption pricing, derived from the prospective financial information associated with the PDS. It must be noted that the prospective financial information does not include any prospective revaluation gains associated with property investments. The information is non-GAAP in nature, and the adjustments may not be reflected in the Fund's financial statements, prospective financial statements, or management accounts:

	Year ending 31 March 2022	**Year ending 31 March 2023**
NAV per prospective statement of financial position	**$148,420,000**	**$147,766,000**
Remaining fund establishment costs to be amortised	$891,000	$594,000
Remaining equity raising costs to be amortised	$4,930,000	$3,855,000
Remaining property acquisition costs to be amortised	-	-
Adjusted NAV	**$154,241,000**	**$152,215,000**
Less: Redemption spread adjustment (2% of adjusted NAV)	($3,085,000)	($3,044,000)
Sub-total	**$151,156,000**	**$149,171,000**
Divide: Number of units on issue	135,200,000	135,200,000
Redemption price per unit	**$1.12**	**$1.10**

The assumptions on which the example redemption price per unit is based include but are not limited to:

- The fair value of the Property Portfolio is inclusive of the Acquisition Property, as determined by independent valuers within 4 months of the PDS, plus the value of prospective capital expenditure. NAV, and thus Adjusted NAV and the redemption price per unit, take no account for future capital value appreciation beyond Settlement Date.
- The fund establishment costs are based on the costs associated with the initial offer of 34,000,000 units in the Fund. It does not include costs associated with any future offers, or the costs of property acquisition.
- The equity raising costs and property acquisition costs relate to the costs of the offer described in the PDS to which this document relates, and in the offer dated 10 June 2021, that remain to be amortised.
- Other than the offer described in the PDS and the related Acquisition Property, no further capital raising, or purchases of property, have been presumed during the prospective periods.
- It is presumed that 35,200,000 units are issued at a unit issue price of $1.14.

Distributions

As indicated in the PDS, Section 4.4 *Distributions*, it is the Manager's intention to declare gross distributions of approximately 100% of the Fund's adjusted funds from operations (**AFFO**), after consideration of any required re-investment in capital expenditure programmes, redemptions, and debt repayment, monthly. Due to fluctuations in the Fund's income and expenses, it is possible that the Fund may pay more than 100% of AFFO in a particular period, but this will only occur where considered by the Manager to be commercially sustainable over the life of the Fund.

AFFO is calculated using the "Net profit before and after income tax, and total comprehensive income" from the historical or prospective financial statements of the Fund and making the following adjustments to consider the Fund's investment activity. The following adjustments are non-GAAP adjustments and therefore are not reflected in the Fund's historical or prospective financial statements.

AFFO for the purposes of planning distributions	**Actual**		**Prospective**		**Actual**	
	1 day ending 31 March 2020	**Year ending 31 March 2021**	**Year ending 31 March 2022**	**Year ending 31 March 2023**	**6 months ending 30 September 2020**	**6 months ending 30 September 2021**
Net profit before and after income tax (total comprehensive income)	**(1,338,000)**	**6,684,000**	**10,497,000**	**7,458,000**	**880,000**	**2,299,000**
Reversal of unrealised (gains)/losses on revaluation of investment property	982,000	(5,049,000)	(5,405,000)	-	-	-
Reversal of unrealised (gains)/losses on revaluation of derivatives	350,000	(84,000)	(1,110,000)	-	159,000	(680,000)
Reversal of performance fees charged by the Manager	-	536,000	612,000	-	-	-
AFFO	**(6,000)**	**2,087,000**	**4,594,000**	**7,458,000**	**1,039,000**	**1,619,000**
Distributions declared	-	1,972,000	4,657,000	8,112,000	986,000	1,657,000
Distribution pay-out ratio	**0%**	**94%**	**101%**	**109%**	**95%**	**102%**

Assumptions and considerations associated with the AFFO calculation above include:

1. All accounting policies stated in the historical financial statements and prospective financial statements of the Fund (as applicable).
2. All assumptions applicable to the prospective financial information (summarised in the PDS at Section 6 *PMG Generation Fund's Financial Information*).
3. No adjustments made for the Manager's consideration of required re-investment in capital expenditure programmes, redemptions, or debt repayments.
4. Property revaluations and Manager performance fees are inherently uncertain. They have been estimated for the year to 31 March 2022 given the proximity of the date of this document to that date and have not been included for the year to 31 March 2023.
5. Distributions may be paid in excess of AFFO from working capital and funds available from financing activities, including due to distributions being declared in relation to the March month before the completion of the audited annual financial statements.
6. The actual amounts of property revaluations and Manager performance fees are confirmed annually once the financial statements for the Fund have been audited.
7. Changes in fair value of derivative financial instruments cannot be reliably predicted, therefore no revaluations have been included in the prospective financial information beyond those known at the date this document has been prepared.
8. There is currently no forecast reduction in borrowing and therefore no debt repayments have been included in the calculation of AFFO in the prospective periods.
9. Any expenditure to be incurred on acquiring new Property Investments, and associated borrowing required to acquire such investments, is not included in the above calculation as it is considered a financing activity that, in conjunction with equity raised from an offer, should be cash flow neutral in respect of funds available for distribution.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

Earnings before interest, tax, depreciation, and amortisation (**EBITDA**) referred to in the PDS at Sections 1.7, 6.1 and 6.3 is a non-GAAP measure. The following reconciling items have been extracted from the historic and prospective financial information of the Fund and a reconciliation to GAAP information is provided below:

Financial Period	**Actual**		**Prospective**		**Actual**	
	1 day ending 31 March 2020	**Year ending 31 March 2021**	**Year ending 31 March 2022**	**Year ending 31 March 2023**	**6 months ending 30 September 2020**	**6 months ending 30 September 2021**
Net profit before and after income tax (total comprehensive income)	**(1,338,000)**	**6,684,000**	**10,497,000**	**7,458,000**	**880,000**	**2,299,000**
Net Financing Costs	(4,000)	732,000	1,886,000	2,684,000	367,000	653,000
EBITDA	**(1,342,000)**	**7,416,000**	**12,383,000**	**10,142,000**	**1,247,000**	**2,952,000**

Net Financing Costs in the case of the Fund for this calculation constitutes interest expense and line fees on borrowings, less interest income on cash deposits. It excludes realised or unrealised gains on the fair value of interest rate swaps.

Manager's Performance Fee

The Manager is entitled to a performance fee equivalent to 15% of the excess performance above the Manager Performance Benchmark (**Manager Performance Fee**), as disclosed in the PDS Section 8.2 *Aggregated Fees and Expenses*.

An example calculation is provided below for information purposes only, to illustrate the calculation of the Manager Performance Fee. Actual results are likely to vary significantly from those set out in this example.

Example Manager Performance Fee calculation (rounded where appropriate)

Inputs

Performance hurdle factor	6.00% (A)
Annual average 10-year government bond yield	2.00% (B)
Manager Performance Benchmark	**8.00% (C)=(A)+(B)**
- Manager Performance Benchmark ($)	$12,000,000
Manager Performance Fee Multiple	15.0%
Closing Adjusted NAV per Unit (before Manager Performance Fee)	$1.20
Opening Adjusted NAV per Unit	$1.14
Distributions per Unit declared during the year (Distributions per unit)	$0.06
Closing Adjusted NAV of the Fund (before Manager Performance Fee)	$150,000,000
Manager Performance Cap (above Manager Performance Benchmark)	5%
Brought forward surplus/(deficit) performance	$Nil

Calculation

Manager's Performance for the year is calculated as:

Formula: $\dfrac{\text{(Closing Adjusted NAV per Unit - Opening Adjusted NAV per Unit + Distributions per Unit)}}{\text{Opening Adjusted NAV per Unit}}$

Example: Manager's Performance = $\dfrac{(\$1.20 - \$1.14 + \$0.06)}{\$1.14}$ = 10.53%.

Manager's Performance ($) = 10.53% x $150,000,000 = $15,795,000.

The Manager Performance Fee is calculated as:

Formula: ((Manager's Performance – Manager's Performance Benchmark) x Closing Adjusted NAV) x Manager's Performance Fee Multiple

Or: (Manager's Performance $ - Manager's Performance Benchmark $) x Manager's Performance Fee Multiple

Example: Manager Performance Fee = ((10.53% - 8.00%) x $150,000,000) x 15% = $569,250 – no deficit or surplus performance to carry forward.

Or: Manager Performance Fee $ = ($15,795,000 - $12,000,000) x 15% = $569,250 – no deficit or surplus performance to carry forward.

Estimated Costs of Offer

The table below details the total of the amounts paid or agreed to be paid by, or on behalf of, the Manager in connection with the offer of units in the Fund (this excludes fees and expenses payable to the Manager and associated persons).

Type of Cost	Amount	Cost paid to	Reason for cost and description of services
Legal Fees	$110,000	Simpson Grierson	Legal fees to Simpson Grierson for costs relating to advising on the PDS, compliance with the FMCA, offer due diligence, and attending to registration of the Offer Information.
		Dentons Kensington Swan	Legal fees to Dentons Kensington Swan for the costs of legal due diligence on the Acquisition Property, negotiation of the sale and purchase agreement for the Acquisition Property, and settlement of the purchase of the Acquisition Property.
Marketing Costs	$175,000	Various parties	The costs payable for designing and proofing the Offer Documents, producing advertisements, holding events in relation to the Offer, and the costs associated with preparing and printing the PDS and associated marketing material.
Due Diligence Costs - Valuation Fees	$10,000	TelferYoung (Hawkes Bay)	The fees payable to an independent valuation expert in relation to the fair valuation of the Acquisition Property.
Due Diligence Costs - Other	$35,000	Various Parties	Provision for other costs associated with the purchase of the Acquisition Property including seismic assessment, technical and other due diligence.
Supervisor's Fees	$10,000	Covenant Trustee Services Limited	The fees payable to the Supervisor for their costs in relation to reviewing this PDS, other Offer Documents, and oversight of the due diligence on the Acquisition Property.
Financial, Administrative and Contingency Costs - specific	$5,000	Financial Markets Authority	The costs payable to the Offer Register and Financial Markets Authority on registration of the Offer Information.
	$20,000	Baker Tilly Staples Rodway Audit Limited	The fees payable to the Fund's auditor in relation to performing a review engagement (limited assurance) in respect of the Fund's prospective financial information.
Administrative and Contingency Costs - other	$10,000	Multiple parties	Provision for other costs associated with the preparation of the Offer for the Fund and all associated Offer documents, including the prospective financial information and other incidental costs that may be incurred.
	$375,000		