

STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

BUILDING A GRAHAM STREET LIMITED PARTNERSHIP

Description of the Limited Partnership

Building A Graham Street Limited Partnership (the *LP*) is a limited partnership investment of 1400 units to acquire Building A, 2 Graham Street, Auckland (the *Property*).

Legal title to the Property is held by Building A Graham Street Custodian Limited as bare trustee for the LP.

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

A SIPO has been in place since 19 May 2016 and this replaces the SIPO dated 19 May 2016 and is effective from 10 July 2019.

Investment Objectives

This LP has a long-term investment horizon and the primary objectives are to:

- Achieve and sustain the increased investor distribution levels that have been forecast across the first five years of the LP in the LP's product disclosure statement and set out in the investment performance monitoring benchmarks in this statement of investment policy and objectives document (*SIPO*);
- Take reasonable steps to maintain the value of the Property by identifying necessary ongoing repairs, maintenance and capital expenditure (*CAPEX*) requirements and enforcing the capex warranty from the original vendor of the Property where necessary; and
- Leverage lease extension options for the Property 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 LP's goals, protecting the investor's interests and to create satisfied investors who seek repeat investment opportunities.

Investment Strategy

The strategy of this LP is to hold the Property and continue to lease it to quality tenants and preserve and then grow equity by active management of the LP and the Property. Below are the parameters and minimum investment performance monitoring benchmarks against which the performance of the LP 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 2017, which is forecast to increase to:
 - 7.25% per annum for the year ending 31 March 2018
 - 7.50% per annum for the year ending 31 March 2019
 - 7.75% per annum for the year ending 31 March 2020
 - 8.00% per annum for the year ending 31 March 2021
2. The cash return does not take into account any increase or decrease in the value of the Property or

any other non-cash items;

3. Weighted average lease expiry (*WALE*) not less than four years;
4. Property occupancy greater than 80%;
5. There is to be a period of at least 12-months remaining on the loan term - from the Manager's latest annual financial reporting date of 31st March;
6. Maintain the loan to value ratio (*LVR*) at a level below 50%;
7. 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 90% of *NTA* when the Property was acquired; and
9. The LP holds minimum liquidity of \$550,000 (liquidity includes cash in bank plus committed undrawn debt facilities).

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

Asset Allocation

The only assets that the LP may hold are:

- The Property and any leases/licences of the Property;
- 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 LP may hold.

Investment Policies

Cash flow management policy

The Manager will manage the LP's cash flow in such a way to not cause undue risk or expense to the LP 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 LP'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.

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 is a modern building (construction was completed in late 2015). The Manager is not expecting significant, if any, liability for CAPEX or rectification of defects until at least 2026 due to the Deed of Warranty being provided by Mansons Properties (151 Victoria) Limited and Mansons TCLM Limited (*Mansons*). Mansons will be generally liable for any defects of the Property that become apparent prior to February 2026 and warrant to the LP 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 LP'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 LP's debt for the first five years of the LP by fixing the margin under the LP's bank facilities and entering into a five year swap agreement to fix the floating component of the interest rate. For the period following the first five years, the Manager will manage the interest rate with a combination of short-term and long-term interest rate swaps 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 LP 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 LP – potential future development, sale and/or wind up of the LP.

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

Leverage Policy

- The maximum allowable loan amount for the LP is 50% of the original purchase price of the Property or, if greater than the original purchase price, 50% of the most recent independent valuation. In addition, the facility agreement with the bank provides that the maximum amount outstanding does not exceed 50% of the value of the bank's security (but subject to change by agreement between the bank and the Manager).
- The LP's lending leverage is 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 LP review and assess options (such as a sale of the Property);
 - 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 LP's total return increases above 8%.

Investment Performance Monitoring

The Manager's finance team is 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.

Quarterly performance tests include:

- Sustainability of investor distribution;
- WALE;
- Property occupancy rate;
- Term remaining on the LP's loan;

- LVR;
- Interest cover ratio;
- NTA; and
- The LP'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, 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 LP and the Property. Investor updates will include, at a minimum, data and/or commentary on the following:

- Tenant: 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 LP 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 LP), 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 LP and Property at least once per year. This review will analyse the strategic position by considering or discussing the following factors:

- The cashflow budget out for a minimum of two years;
- Assess sustainability of investor distribution rates;
- The age of the LP;
- 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 LP;

- 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.

Ad-hoc SIPO Review

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