

Statement of accounting policies

- (a) **Functional and presentation currency:** The financial statements are presented in New Zealand dollars (\$), which is the Fund's functional currency and are rounded to the nearest dollar.
- (b) **Relevant preparation periods:** The Prospective Financial Statements of the Fund have been prepared for the years ending 31 March 2021 and 31 March 2022.
- (c) **Financial instruments:**  
*Held at amortised cost*
- **Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, deposits held on call with banks, other short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts.
  - **Trade and Other Receivables:** Trade Receivables, which include lease receivables, are initially recognised at fair value, and subsequently measured at amortised cost using the effective interest method, less any loss allowance. They are classified as loans and receivables. Trade Receivables are generally due for settlement within 30 days. The Fund applies the simplified approach thereby recognising lifetime expected credit losses on trade and lease receivables. A provision matrix is used to determine the lifetime expected credit loss. The default rate is based upon historical observed default rates over the expected life and is adjusted for forward looking estimates. The default rate is reviewed annually.
  - **Borrowings:** Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after balance date.
  - **Lease liabilities:** Lease liabilities are initially recorded at the estimated present value of minimum lease payments, and subsequently stated at amortised cost using the effective interest method with a finance charge included within the statement of comprehensive income. Lease liabilities are classified as current liabilities unless the Fund has an unconditional right to defer settlement of the liability for at least 12 months after balance date.
- Held at fair value through profit or loss*
- **Trade and Other Payables:** These amounts are held at fair value and represent unsecured liabilities for goods and services provided to the Fund prior to the end of the financial period, which are usually paid within 30 days of recognition. The carrying amounts of Trade and Other Payables are invoiced amounts or amounts expected to be invoiced, assumed to be the same as their fair values due to their short-term nature.
  - **Derivatives:** A derivative instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives are designated at fair value through profit or loss if the Fund manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss. Given the inherent uncertainty of revaluation movements in the future, no revaluations are recorded during the Prospective Financial Information period, including at initial recognition.
- (d) **Investment property:** principally comprises freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the Fund. Investment properties



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are initially recognised at cost, including transaction costs and ongoing capital expenditure, and subsequently remeasured annually at fair value based on the latest valuation undertaken in compliance with NZ IFRS 13 – Fair Value Measurement.

Any gain or loss determined by these revaluations is included within the Statement of Comprehensive Income. When an item of investment property is disposed of, any gain or loss is recognised in the Statement of Comprehensive Income and is calculated as the difference between the sale price and the carrying value of the property. Depreciation is not charged on investment properties.

Given the inherent uncertainty of revaluation movements beyond those valuations held as at the date of this Prospective Financial Information, no revaluations are recorded beyond 31 March 2020 for the Existing Properties, and 30 June 2020 for the Acquisition Property. See assumptions, paragraph (k) for further details.

**(e) i) Manager's fees:** The Manager charges the Fund for several types of fees:

*Property and Fund Management Fees:* The Manager is entitled to a management fee equal to 0.50% of the carrying value of the investment property assets in the Fund. The Manager is also entitled to a property management fee of 2.00% of the gross annual rental of the investment property assets in the Fund. The management fees are paid to the Manager monthly in respect of the property and funds management services provided by the Manager during the prior month and included within the Statement of Comprehensive Income when incurred by the Fund.

*Performance Fee:* The Manager is entitled to a performance fee equivalent to 20% of the excess performance above the Fund's performance benchmark. The current performance benchmark is the average 10-year government bond yield plus 6%. Performance is measured by the annual capital and income returns to Unitholders at the end of each financial year against the performance benchmark. If this performance measurement is a negative return, no performance fee is payable in respect of that year. The Fund applies a "high water mark" to the Performance Fee. The fee is included within the Statement of Comprehensive Income in March of each financial year, when incurred by the Fund.

*Property transaction fees:* The Manager is entitled to several property transaction fees:

- an acquisition fee of 1.00% of the acquisition price of investment property (**Acquisition Fee**).
- On disposal of a property held by the Fund, a fee equal to 1% of the sales price for the property is also payable to the Manager (**Disposal Fee**).
- If construction or refurbishment is undertaken on a property held by the Fund, a fee equal to 5% of the development costs is payable (provided that those development costs exceed \$50,000) (**Project Fee**). This fee is included within the carrying value of investment property in the statement of financial position. The Manager is entitled to recover any costs incurred by the Manager from any consultants or advisers engaged in relation to property acquisition, disposal, investigation, construction, or refurbishment subject to those costs being approved by the Supervisor.
- If the Fund undertakes an investigation into the acquisition of a new property or disposal of an existing property in the Fund, a fee (**Investigation Fee**), on a time and attendance basis, as agreed between the Manager and Supervisor, is payable. If the Manager is paid an Investigation Fee and the relevant transaction subsequently proceeds, an amount equal to the Investigation Fee will be deducted from the Acquisition Fee.

The Acquisition Fee and Project Fee are included within the carrying value of investment property in the statement of financial position. The Acquisition Fee will no longer be payable if the Fund's value exceeds \$250 million. The Disposal Fee and Investigation Fee are included within the Statement of Comprehensive Income when incurred by the Fund.

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*Other Property-related Fees:* If the Manager, with the approval of the Supervisor, undertakes any works related to any of the properties in the Fund that do not fit within any of the obligations contemplated under schedule of the Establishment Deed related to fees, the Manager is entitled to be paid out of the Fund such fees for those works calculated on a “time in attendance” market rate, as agreed between the Manager and Supervisor.

**ii) Recovery of Expenses** - The Manager and Supervisor are entitled to be reimbursed by the Fund for certain fees and expenses. These include costs incurred in connection with the offer of Units, the acquisition of properties, the investigation and negotiation of additional properties for the Fund, the fees and expenses of the Fund's auditor, any fees or expenses incurred for any engagement by the Supervisor or as required by law, and any taxes, duties, imposts or levies charged to the Manager or Supervisor in connection with the Fund. The Supervisor is entitled to be reimbursed by the Fund for certain other fees and expenses, including the costs of convening and holding Investor meetings, professional services fees (legal, accounting, etc) incurred by the Supervisor in the discharge of their duties under the Master Trust Deed, communication and postage costs, expenses relating to the Unit registrar, and any other expenses properly and reasonably incurred by the Supervisor in connection with carrying out their duties under the Master Trust Deed.

- (f) **Leases:** At inception of a contract, the Fund assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Fund assesses whether:
- the contract involves the use of an identified asset
  - the Fund has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
  - the Fund has the right to direct the use of the asset.

In most cases the Fund is not a Lessee. However, in the case of the Acquisition Property, the Fund will be the lessee on long-term leasehold space in respect of part of the car parking structure associated with the Acquisition Property. This is subsequently let as a Lessor to one or more tenants. The Fund only enters leases where it retains substantially all risk and ownership of the leased asset. In this case, the lease associated with the Acquisition Property has an expiry date 999 years from the commencement of the lease, which commenced in 2016. A financial liability, in addition to a right of use asset, have been recognised in line with the requirements of NZ IFRS 16 *Leases*. The right of use asset is recognised at the present value of the associated minimum lease payments, and subsequently measured at fair value as a result of being integral to the investment property to which it relates. Consistent with investment property, no estimate of fair value has been made after initial recognition in the prospective financial information as this cannot be estimated with any degree certainty.

As Lessor, the Fund is exposed to Operating Leases. The Fund is a lessor in lease contracts in which it retains substantially all risks and ownership of the leased asset. Such leases are classified as operating leases. Assets leased to third parties under operating leases are included in investment property in the statement of financial position. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

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- (g) **Revenue recognition:** The Fund receives income from tenants under commercial leases which set out the terms that the tenant must meet so they are not in default of their lease. The leases state the term of the lease, any renewals of the lease and the rent and operating expenses that must be paid and any review of the rental amount.

Revenue is recognised when a performance obligation is satisfied. Revenue is measured at the fair value of the consideration received or receivable.

**Rent** - Rent revenue from investment properties is recognised on a straight-line basis over the lease term, including contractually agreed fixed term rental growth and lease incentives. Fixed rental increases are recognised as assets and adjusted over time to allocate rent revenue on a straight-line basis over the lease term. Such assets are recognised within Other current assets in the statement of financial position. Lease incentives granted are recognised as assets and amortised as a reduction in rental revenue over the remaining lease term. Such assets are included within Other current assets in the statement of financial position. Contingent rentals are recognised as income in the period when earned.

**Operating expense recoveries** - Tenants pay the Fund for Operating Expenses. These are recoveries of expenses incurred by the Fund in relation to the Investment Property. The tenants are charged a monthly amount towards these operating costs based on an annual budget for each property and have annual wash-up reconciliations provided by the Fund to settle any under or overcharges of actual costs incurred versus costs recharged. Operating Expense cost recoveries are recognised when invoiced on a monthly basis which is in line with when the Fund meets their performance obligations for the services provided. The outgoings recovered are based on the terms of the tenant's leases and the costs of the outgoings. There are no discounts provided or finance component applicable to such costs, so the transaction price is allocated on a straight-line basis.

Rent revenue and some outgoings recovered from the tenants are considered part of a lease and are dealt with under the scope of NZ IFRS 16 – Leases, and so are outside the scope of NZ IFRS 15 – Revenue from Contracts with Customers. The Outgoings Recovered that are dealt with under the scope of NZ IFRS 16 - Leases are closely related to the lease of the building and the tenant does not receive an additional separate service to the space when it reimburses those items to the Fund. These are expenses such as rates, insurance, lift expenses, valuation, fire expenses, plumbing and electricity maintenance and air conditioning services.

The Outgoings Recovered that the Fund has identified as being under the scope of NZ IFRS 15 are electricity, rubbish collection, cleaning, gardening services, management expenses, and security expenses. They are an additional service over and above the lease of rental space.

**Interest** - Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

- (h) **Finance costs:** Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.
- (i) **Issued units:** Units issued are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds from issue of those units.



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(j) **Distributions:** Distributions are recognised when declared during the financial year and no longer at the discretion of the Fund.

(k) **Goods and Services Tax (GST):** Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Inland Revenue Department. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a net basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

(l) **Income Tax:** From commencement the Fund elected to be a multi-rate Portfolio Investment Entity (“PIE”) for income tax purposes under the Income Tax Act 2007. As a result, the Fund itself is not liable for income tax.

The Fund’s taxable income is instead apportioned amongst its Unitholders based on the number of Units they hold and their notified Prescribed Investor Rates (PIR). The Fund calculates and deducts tax based on each investor’s notified PIR and pays the tax to the taxation authorities on behalf of the investor. Any PIE tax liabilities at the end of each year are included within distributions payable in the Statement of Financial Position, measured at the amount expected to be paid to the taxation authorities on behalf of the investors based on the investors’ taxable income and their notified PIR.

(m) **Impairment of non-financial assets:** Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset’s fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

(n) **Provisions:** Provisions are recognised when the Fund has a present (legal or constructive) obligation because of a past event, it is probable the Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, considering the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

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- (o) **Fair value measurement:** When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs, and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in the fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

- (p) **Changes in accounting policies:** As a result of acquisition of the Acquisition Property, the Fund has expanded its accounting policy for leases in the prospective periods. The Fund expects to become a Lessor of space in a parking building on a long term lease, and as a result has recognised a financial liability and right of use asset related to this space. Other than the above, no significant changes in accounting policies are anticipated in the prospective reporting periods compared to those to be included in the most recent financial statements prepared for the Fund.



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**Assumptions**

The principal assumptions on which the Prospective Financial Statements have been prepared are set out below. These assumptions should be read in conjunction with the risks set out in Section 7 of the PDS and the sensitivity analysis shown further below in this section.

- (a) **Settlement Date:** The Fund intends to settle the acquisition of the Acquisition Property on the estimated settlement date of 30 June 2020 (**Settlement Date**). The Prospective Financial Statements only include information related to the Acquisition Property from the estimated Settlement Date.

The Settlement Date and purchase price for the Acquisition Property is derived from the sale and purchase agreement for the Acquisition Property.

- (b) **Issue and Property Acquisition Costs:** For the Offer, the Fund has estimated 7.30% of the value of equity raised to be allocated to property acquisition and equity issuance costs. This amounts to \$2,928,150 including legal fees, accounting fees, property valuations, brokerage fees, deposit fees, underwriting fees, marketing costs and compliance costs. It is assumed that 34,000,000 units are issued at \$1.18 each. Of these costs, \$826,500 will be recorded within investment property and the remainder directly within equity.

- (c) **Rental Income:** The Prospective Financial Statements assume annual rental income will be received in accordance with current signed lease agreements for each property currently leased. A number of assumptions are made in connection with leasing vacant space and rent reviews during the forecast period. The prospective rental income is as follows:

	2021	2022
	\$	\$
Tuam Street	3,080,913	4,181,383
Main Highway	1,589,622	1,619,075
Victoria Street	610,108	644,923
Rockridge Avenue	965,904	986,763
Short Street	1,401,504	1,539,864
Robert Street	863,986	864,272
127 Durham Street	229,065	231,146
143 Durham Street	482,343	517,157
Allowance for rent relief and provision for additional vacancy	(664,554)	(213,658)
<b>Total</b>	<b>8,558,891</b>	<b>10,370,926</b>

The amounts above are stated exclusive of all separately recoverable operating expenses. Property operating expenses are generally recoverable to the extent the property is tenanted, with the exception of gross lease arrangements. There are a number of leases to government agencies that are gross lease arrangements, whereby the operating expense recoveries are included in the rental amount.

Property-specific annual rental income during the forecast period increases primarily due to the acquisition of the Acquisition Property (Tuam Street) part way through the year to 31 March 2021. In addition, the forecast rental income considers contracted rental adjustments, market rent adjustments, lease renewals, and change in vacancy rates during the prospective period. Rental income is included only from the date of property acquisition.

Non-specific rental income allowances have been made that reduce the total rental income for the year in the prospective financial periods presented, related to tenant rent relief, and potential future vacancies attributable to the current economic uncertainty created by COVID-19. Specifically:



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- Rental income in the financial year ending 31 March 2021 is presumed to reduce below currently contracted rental amounts by \$350,000 in the two-months to 31 May 2020, based on the Manager's best assessment of net rent relief that may be granted to existing tenants.
- An additional allowance for rental income reduction (due to potential unexpected vacancies, and reductions or deferrals of rental increases) has been provided for as a percentage of the property-specific rental income budgeted, before allowances. For the period from 1 June 2020 to 31 March 2021 an additional allowance has been made of 4.2% (or approximately half a calendar month of rental income), and for the year ending 31 March 2022 an additional allowance has been made of 2.0% (or approximately one week of rental income).

There are 20 individual lease agreements that are due to expire or are subject to renewal, and 11 casual leases on a monthly rolling basis in the prospective periods ending 31 March 2022, representing annual net rental income of \$1,734,717 or 17.4% of the prospective net rental income of the portfolio, annualised as at Settlement Date.

A summary of lease occupancy expectations from Settlement Date, before any additional vacancy allowance attributable to the above, is provided below:

	<b>At Settlement 30 June 2020</b>	<b>Period ending 31 March 2021</b>	<b>Year ending 31 March 2022</b>
<b>Tenancy occupancy rates at start of period</b>	<b>N/A</b>	<b>98.2%</b>	<b>98.9%</b>
Leased space expected to fall vacant <sup>1</sup>	N/A	(2.1%)	(1.5%)
Vacant space subject to new leases	N/A	2.8%	1.1%
<b>Tenancy occupancy rates at end of period</b>	<b>98.2%</b>	<b>98.9%</b>	<b>98.5%</b>
Annualised net rental income of leases expiring/with termination right <sup>2</sup>	\$91,935	\$548,542	\$1,094,240
Number of leases expiring/with termination right	11	10	10
Percentage of lease portfolio expiring/with right to terminate <sup>3</sup>	0.9%	5.5%	11.0%

Key tenancies by building and the key assumptions that will impact the rental income from specific properties during the prospective financial periods ending 31 March 2022 are included below. Throughout, property acquisition dates and amounts are taken from unconditional signed sale and purchase agreements for the relevant property. Specified lease rental amounts per annum and expiry dates are derived from management's prospective rental roll information as at 30 June 2020 (**Weighted Average Lease Term Schedule**), which itself is prepared based on management's summary of contractually agreed rental agreements in force at the time of preparation of this Prospective Financial Information. The contribution of each property to the total rental income of the Fund is expressed as a property's prospective rental income for the year to 31 March 2022 disclosed above as a percentage of the Fund's total rental income for the year to 31 March 2022 disclosed above.

- Tuam Street* – The property is due to be acquired on 30 June 2020. Rental income for the year ended 31 March 2022 is 40.3% of total annual rent for the Fund. The

<sup>1</sup> Tenancy occupancy rates and vacant space assumptions are expressed as net lettable area as a percentage of the total net lettable area of the Property Portfolio. Space falling vacant, and space subject to new leases, excludes space that is expected to be subject to lease renewals with existing tenants.

<sup>2</sup> Includes rolling monthly leases in the At Settlement 30 June 2020 column.

<sup>3</sup> Leases expiring/with right to terminate are expressed as annualised net rental income of leases expiring or with a right to terminate as a percentage of the total annualised net rental income of the Property Portfolio as at Settlement Date.

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primary tenant is Vodafone New Zealand Limited, expected to generate rental income of \$3,908,506 per annum from acquisition, due to expire in August 2028. The prospective financial information assumes this lease continues at the currently contracted annual rental, adjusted upwards to reflect a fixed rental increase of 2.25% per annum on 17 August 2020 and 17 August 2021. Other parties may lease or sub-lease part of the property, including associated car parks. There are expected to be 50 casual car parking spaces vacant at the date of acquisition, with 20 to be leased by 1 January 2021, and a further 20 leased by 1 July 2021.

- ii. *Main Highway* – Rental income for the year ended 31 March 2022 is 15.6% of total annual rent for the Fund. The primary leases are with the Ministry of Social Development and the Ministry of Justice, currently generating \$769,212 and \$571,800 per annum respectively, due to expire in January 2026 and June 2027, respectively. The prospective financial information assumes these leases continue at the currently contracted annual rental. The remainder of the current leases have a combined total rental income per annum of \$263,544. These leases have a varied expiry profile and varied rental increases and renewal assumptions during the prospective period. The property is expected to be fully let throughout the prospective periods.
- iii. *Victoria Street* – Rental income for the year ended 31 March 2022 is 6.2% of total annual rent for the Fund. The primary leases are with Kiwibank Limited, currently generating \$226,837 per annum, due to expire in April 2025. The prospective financial information assumes these leases continue at the currently contracted annual rental. The remainder of the current leases have a combined total rental income per annum of \$351,250. These leases have a varied expiry profile and varied rental increases and renewal assumptions during the prospective period. The property is expected to have 180sqm of vacant space in the period to 30 June 2020 and be fully let during the subsequent period to 31 March 2021, and throughout the year to 31 March 2022.
- iv. *Rockridge Avenue* – Rental income for the year ended 31 March 2022 is 9.5% of total annual rent for the Fund. The primary leases are with SGS New Zealand Limited, currently generating \$332,803 per annum, and the core lease due to expire in January 2022. The prospective financial information assumes these leases continue at the currently contracted annual rental. The remainder of the current leases have a combined total rental income per annum of \$687,197. These leases have a varied expiry profile and varied rental increases and renewal assumptions during the prospective period. The property is expected to be fully let throughout the prospective periods.
- v. *Short Street* – Rental income for the year ended 31 March 2022 is 14.8% of total annual rent for the Fund. There are no significant individual leases. The leases currently have a combined total rental income per annum of \$1,344,394. These leases have a varied expiry profile, with the longest lease not expiring until March 2026. The leases have varied rental increases and renewal assumptions during the prospective period. Whilst the property is expected to be fully let for the period to 30 June 2020, it is expected that there will be 327sqm of vacant space at 31 March 2021, growing to 427sqm vacant by 31 March 2022.
- vi. *Robert Street* – Rental income for the year ended 31 March 2022 is 8.3% of total annual rent for the Fund. There are no significant individual leases. The leases currently have a combined total rental income per annum of \$861,278. These

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leases have a varied expiry profile, with the longest lease not expiring until January 2030. The leases have varied rental increases and renewal assumptions during the prospective period. The property is expected to be fully let throughout the prospective periods.

- vii. *127 Durham Street* – Rental income for the year ended 31 March 2022 is 2.2% of total annual rent for the Fund. The property is subject to one lease with the University of Waikato, with rental income per annum of \$224,748, expiring March 2029. The lease has a fixed rental increase of 2% per annum, the next increase scheduled for April 2021. The property is expected to be fully let throughout the prospective periods.
- viii. *143 Durham Street* – Rental income for the year ended 31 March 2022 is 5.0% of total annual rent for the Fund. There are no significant individual leases. The leases currently have a combined total rental income per annum of \$417,070. These leases have a varied expiry profile, with the longest lease not expiring until November 2025. The leases have varied rental increases and renewal assumptions during the prospective period. The property is expected to have a vacancy of 348sqm at 30 June 2020 but be fully let during the prospective period ending 31 March 2021 and throughout the prospective year to 31 March 2022.
- (d) **Distributions:** For the period to 31 May 2020, distributions of 7.50 cents per unit annualised are forecast. For the period 1 June 2020 to 31 March 2021, distributions of 6.50 cents per unit annualised are forecast. For the year ending 31 March 2022, the gross distribution is expected to be 7.55 cents per unit annualised. All gross distributions are calculated as cents per issued unit. The policy is to declare the distribution on the last day of the quarter with the payment on the 25th of the month following (or the next working day if a weekend or public holiday).
- (e) **Receipts from tenants and payments to suppliers:** It has been assumed that all tenants will pay their monthly rent and operating expenses in the month of invoicing. The Fund has been assumed to pay all expenses in the month following invoicing, with the exception of any performance fees payable to the Manager. Performance fees are forecast for payment in July each year where applicable.
- (f) **Bank funding:** The funding facilities for bank borrowings will total \$61,774,000 presuming the Fund issues 34,000,000 units through the Offer at \$1.18 and acquires the Acquisition Property. Funding from the Bank must not exceed 45% of the registered valuation of the investment properties in the portfolio, plus the purchase price of any properties acquired, plus capital expenditure (LVR). The actual borrowings amount is forecast to be \$56,715,402 on the date of settlement, a gearing ratio when measured against the total assets of the fund of 36.4%. The unused bank facilities will be drawn down to fund capital expenditure projects, operating expenditure and distributions if required from time to time.

The Fund has received a formal offer of funding from ASB to help fund the purchase of the Acquisition Property. This is in addition to the Fund's existing loan facilities which are on the similar terms (adjusted as applicable for facility limits, interest rates, and maturity dates). The new facility offered by ASB has a facility limit of \$26,500,000.

A summary of the facilities is shown below:

Bank	Ref	Amount	Maturity date	Extendable facility
ASB	CM01	\$13,481,000	01/04/2023	Extendable
ASB	CM02	\$5,000,000	12/07/2022	Extendable



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ASB	CM03	\$16,793,000	19/04/2023	Extendable
ASB	CMNEW	\$26,500,000	30/06/2023	Extendable
<b>Total</b>		<b>\$61,774,000</b>		

- (g) **Bank interest:** The facility interest rates are structured on a floating BKBM plus a bank margin. To hedge the interest rate risk the Fund enters into swap agreements. The Fund currently has swap arrangements in place with a notional value of \$24,000,000 expiring between August 2021 and July 2023. On obtaining the new facility associated with the Offer, the Fund intends to enter two swaps for \$8,000,000 notional value each, one on a three-year term expiring July 2023, the other on a four-year term expiring July 2024.

The ASB loan facilities are extendable facilities. The facilities are reviewed annually and can be subsequently extended by a further 12 months (to effectively extend the maturity date by a further year).

The Fund may enter into further swap agreements to hedge the interest rate on more of the Fund's debt. The prospective effective average interest rate presumed in the prospective financial information is 4.00% (interest rates may vary on the date of settlement and thereafter).

The ASB offer is subject to variation at the time of the loan being drawn and assumes the conditions in the offer are fulfilled.

The following has been assumed in relation to the funding facility:

- i. No principal repayments are expected during the term of the funding facility
- ii. No recourse to investors; and
- iii. Capital expenditure will be funded by the funding facility to the extent that free cash flows are not available to fund such expenditure.

The ASB loans will be secured by first registered mortgage over the Property Portfolio and a general security agreement over all present and future acquired assets of the Fund.

- (h) **Management fees:** The Manager expects to charge fees, including but not limited to general management fees, performance fees and property project fees, in accordance with accounting policy (e). No performance fees or property disposal fees are forecast for the prospective periods presented.

The Manager's fees attributable directly to investment in property incurred in the prospective financial periods (Property Transaction Fees) are as follows:

	2021	2022
Acquisition Fees	586,500	-
Project Fees	97,586	79,746
<b>Total Property Transaction Fees</b>	<b>684,086</b>	<b>79,746</b>

- (i) **Supervisor's fees:** The Supervisor is entitled to a fee for each of the real estate assets acquired by the Fund on a time and attendance basis, as agreed between the Manager and Supervisor from time to time. In addition, the Supervisor is entitled to an annual base fee of at least \$20,000, and not exceeding 0.06% of the Net Tangible Assets of the Fund. The exact amount is to be agreed in writing between the Supervisor and the Manager from time to time. Special fees are also payable, in amounts agreed with the Manager, for any services provided by the Supervisor of an unusual or onerous nature outside of the Supervisor's regular services.

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- (j) **Capital expenditure:** Budgeted capital expenditure is summarised below, excluding the costs of property acquisition, but including the Project Fees.

	<b>2021</b>	<b>2022</b>
<b>Total Capital Expenditure</b>	2,049,305	1,674,665

The Fund's budgeted capital expenditure in the prospective financial periods includes several specific committed projects, in addition to expenditure of a general or provisional nature.

The largest individual projects are:

- a) Short Street – required lift and building façade repair works expected to cost up to \$1,000,000. The estimate is based on the Manager's assessment following technical due diligence and feasibility studies on the property, including estimates received from third parties. The Manager expects the costs to be incurred in the 12 months from October 2020. A fixed price contract will be entered into prior to commencement of all works.
- b) Main Highway - required landlord works in relation to the Ministry of Justice tenancy, currently estimated at \$500,000 based on budgeted project costs required to honour contractual commitments to the Ministry of Justice regarding the landlords works in the year to 31 March 2021. A fixed price contract will be entered into prior to commencement of all works.
- c) 143 Durham Street – \$400,000 of planned tenancy fit out work to improve the property, lease vacant space and encourage existing tenants to renew leases on longer lease terms. A fixed price contract will be entered into prior to commencement of all works.

Additional capital expenditure of a general or provisional nature has been estimated based on the Manager's historic experience combined with technical due diligence completed by independent third parties prior to commitment to acquisition of the Fund's properties.

The Fund's budgeted capital expenditure in the prospective financial periods is based on:

- a) estimates prepared by the Manager based on the Manager's historical experience in carrying out works of a similar nature
- b) a level of contingency based on what the Manager considers to be reasonable for projects of a similar nature
- c) in the case of tenancy fitouts, the Manager's best estimate, based on its experience, of the likely cost. Capital expenditure requirements for tenancy fitouts are dependent on the individual lease agreements of future tenants and are therefore difficult to predict in advance. However, it should be noted that fixed price contracts are agreed upon prior to the commencement of capital projects and that where the costs of fit out is greater than the what is contractually agreed, this will likely be reflected in increased rental income from the tenant.

The expenditure does not allow for potential, unknown future tenancy fit outs as part of lease renewals or the letting of vacant space. Capital expenditure requirements for unknown tenancy fitouts are dependent on the individual lease agreements of future tenants and are therefore difficult to predict in advance.

- (k) **Fair Value:** It has been assumed there will be no revaluation movement on the Existing Properties beyond 31 March 2020 and no revaluation movement on the Acquisition Property beyond 30 June 2020 (Settlement Date) as future gains or losses cannot be reliably predicted. It has been assumed that the fair value of the Property Portfolio is equal to registered valuations on the Existing Properties obtained as at 24 to 31 March 2020, plus the registered valuation of the Acquisition Property as at 5 May 2020 (from the date

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of acquisition), plus all capital expenditure from 1 April 2020, (excluding the acquisition costs for the Acquisition Property). All of these valuations have been subsequently reconfirmed in writing by valuers during May 2020.

The valuation of investment property as at 31 March 2020 includes the following information derived from independent valuation reports:

Property	Valuer	Valuation as-at	Valuation amount
Main Highway	Aim Valuation	31 March 2020	\$23,750,000
Victoria Street	Telfer Young	24 March 2020	\$8,500,000
Rockridge Avenue	Aim Valuation	31 March 2020	\$13,500,000
Short Street	Jones Lang LaSalle	14 May 2020*	\$20,500,000
Robert Street	Jones Lang LaSalle	14 May 2020*	\$12,400,000
127 Durham Street	Preston Rowe Paterson	31 March 2020	\$4,000,000
143 Durham Street	Telfer Young	31 March 2020	\$7,600,000
			<b>\$90,250,000</b>

\*The Jones Lang LaSalle reports were originally prepared as-at 31 March 2020, and reissued for the purpose of Product Disclosure Statement purposes dated 14 May 2020.

The valuation reports are noted to have been prepared on the basis of ‘material valuation uncertainty’ due to the impact of the COVID-19 outbreak. Consequently, less certainty – and a higher degree of caution – should be applied when relying on valuations than is normally the case, and it is likely that values may change more rapidly and significantly.

It has been noted that the valuations were initially completed within New Zealand’s COVID-19 Alert Level 4 lockdown period and severe restrictions were in place within the domestic economy. The measures at Alert level 4 were considered to be temporary and expected to be lifted in a relatively short period of time. In order to form a pragmatic view on valuation, by necessity the Level 4 status was set aside as a short-term aberration, and a functioning market was assumed in order to form an opinion on Market Value.

The impact of these events has been considered by the property valuers in various ways, based on their assessment of the individual property and the impact of the current economic environment. This includes assessing rental relief likely to be provided and the quality and nature of tenants, when forming their opinion of value, which has been issued on a material uncertainty basis as noted above. All valuations provided by independent valuation experts include clauses that highlight the inherent uncertainty over property valuations in the current market as a result of COVID-19 and the uncertain economic environment. All independent valuation experts have however subsequently confirmed in May 2020 that the valuations stated above are still appropriate as at the dates noted above in light of these uncertainties.

The Acquisition Property has been valued on a similar basis to that noted above. From 30 June 2020, the Acquisition Property will be included in the value of investment property, at its current registered independent valuation dated 5 May 2020 of \$58,400,000. Given the date of the valuation report, and the proximity of that date to the date of the offer and acquisition, this valuation is considered relevant to support this presumption.

It has been presumed there are no further property acquisitions in the prospective financial periods to 31 March 2022.

- (l) **Regulatory Environment:** The Prospective Financial Statements have been prepared on the assumptions that there will be no material changes in the economic environment, legal requirements, or the current tax regulations.
- (m) **Brokerage Fee:** The Fund will pay a brokerage fee of \$802,400 plus GST (assuming 34,000,000 Units are issued under the Offer). This is paid to the Manager and subsequently



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as brokerage fees to the Manager's contracted sales team and third-party referring agents, based on 2.00% of the total funds raised.

- (n) **Related party transactions:** The Fund's related parties include the Manager and members of key management personnel of the Manager. The Fund is further related to both PMG Capital Fund Limited and Pacific Property Fund Limited, as Scott McKenzie and Denis McMahon are directors of both PMG Capital Fund Limited and the Manager. The Fund is further related to Forsite Limited as Scott McKenzie and Wayne Beilby are directors of both Forsite Limited and the Manager.

The Manager is entitled to recover fees and expenses from the Fund.

The Manager intends to lease from the Fund office space and parking spaces at 5 Short Street totalling \$60,540 per annum and expiring September 2025, and further to lease office space and parking space at 143 Durham Street totalling \$110,147 per annum expiring November 2025. Operating expenditure recovered will be paid in addition to this annual rental amount.

Forsite Limited intend to lease from the Fund office space and parking spaces at 5 Short Street totalling \$37,603 per annum and expiring October 2023. Operating expenditure recovered will be paid in addition to this annual rental amount.

PMG Capital Fund Limited has funded the deposit for the Acquisition Property. A fee of \$150,000 (being 6% of the deposit amount) will be paid on settlement to PMG Capital Fund in relation to the Acquisition Property. The prospective transaction is considered to be arm's length transaction on normal commercial terms.

Pacific Property Fund and PMG Capital Fund Limited have further entered into sub-arrangements to underwrite part of the current offer (up to 6,750,000 Units each). This is on comparable terms as other underwriters at a rate of 3.50% of funds underwritten.

The Directors of the Manager may invest in the Fund on the same basis as any other investor, from which they will be entitled to distributions, on the same terms and conditions as any other Unitholder. Their investment will be on the same terms and conditions as other investors.

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**Sensitivity analysis**

Prospective Financial Statements are inherently subject to business, economic and competitive uncertainty, and accordingly actual results are likely to vary from Prospective Financial Statements, and this variation could be material. A summary of the likely effects of variations in key assumptions on the Prospective Statement of Comprehensive Income are detailed below.

The sensitivities for each assumption are not intended to be indicative or predictive of the possible range of outcomes. Care should be taken in interpreting the information set below.

The approach taken in respect of the sensitivities has been to determine those variables most likely to materially affect results in the years ending 31 March 2021 and 2022.

Each movement in an assumption is calculated and presented in isolation from possible movements in other assumptions unless stated, which is not likely to be the case. It is more likely that more than one assumption may move at any point in time, giving rise to compounding or offsetting effects. Furthermore, the sensitivity analysis does not consider any potential mitigating actions that Directors of the Manager may take.

**Capital Expenditure:** Total capital expenditure is subject to variation in both timing and value. The sensitivity results below are based on an increase/decrease of \$500,000 in capital expenditure at the end of each period presented, whilst also ensuring cash and cash equivalents remains positive and bank borrowings do not exceed the facility limit.

**Rental Income Risk:** Exposure to rental income risk is in the normal course of the Fund's business. The sensitivity result below is based on a rental increase/decrease of 5% per annum in the prospective years to 31 March 2021 and 2022, due to variation in lease renewals, vacancy periods, new leases, or tenant defaults. The adjustment has been applied to monthly rental income.

**Interest Rate Risk:** Exposure to interest rate risk is in the normal course of the Fund's business. The sensitivity results below are based on a 50 basis points shift (bps) in the interest rate from the assumed rates for prospective periods (0.5% rate movement).

**Market value of investment property:** The investment property is valued at fair value. Fluctuations in value will directly impact the Fund's performance. The value of investment property is sensitive to changes in various assumptions over a period of time, including future tenancy risk, the discount rate applied, and projected operational and capital expenditure. The value of investment property will also impact the Fund Management fee charge, which is based on the value of investment property managed. The impact on net profit will also have an impact on the Manager's Performance Fee, included within Total Expenses. The sensitivity results below are based on increasing / (decreasing) assumed fair value of investment property by 5% of the assumed fair value as at 31 March 2021 and 31 March 2022.



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Sensitivity	Increase/ (Decrease)	Measure impacted	FY2021		FY 2022	
			Increase	Decrease	Increase	Decrease
Capital expenditure	\$500,000 / (\$500,000)	Total Expenses	-	-	2,613	(2,489)
		Net Financing Cost	-	-	20,000	(20,000)
		Net Profit	-	-	(22,613)	22,489
Rental Income Risk	5% / (5%) per annum	Cash and Cash Equivalents	(103,750)	75,245	(151,635)	98,205
		Investment Property	525,000	(500,213)	1,050,483	(1,000,884)
		Trade and Other Payables	(78,750)	75,032	(78,539)	74,831
		Borrowings	500,000	(500,000)	1,000,000	(1,000,000)
		Revenue	420,456	(420,456)	523,462	(523,462)
Interest Rate Risk	50bps/ (50bps)	Total Expenses	(120)	120	(450)	438
		Net Financing Cost	257,485	(254,502)	306,399	(289,903)
		Net Profit	(257,365)	254,382	(305,949)	289,465
		Cash and Cash Equivalents	(57,387)	254,403	(163,365)	543,895
		Trade and Other Payables	(22)	22	(51)	49
Market value of investment property	5% / (5%) per annum	Borrowings	200,000	-	400,000	-
		Total Expenses	386,822	-	1,447,630	(45,994)
		Net Financing Cost	-	-	14,685	-
		Unrealised gain/(loss) on value of investment property	7,502,493	(7,502,493)	7,961,696	(7,210,757)
		Net Profit	7,115,671	(7,502,493)	6,499,381	(7,164,762)
		Cash and Cash Equivalents	-	-	(50,244)	49,145
		Trade receivables	-	-	106,670	-
		Investment Property	7,502,493	(7,502,493)	15,471,084	(14,720,145)
		Trade and Other Payables	386,822	-	1,512,458	(3,745)
		Borrowings	-	-	400,000	-

