

Statement of Investment Policy and Objectives (SIPO)

Scheme: PMG Direct Childcare Fund

Scheme number: SCH12951

Effective from: October 2024

1. Description of the PMG Direct Childcare Fund

1.1 The PMG Direct Childcare Fund (**Fund**) is a managed investment scheme registered under the Financial Markets Conduct Act 2013 (**FMCA**). The Fund is managed in accordance with the Master Trust Deed dated 28 October 2016, and the Amended and Restated Establishment Deed dated 18 September 2020 (together, the **Trust Deeds**).

The Fund was originally established on 4 July 2017 as a wholesale fund, in accordance with the Master Trust Deed and the Establishment Trust Deed dated 4 July 2017. The Establishment Trust Deed was replaced with the Amended and Restated Establishment Deed on 18 September 2020, transitioning the Fund to a retail managed investment scheme.

1.2 PMG Property Funds Management Limited (the **Manager**) is the manager of the Fund.

1.3 Units in the Fund (**Units**) are to be held by investors in the Fund (**Unitholders**). Each Unit is of equal value and confers an equal interest in the Fund. It is the Manager's intention that the Fund will offer new Units to Unitholders in the future. However, it is likely that Units will only be offered as and when required for capital raising purposes.

1.4 Covenant Trustee Services Limited is the supervisor of the Fund (**Supervisor**). The assets of the Fund are held by PMG Direct Childcare Fund Trustees Limited (**Custodian**) on behalf of the Unitholders. The Supervisor holds the shares in the Custodian.

1.5 The Fund has no fixed term and may only be terminated by a special resolution of Unitholders or in accordance with the FMCA.

1.6 The Manager has an option to provide an annual window for the redemptions of Units from 1 July to 31 July in any given year. The Manager reserves the right to not offer redemptions or to offer redemptions at other specified times.

1.7 The Fund intends to hold and grow a portfolio of Early Childhood Education (**ECE**) properties, diversified by region and tenant, to achieve greater resilience of income with scale.

2. Investment Objectives

2.1 The investment objective of the Fund is to provide Unitholders with a stable, sustainable monthly income stream combined with the potential for capital growth in the value of Units.

2.2 The performance benchmark for the Fund is the average of the 10-year government bond yield (as published by the Reserve Bank of New Zealand) plus 4%, measured by the annual capital and income returns to Unitholders in the Fund (**Fund Performance Benchmark**). The length of investment horizon and length of measurement for the benchmark acknowledges that investment in property involves financial risk and is subject to cyclical fluctuation.

3. Investment Philosophy

- 3.1 The Manager believes that developing and acquiring recently developed, high quality ECE properties and actively managing those properties will deliver Unitholders, over the medium to long term, the opportunity for income and income growth, together with capital appreciation.

4. Investment Strategy

- 4.1 The investment strategy of the Fund is to:

- (a) Acquire, from third parties, recently built ECE centres that are subject to long term leases with reputable ECE providers; and
- (b) where considered appropriate, identify, and undertake, in partnership with an experienced ECE development partner, development of new ECE centres that are to be subject to long term leases with reputable ECE providers; and
- (c) actively manage the ECE properties owned by the Fund.

- 4.2 Cash will be held for working capital, to fund property investments and to manage redemptions of Units. Cash reserves may be increased to allow for purchase of new property investments or capital works required for a property owned directly by the Fund.

- 4.3 The permitted investments of the Fund are:

Asset Classes	<ul style="list-style-type: none">• Direct investments in commercial property related to the Early Childhood Education (ECE) sector.• Interest rate swaps (for hedging purposes)• Other assets associated with property ownership• Cash
Sectors	<ul style="list-style-type: none">• Early Childhood Education
Geographic location	<ul style="list-style-type: none">• Metropolitan centres across New Zealand

- 4.4 The target asset allocations (**Asset Allocations**) are set out below:

Asset Class	Target Allocation
Direct investments in commercial property investments related to the Early Childhood Education (ECE) sector	70% - 100%
Interest rate swaps	0% - 10%
Other assets associated with property ownership	0% - 10%
Cash	0% - 10%

- 4.5 The weightings in each asset class will be reviewed at least quarterly and rebalanced if appropriate. The Manager will have regard for transaction costs when considering whether a rebalancing is appropriate.

- 4.6 The Fund has a target that no single investment is to be more than 35% of the Gross Asset Value of the Fund or \$20 million, whichever is greater. This target can be exceeded with the consent of the Supervisor.

- 4.7 Target benchmarks for the Fund (**Investment Benchmarks**):

- (a) weighted average lease term (WALT) not less than five years;

- (b) occupancy greater than 80%; and
- (c) Fund loan-to-value ratio of not more than 50%.

The Investment Benchmarks are to be applied to the Fund as a whole.

- 4.8 The Board of Directors of the Manager (the **Board**) is responsible for monitoring the compliance of the Fund with the Asset Allocations, the performance of the Fund against the Fund Performance Benchmark, and the characteristics of the Fund against the Investment Benchmarks.
- 4.9 Any breaches of the parameters of the Asset Allocation are reported by the Board to the Supervisor of the Fund.

5. Investment Policies

- 5.1 **Distributions:** It is the Manager's policy to distribute 100% of the Fund's Adjusted Funds From Operations (AFFO) to Unitholders. Distributions may be reduced below this policy where cash reserves are required to fund redemptions, or to pay for planned capital expenditure for Direct Property Investments. 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 commercially sustainable over the life of the Fund. AFFO is calculated as net profit before tax, after reversing the following items:
 - (a) Unrealised changes in the value of property investments;
 - (b) Unrealised changes in the value of derivative financial instruments;
 - (c) Realised gains and losses on the disposal of property investments and derivative financial instruments; and
 - (d) Performance Fees payable to the Manager.
- 5.2 **Cash Reserves:** Where the Manager determines that cash reserves exceed the amount required to fund future capital works, the purchase of property investments or funding redemptions of Units, the Manager will consider whether the surplus cash should be used to repay bank debt (if any) and / or allocated to a sinking fund, with any surplus distributed to Unitholders.
- 5.3 **Leverage:** The Manager has been authorised by the Trust Deeds to borrow up to 50% of the Gross Asset Value of the Fund, as appropriate, secured by first-ranking mortgages over the properties in the Fund.
- 5.4 **Hedging Interest Rate Risk:** The Manager has a proactive approach to ensuring interest rates are managed. The Manager utilises interest rate swap contracts, where hedging is implemented based on risk profile and cash flow requirements of the Fund. This strategy is designed to mitigate the risk of future interest rate rises over a period of time and provides an element of interest cost certainty. The Manager works with banks to obtain accurate forecasting and achieve competitive margins for the Fund. It does not speculate on interest rates.
- 5.5 **Valuation Policy:** The Manager will arrange annual valuations of each of the properties in the Fund by a registered valuer. If there has been a significant event such as a material macroeconomic change, a major unexpected leasing or vacancy event, or other material event as determined by the Manager, the Manager may commission a valuation of one or more of the properties.

- 5.6 Conflicts of Interests / Related Party Transactions:** The Manager has adopted protocols to identify conflicts of interest and related party transactions. Each director and employee have an obligation to act in the best interests of Unitholders at all times.
- 5.7 Liquidity and Cash Flow Management:** The Manager is required to monitor liquidity of the Fund and ensure sufficient liquidity to continue operations as a going concern at all times.
- 5.8 Limits requiring Supervisor Approval:** The Fund will not enter into any transaction involving, or valued at, 35% of the Gross Asset value of the Fund or \$20 million (whichever is greater), without first obtaining the Supervisor's written approval (such approval not to be unreasonably withheld or delayed, having regard always to the Supervisor's duty to act in the interest of Unitholders generally).

6. Investment Performance Monitoring

- 6.1** Each financial quarter (or more frequently if required), the Manager will provide a report to the Board which details:
- (a) accounting information over the period including a statement of profit or loss, balance sheet and transaction details;
 - (b) interest times cover and loan to value ratio (as defined in the bank loan facility) and compliance with other bank covenants;
 - (c) comment on past performance and the reason for over/under performance; and
 - (d) economic comment pertinent to the investment objectives and the outlook for future returns.
- 6.2** The Manager will provide to Unitholders, within three months following the end of the Fund's financial year, the audited financial statements for the Fund.
- 6.3** The Manager will provide to Unitholders, within 5 months following the end of the Fund's financial year, an annual report that contains:
- (a) descriptions of any material changes to the Fund
 - (b) a report on the financial condition and performance of the Fund; and
 - (c) any other matter required by the FMCA.
- 6.4** A general meeting of Unitholders will be convened on an annual basis.

7. Investment Strategy Review

- 7.1** The Board (or sub-committee thereof) will, on an annual basis, review the key metrics for the Fund's property investments and assess if any property investments should be sold. The key metrics to be considered include:
- (a) **Macro-economic conditions:** What are the underlying macro-economic conditions that may influence the Fund's future performance?
 - (b) **Forecast major capital expenditure on the properties owned by the Fund:** When are the works due? How will this be funded? Is there any impact on cash distributions?

- (c) **Lease expiry profile:** Are all the leases expiring at a similar time, and is it likely that the tenants will renew their leases?
- (d) **Weighted average lease term (WALT):** How long do the leases have to run?
- (e) **The Fund's annual return against the benchmark:** Is the Fund delivering at or above any performance benchmark?
- (f) **Property market conditions:** What are the future prospects for ECE properties in the Fund's target geographic areas?
- (g) **Property valuations:** Review the annual property revaluations and, where necessary, examine why there are value differences to the prior year.
- (h) **Forecast net income:** Are the current cash distributions sustainable?
- (i) **Forecast compliance with banking covenants:** Will the Fund be at risk of breaching its banking covenants in the future? Standard bank covenants include loan-to-value ratio (level of debt versus value of property), interest-times-cover (how much the income from property exceeds the bank interest payable) and WALT.

7.2 Acting in the best interest of Unitholders, if the Manager believes that a property investment should be sold (after consideration of relevant factors), it will prepare a report to the Board (or sub-committee thereof) for consideration. If the Board (or sub-committee thereof) approves the recommendation, the Manager will endeavour to sell the property investment provided the transaction remains in compliance with clause 5.8 of this SIPO.

7.3 If the review by the Board (or sub-committee thereof) identifies a material and sustained change in conditions, then the Investment Strategy may be amended by the Manager. This amendment in Investment Strategy may involve an amendment to the SIPO, in which case the SIPO review process (detailed below) will be triggered.

8. SIPO Review

- 8.1** The Board (or sub-committee thereof) will formally review this SIPO on an annual basis, or more frequently if required in relation to market conditions and regulatory requirements.
- 8.2** If a change to the SIPO or Investment Strategy is proposed, the Board (or sub-committee thereof) must follow the procedure in their relevant charter to amend the SIPO. The Manager will liaise with Unitholders and the Supervisor as required.
- 8.3** Should a breach of any SIPO benchmark occur at the time of annual monitoring, a review of the managed investment scheme and properties will be undertaken and the requirement of an ad-hoc review of the SIPO will be triggered.

9. Availability of this SIPO

- 9.1** The current version of this SIPO is available on the register entry for the Scheme on the Disclose Register (<https://disclose-register.companiesoffice.govt.nz/>).