Qualitative Fund Research

PMG Direct Office Fund

27 May 2020

The views and opinions in this document are considered valid from one year from the date published.

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score	Maximum Factor Score
Corporate & Investment Governance	15%	4.00	/ 5
Investment Philosophy & Process	20%	4.20	/ 5
People	25%	4.00	/ 5
Portfolio Construction & Implementation	15%	3.50	/ 5
Risk Management	15%	4.20	/ 5
Investment Fees	10%	3.43	/ 5
Overall Average Score		**3.94**	**/ 5**

What we look at?

The qualitative rating of a fund is a function of the Research IP Research Factor Weighting process, which incorporates the following:

Introduction

PMG Property Funds Management Limited (PMG) was originally incorporated as Property Managers Limited in 1992. PMG is significantly owned by staff or their related entities.

The Manager has a series of funds which can differ in terms of types and composition of the properties they invest in. Fundamentally, PMG's strategy is to identify properties where the Manager has a long term property strategy to improve value through strategic leasing, smart and safe maintenance, and finding other opportunities to add value. The Manager's profile is available here.

PMG's strategy is to achieve greater diversification by offering a range of both diversified and sector specific investment funds. PMG looks to establish each investment fund with multiple quality properties to produce diversity of buildings and tenants, which creates a robust investment vehicle offering greater economies of scale, reliable cashflows, and improved liquidity.

Research IP views corporate citizenship and governance frameworks as extremely important foundations from which a manager starts to engage with the clients' experiences. The Manager takes an active community role by financially supporting local charities as well as encouraging team member participation.

PMG has a series of current investment portfolios, with this report focusing on the PMG Direct Office Fund.

PMG has become increasingly active in the New Zealand market. Unlike the traditional "top down" portfolio manager and analyst roles, PMG's team focusses on the "bottom up" transaction, leasing and licensee, development, and property management roles. Individual bios for the PMG team can be found here.

Meet the Manager

Key Takeouts

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

PMG Direct Office Fund – Research IP Quantitative Tear Sheet

https://platform.research-ip.com/funds/

Note: FREE to access via registration, updated monthly including performance.

Factsheet ***Report*** ***PDS*** ***Articles / Views***

The Fund

Objectives	PMG Direct Office Fund
Investment Objectives	To provide Unitholders with a stable monthly income combined with the potential for capital growth over time in the value of the Units.
Benchmark	10 year Govt bond yield + 4%
Alpha Objective	Achieve regular and reliable monthly gross distribution returns of 6.50 cents per unit or above (for the year to 31 March 2021), increasing to 7.50 cents per unit or above (for the year to 31 March 2022 and beyond). Distributions are net of fees and expenses but before taxation.
Management Fee	Property Management Fee - 2.00% of gross rental received from portfolio Asset Fund Management Fee - 0.50% of the carrying value of portfolio.
Performance Fee	Performance Fee - 20% of excess Fund performance above 10-year government bond yield + 6%, subject to a high water mark (being value of Fund on prior performance fee calculation date). This incentivises consistent Manager performance year on year, and alignment with investor interests.
Estimate of Total Fund Charges	For the year to 31 March 2020 accounts, total indirect expenditure, as percentage of average net assets of the Fund (excluding operating, capital, equity issuance and property acquisition costs, and is stated before GST) were as follows: - Manager fees – 2.63% (includes performance fee) - Other third party service providers – 0.45% - **Total – 3.08%** For the forecast year to 31 March 2021, on the same basis as above: - Manager fees – 0.96% - Other parties – 0.25% - **Total – 1.21%**
Minimum Timeframe	5+ years
Portfolio Structure	Portfolio Investment Entity (PIE)
Distributions	7.55 cents per unit annual distribution forecast from 1 April 2021 (net of fees and expenses, before tax, paid monthly). Rate expected to temporarily reduce from 1 June 2020 to 31 March 2021 to 6.50 cents per unit related to current economic conditions. Total annual cash return to 31 March 2020 was 7.50 cents per unit.
Strategy Inception	17/12/2016

This Offer is being made for the PMG Direct Office Fund. Since 2016 the PMG Funds have had material changes in the weighting to industrial, retail and office sectors, as well as location of the properties. Despite the sector and regional changes, the Manager's intention is to hold assets over the long term.

The Manager has obtained independent valuations of each of the properties and continues to do so as a regular part of its operations. These valuations can be complimented with Director valuations. The basis for the valuation for each property, and the relevant assumptions underlying that valuation, are set out in the latest PDS in Section 2.2 *The Fund's Property Portfolio,* under the sub-heading Notes on Valuation in respect of the Acquisition Property. The valuation information for the Existing Properties is summarised in the PDS, and detailed valuations can be found on the Offer Register.

The asset allocation is purely exposed to office property across New Zealand. The Fund intends to be fully invested, pursuant to the SIPO, which implies that listed investments may be used while new assets are found post sale of an asset. A brief description of the valuations are set out below.

Property	Valuation	Valuer	Valuation as at Date	Purchase Price[1]	Acquisition Date[2]
Vodafone building, 213 Tuam Street, Christchurch	$58,400,000	Jones Lang LaSalle	5 May 2020	$58,650,000	30 June 2020
8 Rockridge Avenue, Auckland	$13,500,000	Aim Valuation	31 March 2020	$12,150,000	10 July 2018
2 Robert Street, Ellerslie, Auckland	$12,400,000	Jones Lang LaSalle	14 May 2020	$8,850,000	7 December 2016
5 Short Street, Auckland	$20,500,000	Jones Lang LaSalle	14 May 2020	$14,200,000	7 December 2016
65B Main Highway, Auckland	$23,750,000	Aim Valuation	31 March 2020	$21,743,000	17 April 2019
410 Victoria Street, Hamilton	$8,500,000	Telfer Young	24 March 2020	$8,100,000	17 April 2019
143 Durham street, Tauranga	$7,600,000	Telfer Young	31 March 2020	$4,850,000	7 December 2016
127 Durham Street, Tauranga	$4,000,000	Preston Rowe Paterson	31 March 2020	$2,340,000	7 December 2016
Total	**$148,650,000**			**$130,883,000**	

Properties Sold since 2018

Property	Purchase Valuation	Valuer	Valuation as at Date	Sales Price[3]	Sale Date[4]
22 Amersham Way, Manukau, Auckland	$7,300,000	Colliers International	28 March 2019	$7,800,000	28 March 2019
Total	**$7,300,000**			**$7,800,000**	

[1] Property purchase prices stated are as per signed sale and purchase agreements, and specifically exclude any costs associated with acquisition which may be capitalised into the carrying value of the relevant property.

[2] Acquisition Date is the date the Settlement Properties are intended to be acquired on.

[3] Property purchase prices stated are as per signed sale and purchase agreements, and specifically exclude any costs associated with acquisition which may be capitalised into the carrying value of the relevant property.

[4] Acquisition Date is the date the Settlement Properties are intended to be acquired on.

The authorised investment to purchase and hold assets to include:

Factor	Lower Limit	Upper Limit	
Sectors			Commercial (principally office buildings)
Geographic location			Major New Zealand metropolitan and regional centres
Target Asset Allocation			
Direct investments in office property	70%	100%	
Interest rate swaps	0%	10%	
Other assets associated with property ownership	0%	10%	
Cash	0%	10%	

A full summary of the Property Portfolio can be found in this PDS at Section 2.2 *The Fund's Property Portfolio*.

As the funds under management grows, investors can expect the asset allocation on a regional and sector basis to change. Managing a portfolio of direct property assets is expensive, and there are many components the Manager is looking to optimise to generate a return for investors. This is not limited to the physical assets themselves, and instead extends to debt management and risk management; hence the use of derivatives such as interest rate swaps for protection against adverse interest rate movements.

Funds Under Management (FUM)

FUM	PMG Direct Office Fund
Fund	Net assets under management $54.8m, and gross assets $90.6m (PMG forecast an increase at 30 June 2020 to net assets $91.4m, and gross assets $155.9m.)
Strategy	Net assets $54.8m, gross assets $90.6m
Sector	Net assets c. $250m, gross assets c. $450m
Manager (Australasia)	Net assets c. $250m, gross assets c. $450m
Manager (Total Global)	Across PMG Funds total portfolio (a total of five commercial property funds) Net assets c. $250m, gross assets c. $450m (expected to grow to over $500m as at 30 June 2020).
Manager Comment	In the last 8 years the Manager has seen a steady growth in funds under management of 40% YOY (across its entire portfolio). This growth is due to PMG's strategy to grow FUM, specifically to provide investors with robust investments through ownership of multiple properties in the Fund (diversification), and scale.

*at 31 March 2020

The Risks

Investments in direct assets is a highly specialised field. Liquidity becomes more difficult to manage when economic conditions deteriorate. Vacancies may take longer to fill, and the ability to sell an asset (if required) can take significantly longer or may be sold at a lower than preferred price. Conversely, the opposite is true when economic conditions are strong. However, uncertain conditions can provide better buying opportunities as stretched landlords/investors offload some assets and consolidate. Premium sale and leaseback opportunities can also be seen and for funds like this with scale and a robust active investor base, they can take advantage.

Under the Trust Deeds, the Manager has discretion to provide a redemption facility for Units, but otherwise Units are not redeemable. The Manager currently intends, subject to certain limitations, to provide redemptions of Units on an annual basis between 1 July and 31 July of any given calendar year.

Research IP highlights the Fund currently invests in properties ranging from $2 million - $50 million. Research IP believes this will be the typical sweet spot for the Manager, however, the Manager is growing and will have the ability to change the property profile, type, and pricing points over time. It is critical to understand that while these three levers may change, the Fund does not deviate to lower priced, poorer quality investments, and the tenancy profile does not deviate from the Manager's core expertise.

Competition for properties can be high (as it is currently in New Zealand), which may see the Fund's ability to acquire new properties reduce due to premium prices.

Currently there is geographic diversity across the North and South Island, with properties in Auckland, Tauranga, Hamilton, and the newest acquisition being in Christchurch. The Manager has significantly spread its wings with the move to a Christchurch "A" Grade building, with a long term largely single tenanted property. This is a change over the past two years from an Auckland, Hamilton, and Tauranga focus triangle. Accordingly, Research IP will monitor the regional exposure and property types managed by PMG as they change, however we view the diversification as a positive step.

All underlying properties have some gearing. This means there are some interest rate and financing risks involved. At present PMG have lending facilities with top tier banks, which help mitigate some of this risk. Historically banks have made decisions to exit parts of the property market, notably in times of economic stress, which can exacerbate portfolio risks. The timing of refinancing can impact the Manager and the Fund, as was the case for several direct property fund managers in the global financial crisis (GFC).

This fund is designed as an income producing fund and will not hold development assets or vacant land.

The Manager is aware of the broad range of risks and is mindful of them in portfolio construction and management.

Using this Fund

The Fund is a diversified direct property fund that invests into physical properties. By investing in physical assets investors are exposed to the risks of direct physical assets, significantly reduced liquidity, higher leverage, and potentially lower variation to income. Accordingly, the Fund may be suitable for investors seeking exposure to real-estate assets who are prepared to invest for the long-term in low volatility income streams with potential capital growth.

From an asset class perspective this Fund is considered a satellite to a well-diversified portfolio. The Fund will generally sit within the alternative sector of a balanced portfolio due to the low correlation to listed investments.

Selecting and blending the properties takes a great deal of skill, knowledge, understanding and insight, which has been developed over many years. Research IP is impressed by the PMG investment philosophy and believes the team has the appropriate capability to improve a property and develop higher rental income and better capital expenditure management. This type of Fund and its assets are not readily replicable by an individual investor.

The Fund has been established to focus on holding a diversified portfolio of office properties. The investment objective of the Fund is to provide investors with strong and sustainable returns, whilst offering more diversification and liquidity.

This Fund is expected to have low correlation to listed investments, with potentially smoother performance than delivered by listed investment vehicles. The Fund is subject to market risks and movements (both positive and negative) and is suitable for investors with an investment horizon of more than five years.

What the manager says?

Insight	Manager view	Research IP opinion
Who is accountable for managing the fund? **Is the investment teams work history relevant to the funds they manage?**	PMG Funds is accountable for managing the Fund, and is licensed under the Financial Markets Conduct Act 2013 (FMCA) as a manager of Managed Investment Schemes, (excluding managed funds) ("schemes") which invest in, or own, real property in New Zealand. PMG is owned by PMG Holdings Limited (Holdings). The Board of Directors of PMG comprises Denis McMahon (Director and shareholder of Holdings), Wayne Beilby (non-executive director), Scott McKenzie (CEO, Director, and shareholder of Holdings), Nigel Lowe (CFO, Director and shareholder of Holdings), and Daniel Lem (Head of Investment, Director and shareholder of Holdings). PMG manages the Fund's Property Investments pursuant to an Establishment Deed, Master Trust Deed, SIPO and Management Agreement. Key personnel include: Scott McKenzie, CEO and Director of PMG. Scott has 20 years of commercial, finance and leadership experience within the banking sector in New Zealand and the UK. He oversees the company's operations and implementation of PMG's and PMG DOF's strategy. Daniel Lem, Director and Head of Investment is responsible for sourcing new investment opportunities for PMG and PMG DOF, including repositioning/re-development of assets. He is a real estate professional with 22 years' experience in NZ, the UK and Eastern Europe. Nigel Lowe, CFO, is responsible for the financial reporting, compliance and capital and cashflow management for PMG DOF and PMG. He is a Chartered Accountant with over 17 years' experience. Matt McHardy, Head of Investor Relationships, is responsible for developing strong relationships with investors nationwide, managing capital raises and the necessary associated compliance requirements. Denis McMahon, is founding director and Chair of PMG. Denis has a governance	Unlike traditional managed funds, the Direct Office Fund is not managed under a typical portfolio manager and analyst structure. The Manager's focus is investing in large lumpy assets, rather than listed securities where the liquidity profile of the assets is very different. With this in mind, the team is broken down into core functions; transaction, leasing and licensee, development, and property management. These roles are completed by a team of six directly, with input from the Directors of PMG. From a day to day perspective, the property management team is led by Jamie Reid (Head of Operations), Steve Williams (Head of Transactions), Simi Mukherjee (Head of Facilities Management), Lloyd Clark, Brian Berry and Matthew White. Asset management is done by the centralised team, which is supplemented by contract facilities management resources in Wellington and Christchurch. Research IP views recent appointments positively and addresses key points raised by Research IP in 2019. However, Research IP notes Williams remains a key person, outside the executive team. In this space the personnel can be critical to the success of the strategy, where strong connections can help source off market deals. Research IP views the structure and composition of PMG's investment committee favourably, which is now formalised through the PMG Board meeting, and is used as the forum to discuss the portfolio of properties. Given the long lead time to identify assets for consideration (either for purchase or sale), the six weekly meeting cycle is considered appropriate. Given the number of assets PMG holds, and as this Fund grows, the Manager may need to re-consider the frequency of the investment committee meetings. The Direct Office Fund continues the evolving journey for the Manager. Notably this time the new Christchurch asset is a newer building with a long term lease to the major tenant, Vodafone. Research IP

	capacity for PMG, with over 35 years of property and fund management experience.	believes the Manager has a strong core skill set and is addressing key person risk and its ability to manage the geographic spread and properties across the business.
Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?	PMG underwrites the issuance of units in the Fund from time to time, but otherwise does not maintain a minimum unitholding in the Fund. From time to time all employees and directors of PMG may invest in the Fund. Any investment by PMG, its employees or directors in the Fund incur the same fees as all other investors.	Research IP believes that the interests of investment personnel are better aligned to those of the investors, when investment personnel are significantly invested, and at the same fees. On a positive note, a number of the executive team and employees have invested in PMG products, which may include this Fund. Importantly they pay the same fees as investors. Research IP believes this improves investor alignment, and all investors share the same experiences and outcomes. Research IP notes that due to the illiquid nature of a direct property fund, it is unreasonable to expect PMG employees to have significant wealth invested in low liquidity funds. Diversification across assets classes and the liquidity profile of the portfolio needs to align to an employee's or investor's risk profile. Employees with the business for greater than 12 months are also allocated shares, which are held in trust for them.
Why would you allocate to this fund?	PMG Direct Office Fund is a sector specific direct property fund providing investors with a regular and reliable income and the opportunity for capital growth over time driven by the ownership of high quality commercial office buildings across major metropolitan areas of New Zealand. PMG Direct Office Fund is an actively managed property Fund which requires a number of in-house expertise to deliver on the value add strategies for each property and ensure income from those properties remains stable. There are no passive or inexpensive direct property index products which provide investors with the opportunity to invest in this asset class and the ability to benefit from the intellectual property of a team such as PMG. Commercial property is well known as one of the best places to store wealth long term.	Research IP views the direct property market as a specialist area, where the Manager's ability to manage the assets becomes critical to investor outcomes. Research IP believe the PMG team have appropriate skills for the type of properties they own and manage. Team resourcing is adequate to deliver strong investor outcomes, in line with the Fund's stated objectives. Research IP believes the Manager will have opportunities to source new properties, but this is becoming increasingly competitive and therefore complex to extract value. The key will lie in the Managers ability to acquire the property at the right price. The Christchurch acquisition for the portfolio is a change in direction for the Manager, which typically purchased properties that requires the Manager to carry the

	It provides regular and reliable income, protects capital through an investment in bricks and mortar making it an investment which is understandable, resonates across a broad market, and is indexed heavily to inflation. Unlike some other PMG property Funds, the PMG Direct Office Fund invests in commercial office property only. This means investors in this Fund are only going to gain exposure to office property and therefore will see a higher concentration of risk associated with the ownership of office real estate.	property while an incremental refurbishing, rezoning, and/or repurposing of the property takes place. This must be achieved without detrimentally affecting the rental income in the process. The Manager has shown they have the ability to achieve this to date and add value to investor returns. Research IP is encouraged that PMG has successfully navigated several market cycles since commencing operations in 1992. With impacts of COVID-19 still relatively unknown from a global perspective, Research IP believes the Christchurch Vodafone asset to be a positive contributor to the portfolio, with a key anchor tenant operating a largely pandemic resistant business in telecommunications across New Zealand. Research IP believes the Fund offers potential investors an exposure to a diversified offering focusing on the Manager's core skill set. Research IP notes the Auckland and Wellington areas are premium markets due to the availability of land for industrial purposes. Christchurch, Hamilton and Tauranga are emerging due to the pressure Auckland is under from a transport perspective, while Wellington continues to resolve earthquake issues.
What are key factors in the buying and selling decisions of the Fund?	The Investment Team consider all Buy/Sell decisions. The team includes the Executive Team (CEO, CFO and Head Investment) plus the Head of Asset Management and Head of Investor Relations. They regularly review the performance of the portfolio and the Executive Team make recommendations to the Board of Directors of PMG - which includes investment and divestment decisions. Buy/Sell decisions are made taking into account the following factors at a minimum: • How does the specific investment impact the diversity of the Fund (including by region, by building type, by tenant industry, by tenant number)? • Is any major capital expenditure required related ot the specific investment?	The Manager typically takes a long-term, greater than 10-year view on the properties it acquires. Research IP notes this is typical for direct property managers. This does not prevent properties from being sold in a shorter timeframe, subject to an appropriate offer being made. Notably the time taken to acquire a property can vary from a couple of months to over 12 months. The due diligence conducted is extensive, every property is comprehensively modelled internally by PMG, and subject to investment committee review, prior to the PMG Board providing final approval. The Manager has a strong history in actively seeking opportunities and has been able to structure transactions around multiple properties to coincide around purchasing and selling in similar

	• What is the weighted average lease term (WALT) of the overall portfolio compared to the specific investment? • What is the lease expiry profile of the specific investment, are the leases likely to be renewed? • What is the Internal Rate of Return of the specific investment compared to the portfolio? • What are the current and forecast trends in property market conditions, risks and valuations? • What is forecasted net income and associated risk of the specific investment? • What is forecast compliance with banking covenants and how does the specific investment impact this?	timeframes. Research IP believes this is a function of PMG's approach to capital management and enabling its funds to acquire better quality and higher valuation assets for their suite of funds. This is also reflected in the Manager's approach to managing debt facilities across its funds, at both an asset and fund perspective. PMG had a previous requirement for all transactions to be approved by the investment committee, prior to being escalated to the PMG Board. The investment committee has been dis-established, with all property related decisions being reviewed by the PMG Board. This appears to be a material change, however, the oversight remains high. Research IP does not believe the oversight process hampers the Manager's ability to operate the Fund in an efficient manner. It is considered a positive risk management tool. Potential investors should consider the Fund to be illiquid, as selling a real property asset quickly is unusual or typically involves large discounts. The Manager looks to provide a liquidity management system, but this is entirely at the Manager's discretion. Research IP notes historically other fund managers have provided liquidity events based on direct physical asset funds. This had led to issues, particularly when buyers of units withdraw from the market. This occurred during the Financial Crisis in 2008, which saw some funds wind-up, or sold to new managers. Research IP has discussed redemption management with the Manager for the period post 2018, including the COVID-19 period. The Manager has indicated they have been able to accommodate redemption requests through that time, to date.
What are the key drivers of the Fund's performance and risk measures?	Key drivers of performance: Income from the property portfolio – The Fund's primary source of income is the rental income from each of the properties in the Fund's properties. Capital Value of Property Portfolio – The value of Units will be influenced by the value of the Property Portfolio, which in turn will	The Manager's due diligence process sees each individual property modelled and the current tenant and lease profiles evaluated so the Manager can accurately determine the capital expenditure. This remains an ongoing process to ensure the properties remain a strong fit for the portfolio, and refurbishment of lower

be influenced by the state of the property market, the level of rental income from each property, and the remaining terms of property leases.

Key risk measures:
Rental Income and Tenant Default Risk – Rental income from any property could stop or decrease for several reasons, including if a lease is terminated or expires without being renewed, or an existing tenant may default on their obligations. A loss or reduction in rental income may have a significant detrimental impact on the Fund's ability to make distributions to Unitholders, on the value of Units, and on compliance with banking covenants.

Interest Rate Risk – The Fund is reliant on bank borrowings, which generate a material expense to the Fund. Movements in interest rates may affect returns to Unitholders. The Fund's hedging policy is to fix (via swap arrangements) a minimum of 50% of the borrowings greater than 18 months, which minimises the impact of short-term interest rate movements.

Sector Specific Risk - Due to the weighting to the office sector the Fund could underperform if demand from office tenants or businesses requiring office accommodation falls away compared to industrial, retail or a diversified property fund.

grade properties continues to be managed appropriately.

As the Manager's total funds under management (FUM) has grown there has been an uplift in the quality and pricing point of the property, along with the types of tenant.

While the Manager has maintained a focus on its core skill set (being optimising and improving lower grade assets, with a view to repurposing or refurbishing them), the latest acquisition is a departure from this focus. The Vodafone Christchurch building requires little capital expenditure and is a premium property. The Manager will be more reliant on the macro influences of Christchurch office buildings than its typical refurbishment and building improvement to generate capital and rental growth. However, Research IP views the addition of this asset in Christchurch positively.

Research IP has reviewed the Direct Office and Pacific Property Funds offered by the Manager, since 2018. To date the Manager has proven to be adept and purposeful in acquiring, refurbishing, repurposing, and disposing of assets in both portfolios.

PMG works hard ensure the weighted average lease term (WALT) sits around the mid to long term, being 3-7 years. Research IP notes the properties in the portfolio are typically underpinned by key office tenants including national and international businesses and government departments. This is the case with the Vodafone Christchurch office building. With the addition of the Vodafone Christchurch asset the WALT will grow from under four years to 5.6 years. Research IP is confident the Manager has the required skills to ensure tenant diversity and quality is retained or improved as assets are purchased and sold within the Fund.

Research IP notes that valuations underpin investor expectations. Valuations only become real at the point of purchasing and selling an asset. Understanding the property market

		conditions (the macro backdrop for property) impacts investor returns and potential for capital gains, as much as the income stream from rent.
On what basis are the fees charged justified?	PMG believes the fees charged to the Fund are fair and in-line with the market. The fees represent the combined 80 years of experience of PMG's directors and employees in the industry. They also reflect the proactive, personalised property management services PMG provides the Fund via its in-house, expert property management team, which is essential for direct property investments. Most of PMG's fees are directly linked to the performance of the portfolio, or specific transactions that are aimed at improving the returns to investors. (All fees stated as exclusive of GST): Ongoing: • Acquisition Fee and Disposal Fees: 1% of sale or purchase price of Property Investments. • Fund Management Fee: 0.50% p.a of the carrying value of the Fund's Property Portfolio. • Property Management Fee: 2.00% of gross annual rental collected from the properties under management. • Performance Fee: Performance fee equivalent to 20% of the excess performance above the Manager Performance Benchmark (subject to a high water mark). The Manager Performance Benchmark is the average 10-year government bond yield plus 6%. • Property Project Fee: 5% of the total capital development/project costs incurred (which exceed $50,000). . • Unit Transfer Fee: 1.5% of the secondary transfer amount from one investor to another, if using the Manager's sales facilitation service.	Research IP believes the Manager is transparent from a fee perspective, noting the administration and underlying manager fees are disclosed in the PMG Direct Office Fund Product Disclosure Statement (PDS). While there is a high degree of transparency, Research IP believes there is a commensurately high degree of complexity. This is not inconsistent with global practices when dealing with physical assets versus listed investments. Research IP notes the Direct Office Fund is one of the few direct property offerings available in the New Zealand market. The closest peers are Australian Unit Trusts (AUT), of which some are available for New Zealand investors to invest in, but there is limited direct comparison available. Needless to say, most components of the fee structure are in-line with direct property AUTs. Research IP notes the Fund Administration Fee is in-line with other funds, such as equity and REIT funds. The Manager has clearly expressed the types of fees and the upper limits that apply. Operating a fund that invests in direct physical assets is not cheap, with fund managers typically amortising costs over longer periods of time. For example, fund setup costs are typically amortised over 5 years. The Fund does have a performance fee component which is not typically found in direct property funds, however, Research IP believes the hurdle benchmark is considered a high hurdle to meet before the performance fee is payable. Importantly the performance fee does include a high water mark and is not resettable. Performance fees typically range between 10%-20%. High water marks can be market linked or as is the case for this Fund, linked to fixed performance hurdle. Research IP prefers market linked performance fees but understands there is no specific market

		based reference for direct assets. Unlike listed companies and the use of indices as reference points. Although there is no Buy/Sell spread charged, there is a fee of 1% plus GST charged on redemption of units by the Manager, or 1.5% plus GST if the Manager facilitates a transfer of units on the secondary market.
Describe the quality of the organisational and investment governance processes?	PMG's governance and compliance is of the highest possible standard, structured to ensure PMG always operates in the best interests of its investors. PMG's governance structure covers the management of assets, acquisitions, the investment process, staff code of conduct and ethics. Regulatory compliance is a key focus for PMG and a compliance assurance programme covering all aspects of the business is in place. The primary governance responsibility for PMG sits with the PMG Board, guided by an independent director, Dr Wayne Beilby, who holds a Doctorate in Governance. He is joined by co-founder and director Denis McMahon, alongside the Executive Team. All investment decisions are governed by the board but subject to initial recommendation by the Executive Investment Management Team. PMG has invested heavily in its in-house risk and compliance team, with a robust process to ensure it meets all regulatory compliance requirements. PMG uses technology to streamline onsite regulatory and operational efficiency.	Research IP notes that the PMG Board has a bias to executive rather than non-executive Directors. The 2017 appointment of Wayne Beilby as an independent director is viewed positively. This is in addition to co-founder Denis McMahon remaining engaged with PMG, since its inception in 1992. Research IP believes with an expanding product suite there is opportunity for PMG to expand the number of non-executive directors, particularly given the investment committee is no longer used. This should be used to add some diversity of views in the overall investment decision making process. Research IP would prefer to see compliance functions separated from the investment decisions. In this case the Board are the investment committee, making separation difficult. Compliance and risk management is an increasingly important aspect of funds management. It requires appropriate resourcing, and the ability to act and report separately to other investment functions. As the Fund grows Research IP expects to see this addressed and resourced. Research IP highlights the PMG structure has changed markedly over the last five years. Some of this activity was designed to bring key people in to PMG on a full-time basis. This is also reflected in PMG seeking to engage with financial advisers and grow the property funds business. Funds management is newer for PMG, accordingly, Research IP believe the addition of a funds management specialist as a Board or investment committee member could be beneficial. In saying that, Research IP does not view the current PMG structure negatively.

Describe the Manager's ESG, Corporate Sustainability policies and engagement.	PMG understands that its operations impact the environment and social fabric of society. That's why in every decision PMG makes, they consider these potential impacts and work to minimise them in every aspect of the business. PMG's ESG policy is aligned with PMG's company values and culture. The policy is what guides decision-making and behaviours on a day to day basis and include: • an ESG Committee comprising a minimum of four members, including at least one Board director and at least 50% female members • an ESG policy which is public and reviewed annually • integrate ESG matters into the investment and property management processes. • always consider what is in the best interests of all our stakeholders, not just shareholders, when making business decisions. • ensure we meet/exceeds all relevant environmental regulations to meet all community environmental standards. • conserve natural resources through management of water, energy and paper consumption throughout its operations. • Extend recycling and waste management systems • consider environmental criteria in the awarding of contracts to prospective suppliers and the selection of products for PMG's operations. • encourage management to use the subcontractors and suppliers that adopt the best environmental practices. • Always ensures the safety of our staff and those we work with first and foremost. • Paid suppliers early in Covid19 lockdown, supported tenants with tailored rent relief packages.	The Inclusion of the Vodafone Christchurch building to the Direct Office Fund portfolio sees the Manager continue its commitment managing the environmental and social aspect of the portfolio. This asset is a 5 Green Star Design. Research IP has seen refurbishments completed in buildings owned by PMG. Not only has there been a marked improvement in the finishes to the building, but PMG's Property Management team have made important changes to improve energy efficiency and environmental footprint of the properties. Research IP is aware that tenants in buildings are increasingly meeting their ESG requirements. This is in part achieved by ensuring the properties they lease meet certain ESG standards. This knock on effect is ultimately felt by fund managers who invest in direct physical assets. Research IP would like to see PMG publish documents outlining its approach to environment, social, and governance factors. PMG's involvement in the community can be viewed here.
Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?	PMG's mantra is 'we're invested'. Members of PMG's board, executive team and a number of staff are investors in PMG's funds (on the same terms). PMG's management fees are structured so they are linked to the performance each of its funds with a portion charge against rental income collected. If there is vacancy, this impacts both the funds and PMG. PMG is therefore incentivised to ensure all properties under management are fully	To preserve capital and generate a long-term positive return for investors, the Manager must remain operational. PMG has been operating since 1992, surviving natural and financial market issues since inception. PMG's long history, and more recent diversification of capital sources, should see PMG remain a sustainable business.

	occupied, and rental income is grown in line with market, over time. A performance fee structure also incentivises PMG to outperform the funds target benchmark return. All members of PMG's executive and investment team are salaried employees. Each employee has key performance goals related to the performance of each property and fund managed to PMG. PMG operates an incentive program which rewards staff for performing at or above their key performance goals.	The remuneration structures are as expected for a business of this size. This being predominantly base salary, with a variable component. Key positions, such as directors and executives, are held by shareholders and investors in PMG funds. This is considered to be strong alignment with investors' interests. The equity ownership of PMG CEO, Scott McKenzie and other Directors and executives is viewed as being a strong positive.

About Research IP

Research IP has provided client focused qualitative and quantitative financial product and security research since 2015. Research IP was also the consultant to the NZX wholly owned subsidiary FundSource, providing investment research to the New Zealand market since 2015.

Research IP is a specialist investment research provider which is used and trusted by investors & financial advisers for investment, KiwiSaver, Superannuation and other Pension schemes throughout the Asia Pacific region.

Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

- data scientists,
- equity, bond and alternative asset specialists
- portfolio managers
- asset allocation analysts
- and ratings specialists.

Our experience has been gained in well over 20 years of roles across different facets of the industry, so we understand the key drivers and challenges for managers, as well as the impact for investors and the Financial Advice industry.

By leveraging the skills of specialists, Research IP is able to provide innovative and tailored financial services solutions to the marketplace. Client focused outcomes are underpinned by the belief that the role of business model innovation and accelerating technological change opens up new possibilities, to put client interests at the centre of the financial services industry focus. We have strong philosophical alignment with John Hagel's work on the possibilities for "Disruption by Trusted Advisors" and John Kay's views in "Other People's Money: Masters of the Universe or Servants of the People".

Research IP delivers high quality quantitative and qualitative fund research to financial advisers and the broader financial services industry. Research IP works with a number of expert providers to source this data. Quantitative data is supplied by a variety of sources, including directly from the Fund Manager, while qualitative research is provided by Research IP.

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