



RESEARCH IP

Qualitative Fund Research

PMG Generation Fund

25 February 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%	3.50	/ 5
Investment Philosophy & Process	20%	3.60	/ 5
People	25%	3.67	/ 5
Portfolio Construction & Implementation	15%	3.00	/ 5
Risk Management	15%	3.40	/ 5
Investment Fees	10%	3.14	/ 5
Overall Average Score		3.44	/ 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:



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Introduction

PMG Property Funds Management Limited (PMG) was originally incorporated as Property Managers Limited in 1992. PMG is 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 new [PMG Generation 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](#).

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.

The Fund:

This Offer is the first being made for the PMG Generation Fund. After the successful completion of this Offer, the Fund's asset mix will exclude interests held in property schemes. It is worth noting that if the Manager receives a variation to its MIS licence which will permit it to invest in other property schemes (i.e. holding interests in those schemes), then up to 40% of the Fund's assets could comprise of interests held in property schemes.

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 Settlement Properties in anticipation of this Offer. The basis for the valuation for each property, and the relevant assumptions underlying that valuation, are set out in section 2.2 under the heading Notes on Valuation in respect of each Settlement Property. A brief description of the valuations are set out below.

The asset allocation is initially dominated by industrial property across New Zealand. However, this is expected to change as funds under management grows, although the core focus is commercial property. Should the Manager successfully vary its current licensing, it is expected the Fund will gain exposure to office and other commercial assets via New Zealand listed property vehicles, including investments into the Direct Office Fund and the Pacific Property Fund Limited, both operated by PMG. 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.

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Property	Valuation	Valuer	Valuation as at Date	Purchase Price ¹	Acquisition Date ²
26 Sharpe Road, Hamilton	\$27,900,000	Aim Valuation	07 November 2019	\$27,756,521	31 March 2020
67 Vickerys Road, Christchurch	\$10,300,000	Jones Lang LaSalle	17 December 2019	\$10,239,923	31 March 2020
32 Jamaica Drive, Wellington	\$14,750,000	Colliers International	31 March 2020	\$14,750,000	31 March 2020
Total	\$52,950,000			\$52,746,444	

We note that the Jamaica Road asset was initially acquired in the PMG Capital Fund (a fund designed for investors with a higher risk appetite) one year ago and after some work will now be fully owned by the Generation Fund.

The authorised investment to purchase and hold assets to include:

Factor	Lower Limit	Upper Limit
Asset classes		Direct investments in commercial property; Subject to a variation of its MIS licence: <ul style="list-style-type: none"> ❖ shares/units in PMG managed commercial property funds; ❖ shares/units in other managed commercial property funds; ❖ shares/units in listed property vehicles; ❖ Interest rate swaps (for hedging purposes); ❖ other assets associated with property ownership; and ❖ cash.
Sectors		Commercial property (and assets underpinned by commercial property)
Geographic location		Major New Zealand metropolitan and regional centres
Target Asset Allocation		
Direct investments in commercial property	40%	100%
Interests held in property schemes (both listed and unlisted)	0%	40%
Interest rate swaps	0%	10%
Other assets associated with property ownership	0%	20%
Cash	0%	20%

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.

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A full summary of the Property Portfolio can be found in section 2.2 of this [PDS](#) under The Fund's Property Investments.

As the Fund's 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 isn't 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.

The Risks

The risks an investor is exposed to in this Fund appear to be similar to those in other managed funds. The Generation Fund offers a redemption facility and PMG offers a robust secondary market service which can facilitate trades, however, there is risk of significantly reduced liquidity in times of market stress. Investors should ensure they familiarise themselves with the key risks highlighted by the Manager. 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.

Research IP highlights the Fund currently invests in properties ranging from \$10 million - \$30 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.

Pending changes to the Fund's licence, there is potential for the Fund to invest alongside other PMG vehicles, and potentially purchase assets for the Fund. While this can provide diversification across the assets of the Fund, any transaction would be considered a related party investment and therefore it is critical for the Manager to ensure they are in the best interest of the Fund. To date the Manager has a proven process addressing these issues in other investment funds they offer. Research IP notes the Manager would prefer to acquire properties directly, rather than invest in other PMG investment vehicles.

Currently there is geographic diversity across the North and South Island, with properties in Hamilton, Wellington, and Christchurch. The pipeline for properties is strong, and the geographic diversity of the Fund will be reviewed over time. The Manager has significantly spread its wings with future opportunities focusing on Wellington and Christchurch, rather than the greater Auckland region. 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).

However, 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.

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 appropriate capability to improve a property and develop higher rental income and better capital expenditure

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management. This type of Fund and its assets are not readily replicable by an individual investor. While this is a new fund, it leverages the quality and characteristics PMG have developed and continue to grow over time.

The Objective

The fund aims to provide you with:

- ❖ A geographically diversified portfolio of commercial (initially industrial focused) property.
- ❖ Strong sustainable returns and greater liquidity.
- ❖ Gross distributions per annum of around 100% of its adjusted net profit before tax (as detailed below), after consideration of any required re-investment in capital expenditure programmes on existing properties and debt repayment.

Distributions:

The Fund is a Portfolio Investment Entity (PIE) with distributions made on a monthly basis. Monthly valuations are estimated by PMG, with annual external rolling valuations of the assets spread throughout the year. New investments and redemption requests are processed once monthly, at the discretion of the Board.

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.

The Fund has been established to hold a diversified portfolio of commercial 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.

Insight	Manager view	Research IP opinion
<p>Who is accountable for managing the fund?</p> <p>Is the investment teams work history relevant to the funds they manage?</p>	<p>The Fund is managed by PMG Property Funds Management Limited (PMG), established in 1992. PMG is licensed under the Financial Markets Conduct Act 2013 as a manager of Managed Investment Schemes which invest in, or own, real property in New Zealand.</p> <p>PMG is owned by PMG Holdings Limited (Holdings). The Board of Directors of PMG comprises Denis McMahan (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).</p> <p>PMG manages the Fund's Property Investments pursuant to an Establishment Deed, Master Trust Deed, SIPO and Management Agreement.</p> <p>Key personnel in PMG's investment team include: Scott McKenzie, CEO - has 18 years of commercial, finance and leadership experience within the banking and property sectors in New Zealand and the UK. He oversees PMG's operations and is responsible for implementing PMG and the Fund's strategies. Scott joined PMG in 2012.</p> <p>Daniel Lem, Head of Investment - is responsible for sourcing new investment opportunities for PMG's portfolios including the Fund, and the repositioning/re-development of assets. He is a real estate professional with more than 20 years' experience in NZ, the UK and Eastern Europe. Daniel joined PMG in 2015.</p> <p>Nigel Lowe, CFO - is responsible for the financial reporting, compliance, capital raising and cashflow management for PMG and the Fund. He is a Chartered Accountant with over 15 years' experience. Nigel joined PMG in 2016.</p>	<p>Unlike traditional managed funds, the Generation 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.</p> <p>With this in mind, the team is broken down to core functions; transaction, leasing and licensee, development, and property management. These roles are completed by a team of five directly, with input from the Directors of PMG. From a day to day perspective, the property management team is led by Steve Williams and Brian Berry. Both Williams and Berry are considered to be key people, 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.</p> <p>Research IP views the structure and composition of PMG's investment committee favourably, which is now formalised through the PMG Board meeting, 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.</p> <p>Research IP notes the Manager implemented a significant restructure of its business through 2014-2016, which included the establishment of funds and aggregation of standalone buildings into the funds where there was investor support. The Generation Fund continues the evolving journey for the Manager. Research IP believes the Manager has a strong core skill set and is adequately resourced for the number of current properties. The Generation Fund will likely need some additional resources, most likely in the Wellington or Christchurch area, as the portfolio grows.</p>

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		<p>Research IP believes there is an opportunity for the Manager to add to this team and develop succession planning for the Manager. This was highlighted in 2018 and the team, while highly qualified, remains similar in number.</p>
<p>What are the key drivers of the Fund's performance and risk measures?</p>	<p>Key drivers of performance:</p> <p>Income from Property Portfolio – The Fund's primary source of income is the rental income from each of the properties in the Fund's Property Portfolio.</p> <p>Capital Value of Property Portfolio – The value of Units will be influenced by the value of the Property Portfolio, which in turn will be influenced by the state of the property market, the level of rental income from each property, and the remaining terms of property leases.</p> <p>Key risk measures:</p> <p>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.</p> <p>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 12 months, which minimises the impact of short term interest rate movements.</p> <p>Diversification Risk – The Fund's investment objective and strategy extends to investing in an Investment Portfolio in accordance with its SIPO. Extending the Fund's investments beyond the Property Portfolio will enable the Fund to invest in a broader, more diversified asset base and provide a pool of more liquid investments. The Fund</p>	<p>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.</p> <p>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.</p> <p>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. This can incur some increased capital expenditure and possible usage risk. 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.</p> <p>Research IP believes the Kelston shopping centre (not in the Generation Fund portfolio) is a good example of how the Manager considers the best use and management of their properties. In this example, it included the redevelopment of part of the site to add a childcare centre, as well as some other refurbishment of the existing buildings. The work PMG undertook led to the increased value and consequential sale of the asset. Research IP notes for the Kelston shopping centre, these activities added development and refurbishment risks, but overall it shows the Manager's innovative thinking around the Fund's properties.</p> <p>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</p>

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	<p>is reliant on a variation to its MIS licence from the FMA in order to achieve this.</p>	<p>portfolio, at the Fund's inception, are typically absorbed by a single tenant, or in the case if Wellington an individual tenant per unit on the multi-unit site. Accordingly, the initial tenant profile is small in number, but Research IP notes the tenants are predominately global brands or provide products and services in the Australasian and global markets. The initial average lease is 4.1 years at inception, but the management team are looking to extend this. 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.</p> <p>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.</p>
<p>Why would you allocate to this fund?</p>	<p>We believe PMG Generation Fund will revolutionise accessibility to commercial property investment for more New Zealanders, and we're proud to help more New Zealanders create financial freedom.</p> <p>Greater Accessibility to New Zealanders - The Fund is specifically designed to make investment in commercial property highly accessible for New Zealanders of all ages and stages. The Fund intends to break down investment barriers with investors able to begin investing for a minimum of 1,000 Units (equal to \$1,000 at launch). If the Fund becomes a continuous issuer in the future, investors will be able to make regular investments often - investing when they can or as they earn - through a fully digitised subscription process with 24-hour visibility of their investment via an online dashboard.</p> <p>Regular, competitive cash return - Gross cash distribution return, paid monthly, of 5.80 cents per unit per annum (an equivalent annualised return of 5.80% at the current issue price of \$1.00 per unit).</p>	<p>Research IP view 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.</p> <p>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. In addition, the Fund must carry the property while undergoing an incremental refurbishing, rezoning, and/ or repurposing of the property takes place. This must be achieved without detrimentally affecting the rental income, until completion. The Manager has shown they have the ability to achieve this to date.</p>

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	<p>Quality Properties - The initial three commercial properties are fully tenanted by notable companies - including the North Island distribution centre for national retailer Torpedo7. The property is underpinned by a lease with 6 years until the next right of renewal (of which there are several, able to extend the lease 42 years in total from Settlement Date if all rights are taken up). Other notable tenants in the portfolio include Coca-Cola Amatil, Euro Corporation Limited and Rentokil.</p> <p>Future focus on diversity and investor liquidity - The Fund will invest in further directly owned property to build the scale and robustness of the Fund. Furthermore, the Fund intend to invest in a portfolio of investments in unlisted and listed property schemes (subject to PMG applying for and being granted a variation to its FMA Managed Investment Scheme licence). The Fund will be able to hold a broader and more diversified asset base and provide a pool of more liquid investments to facilitate the continuous issuance and redemptions of units in the Fund.</p> <p>PMG - PMG is one of the pioneers in establishing diversified unlisted property funds in New Zealand, and PMGs success has seen a number of larger competitors follow suit.</p>	<p>Research IP highlights this Fund is new to the market and carry's some risks, despite the strengths of the Manager from a corporate perspective. This is common to all new funds launched by fund managers, despite the asset class. It is encouraging that PMG has successfully navigated several market cycles since commencing operations in 1992.</p> <p>Research IP believes the Fund offers potential investors an exposure to a diversified offering focusing on the Manager's core skill set. Initially the Fund will have exposure to three physical properties. Research IP expects this to change over time, with potential to invest in other PMG related direct property funds and a basket of listed property securities.</p> <p>Research IP notes the Auckland and Wellington areas are premium markets due to the availability of land for industrial purposes. Hamilton is emerging as a distribution centre and Christchurch is less constrained by availability of industrial land, and both areas will require a different management plan to Auckland and Wellington.</p>
<p>What are key factors in the buying and selling decisions of the Fund?</p>	<p>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.</p> <p>Buy/Sell decisions are made taking into account the following factors at a minimum:</p> <ul style="list-style-type: none"> • 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 of the specific investment? 	<p>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 doesn't 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 the investment committee review, prior to the PMG Board providing final approval.</p> <p>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</p>

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	<ul style="list-style-type: none"> • 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? 	<p>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.</p> <p>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.</p> <p>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 is looking to provide a liquidity management system for the Generation Fund. 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 will review this function regularly over the life of this report. The liquidity management is the catalyst for listed real estate investment trusts (REITs) and co investment in other PMG funds.</p>
<p>Has the CIO/ PM personally invested in the Fund? Are they paying the same fees as other investors?</p>	<p>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.</p>	<p>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.</p> <p>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</p>

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		<p>the same fees as investors. Research IP believes this improves investor alignment, and all investors share the same experiences and outcomes.</p> <p>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.</p> <p>Employees with the business for greater than 12 months are also allocated shares, which are held in trust for them.</p>
<p>On what basis are the fees charged justified?</p>	<p>PMG believes the fees charged to the Fund are fair and in-line with the market. The fees represent the combined experience of PMG's directors and employees in the industry, which is over 80 years. 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.</p> <p>Below is a list of PMG's core fees (All fees are stated as exclusive of GST):</p> <p>Ongoing</p> <ul style="list-style-type: none"> • Acquisition Fee and Disposal Fees: 1% of the sale or purchase price of Property Investments (excluding investments in the Manager's other managed funds). • Fund Management Fee: 0.50% p.a of the Fund's Gross Asset Value , reducing to 0.45% p.a. for Gross Asset Value above \$500 million. • Property Management Fee: 1.50% of gross annual rental collected from the properties under management, to the extent that management fees are recovered from tenants. • Performance Fee: The Manager is entitled to a performance fee equivalent to 15% of the excess performance above the Manager Performance Benchmark (subject to a high water mark). The Manager Performance 	<p>Research IP believes the Manager is transparent from a fee perspective, noting the administration and underlying manager fees are disclosed in the PMG Generation Fund Product Disclosure Statement (PDS).</p> <p>Research IP notes the Generation 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. Therefore, there is no direct comparison available. Needless to say, most components of the fee structure are in-line with direct property AUTs.</p> <p>Research IP notes the Fund Administration Fee is in-line with other funds, such as equities and exchange listed 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. The fund setup costs will be amortised over 5 years.</p> <p>The Fund does have a performance fee component which is not typical in this type fund. Importantly the performance fee does have high water marks and is not resettable. Performance fees typically range between 10%-20%. High water marks can be market linked or as is the</p>

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Insight	Manager view	Research IP opinion
	<p>Benchmark is the average 10-year government bond yield plus 6%.</p> <ul style="list-style-type: none"> • Property Project Fee: 4% of the total capital development/project costs incurred (which exceed \$50,000). • Leasing Fee: 6% of the gross annual rental in the first term of a lease, plus where a lease term exceeds three years, an additional 1% of the gross annual rent for each subsequent 12 months or part thereof. • Fund Administration Fee: An annual fee equal to 0.15% annually of the Net Asset Value of the Fund. This provides investors with certainty over the administration cost of the Fund and reduces volatility of returns. • Unit Transfer Fee: 2% of the secondary transfer amount from one investor to another. <p>Establishment</p> <ul style="list-style-type: none"> • The total cost of establishing the Fund (including third party expenses) is capped at 8% of the initial equity raised. Any cost in excess of this will be borne directly by the Manager, to reduce initial investors' exposure to the establishment costs. 	<p>case for this Fund, linked to fixed performance hurdle. Research IP prefers market linked performance fees, but understands there are no specific market based reference for direct assets. Unlike listed companies and the use of indices as reference points.</p>
<p>Describe the quality of the organisational and investment governance processes?</p>	<p>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.</p> <p>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.</p> <p>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</p>	<p>Research IP notes that the PMG Board has a bias to the executive. 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</p> <p>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.</p> <p>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</p>

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	<p>streamline onsite regulatory and operational efficiency.</p>	<p>grows Research IP expects to see this addressed and resourced.</p> <p>Research IP highlights the PMG structure has changed markedly over the five years, which has resulted in some mergers and acquisitions. Some of this activity was 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.</p>
<p>Describe the Manager's ESG, Corporate Sustainability policies and engagement.</p>	<p>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.</p> <p>We're Invested: PMG invests time and thorough consideration to the environmental and social impacts of its business and investment decisions.</p> <p>Mutual Trust: PMG can be trusted by its stakeholders and the communities in which it operates to work tirelessly to reduce the negative impacts of its footprint and increase the positive impacts of its offerings. In return stakeholders trust PMG.</p> <p>Acting Responsibly: Behind closed doors PMG's resolve to deliver on what's right for people and the planet will not waver nor fade.</p> <p>Innovative thinking: PMG will continually seek new and improved ways to deliver positive environmental and social solutions to its operations</p> <p>Accessible and Approachable: PMG will take time to listen and be available to stakeholders and experts in their fields to discuss ways to improve its operations and decision making.</p>	<p>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.</p> <p>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.</p> <p>PMG's involvement in the community can be viewed here.</p>

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Insight	Manager view	Research IP opinion
	<p>Demonstrate Leadership: PMG's strategic ESG goal is to lead the 'non-new' property sector in reducing the environmental impacts of its properties.</p> <p>Being Genuine: No greenwashing in marketing and communications, they do what they say they will, they genuinely care about ESG.</p>	
<p>Is there alignment with the interests of investors through ownership of the Manager and/or remuneration of the investment team?</p>	<p>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 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.</p>	<p>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.</p> <p>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.</p>

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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.

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