



RESEARCH IP

Qualitative Fund Research

Pacific Property Fund Limited

5 March 2021



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%	4.17	/ 5
Investment Philosophy & Process	20%	4.20	/ 5
People	25%	4.00	/ 5
Portfolio Construction & Implementation	15%	3.50	/ 5
Risk Management	15%	4.33	/ 5
Investment Fees	10%	3.52	/ 5
Overall Average Score		3.99	/ 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 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 [Pacific Property Fund Limited \(PPF\)](#).

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](#).

PMG [announced](#) on 19 February 2021 a 50% equity partnership, through its parent company PMG Holdings Limited, with listed Australian-based investment and funds manager, 360 Capital Active REIT (360 Capital).

Meet the Manager



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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.

Pacific Property Fund Limited – 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	Pacific Property Fund Limited
Investment Objectives	The Fund targets sound, well-located, generic industrial, office and retail properties across major metropolitan cities of New Zealand. The Fund offers investors a sustainable quarterly dividend stream, combined with the potential for capital growth over time in the value of their investment.
Benchmark	N/A
Alpha Objective	The target distribution for FY22 is 7.35 cents per share
Management Fee	Property Management Fee – 1.50% of gross rental received from portfolio Fund Management Fee - 0.50% of the carrying value of portfolio. Fees are exclusive of GST, charged directly to the Fund.
Performance Fee	N/A
Estimate of Total Fund Charges	For the year to 31 March 2020, total indirect expenditure, as a percentage of average net assets of the Fund (excluding property operating expenditure, capital expenditure, equity issuance and property acquisition costs, stated before GST) was as follows: - Manager fees – 1.06% - Other third-party service providers – 0.38% - Total – 1.44% Comparable outcomes for FY2021 are expected to be available later in 2021 For the year to 31 March 2020, total indirect expenditure, as a percentage of average gross assets of the Fund (excluding property operating expenditure, capital expenditure, equity issuance and property acquisition costs, stated before GST) was as follows: - Manager fees – 0.62% - Other third-party service providers – 0.23% - Total – 0.85%
Minimum Timeframe	5+ years
Portfolio Structure	Portfolio Investment Entity (PIE)
Distributions	Quarterly, post-calendar quarter
Strategy Inception	6/26/2013

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Pacific Property Fund Limited 4

The upcoming proposed Offer is part of the ongoing open and close process for Pacific Property Fund Limited (PPF). This portfolio is a well diversified portfolio of 20¹ properties spanning across industrial, office, and retail assets. The assets are primarily located in the Auckland, Hamilton, Tauranga, Wellington and Christchurch.

Since 2016 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 continues to be to hold assets over the long term.

Proposed Acquisition Offer:

Property	Valuation	Valuer	Valuation as at Date	Purchase Price ²	Acquisition Date ³
Distribution Lane, Christchurch	\$7,500,000	Jll	28 November 2020	\$7,500,000	30 April 2021
Gloucester Street, Christchurch	\$26,900,000	JLL	7 December 2020	\$26,900,000	30 April 2021
Victoria Street, Christchurch	\$59,200,000	JLL	14 January 2021	\$59,200,000	30 April 2021
Silverstream, Wellington	\$14,525,000	Bayleys	26 November 2020	\$14,500,000	30 June 2021
Arthur Porter Drive, Hamilton	\$6,500,000	AIM Valuation	9 November 2020	\$7,200,000 ⁴	30 June 2021
Langley Road, Auckland	\$12,000,000	Bayleys	12 February 2021	\$10,346,154	12 March 2021 ⁵
Total	\$126,625,000				

Existing Portfolio:

Property	Valuation	Valuer	Valuation as at Date	Purchase Price ⁶	Acquisition Date
Braeburn Drive, Christchurch	\$7,150,000	Telfer Young	4 December 2020	\$6,666,666	June 2019
El Prado Drive, Palmerston North	\$39,750,000	Bayleys Valuations Limited	15 January 2021	\$35,478,636	13 December 2018
Vickery Street, Hamilton	\$20,000,000	Telfer Young	15 January 2021	\$16,550,000	13 December 2018
Dominion Road, Auckland	\$19,900,000	AIM Valuation	15 January 2021	\$14,500,000	31 August 2016
Tui Property, Mount Maunganui	\$16,750,000	Telfer Young	15 January 2021	\$12,275,000	28 February 2014
Robert Street, Whangarei	\$14,200,000	AIM Valuation	15 January 2021	\$10,618,000	7 December 2016
Spring Street, Tauranga	\$12,250,000	Telfer Young	15 January 2021	\$10,300,000	7 December 2016
Paerangi Place, Tauranga	\$10,700,000	Telfer Young	15 January 2021	\$8,700,000	31 January 2018

¹ Assumes successful acquisition of six properties, but two acquisition properties are not subject to the successful completion of the proposed offer.

² 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.

³ Acquisition Date is the date the Proposed Acquisition Properties are intended to be acquired on.

⁴ Disclaimer: at the time of this report an updated valuation was being sought verbally where the value is expected to be no less than \$7.2M.

⁵ At the time of this report Acquisition Date was to be confirmed either on the day the lodgement of the new PPF PDS occurs or the day prior.

⁶ 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.

Alderman Drive, Auckland	\$11,850,000	AIM Valuation	15 January 2021	\$7,400,000	31 August 2016
Druces Road, Auckland	\$10,450,000	AIM Valuation	15 January 2021	\$4,500,000	22 December 2015
Sandwich Road, Hamilton	\$4,200,000	Telfer Young	10 December 2020	\$4,250,000	22 December 2015
Hutt Park Road, Wellington	\$24,400,000	Bayleys Valuations Limited	15 January 2021	Acquired with Seaview Road, as below	30 September 2019
Seaview Road, Wellington	\$40,400,000	Bayleys Valuations Limited	15 January 2021	\$56,170,000	30 September 2019
Link Drive & Hannover Place, Rolleston	\$32,350,000	JLL	15 January 2021	\$30,000,000	30 April 2020
Total	\$264,350,000			\$171,815,202	

Properties Sold since 2018

Property	Purchase Valuation	Valuer	Valuation as at Date	Sales Price ⁷	Sale Date
Stag Park, Taupo	\$4,000,000	Confidential	October 2019	\$3,900,000	20.01.2020
Kelston Mall, Auckland	\$36,076,900	Jones Lang LaSalle	31 March 2019	\$43,400,000	30.03.2020
Total	\$40,076,900			\$47,300,000	

⁷ Property purchase prices stated are as per signed sale and purchase agreements, and specifically exclude any costs associated with disposal.

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 property	90%	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 2.4 *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	What the Manager Says
Fund	Gross assets as of 30 September 2020 to c.\$248.0m
Strategy	Net assets \$151.2m, gross assets \$248.0m
Sector	Net assets c. \$250m, gross assets c. \$550m
Manager (Australasia)	Net assets c. \$250m, gross assets c. \$550m
Manager (Total Global)	Across PMG's total portfolio (a total of five commercial property funds) net assets c.\$250m and gross assets c. \$550m
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. Recent material asset purchases and capital raising activity has included the purchase of the 3 high quality industrial buildings, the acquisition of the Vodafone building on Tuam Street in Christchurch, and 3 Childcare Centres.

*at 31 March 2020 per financial statements unless otherwise stated

The Risks

The risks an investor is exposed to in this Fund appear to be similar to those in other managed funds. The PPF Fund may be co invested in by the PMG Generation Fund, which is likely to be a relatively small component of the PPF shares on offer. 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.

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Research IP highlights the Fund currently invests in properties ranging from \$4 million - \$60 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 in the industrial sector but less so in the office and retail sectors), which may see the Fund's ability to acquire new properties reduce due to premium prices. Evidence to date suggests PMG have demonstrated the ability to acquire quality real estate through various market conditions.

Currently there is geographic diversity across the North Island, with several assets on the South Island. The pipeline for properties remains strong, and the geographic diversity of the Fund will likely continue to grow over time. The Manager has significantly spread its wings with future opportunities focusing on Wellington and Christchurch, rather than the greater Auckland region although several of the impending acquisitions are in key North Island locations. 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 four main banks and one Australian super fund, 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 management. This type of Fund and its assets are not readily replicable by an individual investor given they are unlisted.

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 within the unlisted property asset class.

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
<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 Board of Directors of the Fund are ultimately responsible for the Fund. In practice, PMG is the outsourced party administering and managing the Fund, accountable to the Board of Directors of the Fund under Management Agreements (as the Fund consists of two companies in a group).</p> <p>The Fund is owned by an extensive shareholding list. The Board of Directors of the Fund comprises Denis McMahon (non-executive director), Craig Garrett (non-executive director), Philip Tushingham (non-executive director) and Scott McKenzie (executive director by virtue of his role as CEO of PMG).</p> <p>PMG is owned by PMG Holdings Limited (Holdings). The Board of Directors of PMG comprises Denis McMahon (Non-Executive Director, Chair, and shareholder of Holdings), Wayne Beilby (independent 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 the Management Agreements. Key personnel include:</p> <p>Denis McMahon is the founding director and Chair of PMG. Denis has a governance only role for PMG, with over 35 years of property and fund management experience.</p> <p>Wayne Beilby has been appointed to the Board of PMG in an independent capacity, with extensive management and governance experience in the financial services industry within the Asia-Pacific region.</p> <p>Scott McKenzie, CEO and Director of PMG. Scott has over 20 years of commercial, finance and leadership experience within the financial services sector in New Zealand and the UK. He oversees PMG's operations and implementation of PMG's and the Fund's strategy.</p> <p>Daniel Lem, Director and Head of Investment is responsible for sourcing new investment opportunities for PMG and the Fund, including repositioning/re-development of assets. He is</p>	<p>Unlike traditional managed funds, the PPF 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 Jamie Reid who is considered to be 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.</p> <p>Research IP views the structure and composition of PMG's investment committee favourably, to discuss the portfolio of properties. The separation of the Investment Committee from the Board was reinstated in 2020. 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. However, this is somewhat mitigated with the Investment Committee on call at short notice informally in between meetings.</p> <p>The PPF Fund continues the evolving journey for the Manager. Research IP believes the Manager has a strong core skill set and has added resources over the last 12 months and is considered adequately resourced for the number of current properties. As the number of properties increases the Manager will likely need some additional resources, most likely in the Wellington or Christchurch area, as the portfolio is growing in these areas.</p> <p>Research IP highlighted in 2018 an opportunity for the Manager to add to this team and develop succession planning for the Manager. Since then the team has grown significantly, particularly in the Management team, with double the number of people</p>

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	<p>a real estate professional with over 22 years' experience in NZ, the UK, and Eastern Europe.</p> <p>Nigel Lowe, CFO, is responsible for the financial reporting, compliance, and capital and cashflow management for PPF and PMG. He is a Chartered Accountant with over 17 years' experience.</p> <p>Matt McHardy, Head of Investor Relationships, is responsible for developing strong relationships with PMG investors nationwide, managing capital raises and the necessary associated compliance requirements.</p>	<p>now working across acquisitions, asset management and facilities management.</p> <p>PMG announced on 19 February 2021 a 50% equity partnership, through its parent company PMG Holdings Limited, with listed Australian-based investment and funds manager, 360 Capital Active REIT (360 Capital). An additional independent director and three members of the 360 Capital team will join the PMG Board. While this adds to PMG's property funds management experience and grows governance capability, Research IP will be monitoring this closely.</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 shares in the Fund from time to time, but otherwise does not maintain a minimum shareholding 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 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>Why would you allocate to this fund?</p>	<p>Pacific Property Fund Limited is a sector agnostic, direct property fund developing a resilient, diversified portfolio of quality industrial, office, and retail properties across New Zealand with robustness of scale that can deliver sustainable cash distribution returns and growth in value over time.</p> <p>The Fund is an actively managed property fund, which requires in-house expertise to deliver on the value-add strategies for each property and ensure income from those properties remains stable.</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</p>

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	<p>Commercial property is well known as one of the best places to store wealth long term, especially during times of economic uncertainty. 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.</p> <p>The Fund is focused on property, tenant, and region diversification, broadly investing in New Zealand commercial property. This means investors in this Fund are going to be exposed to different types of property, a variety of tenants, sectors, and regions. Whilst the Fund may not be at quite the same scale as some indexed funds, it does have a lower concentration of risk associated with the ownership of real estate compared to other funds or direct investments focused on few or singular assets, singular asset classes, and few or individual specialised sectors.</p>	<p>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> <p>Furthermore, another challenge for the Manager that will become more apparent in the current economic climate will be the ability to retain the weighted average lease term across the fund due to the risk that corporates become more reluctant to sign longer leases when they are up for renewal. 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. The Fund will have exposure to 20 physical properties. This assumes the successful acquisition of six properties, two of which are not subject to the successful completion of the proposed offer</p> <p>The Fund is well-diversified in terms of the sources of rental income; diversification is achieved by tenant (both in number and underlying business), sector, and geographic location. However, there is significantly more rental income sourced from the industrial sector.</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 Committee consider all Buy/Sell decisions, before recommending decisions to the Board of Directors of the Fund.</p> <p>The Committee includes the Executive Team (CEO, CFO and Head Investment) plus the Head of Transactions and Head of Investor Relationships.</p>	<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</p>

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	<p>They regularly review aspects of product management by PMG, including the performance of the Fund’s portfolio, and make recommendations to the Board of Directors of PMG in relation to investment and divestment decisions.</p> <p>Buy/Sell decisions are made considering 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)? • Comprehensive property due diligence, including consideration of whether any major capital expenditure required related to the specific investment? • 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 the forecasted net income and associated risk of the specific investment? • What is the forecast compliance with banking covenants and how does the specific investment impact this? 	<p>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 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 re-established the separation between the Investment Committee and the Board in 2020, with a requirement for all transactions to be approved by the Investment Committee, prior to being approved by the PMG Board. From a risk management point of view, this is a definite positive. The Investment Committee aims to meet formally every 6 weeks but are also on call at short notice.</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 PPF Fund. To date, PMG has facilitated a significant number of secondary market sales at or above original prices and can demonstrate an ability to do so normally within 4 weeks. Historically other fund managers have provided liquidity events based on direct physical asset funds. This had led to issues, particularly when buyers of shares 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>What are the key drivers of the Fund’s performance and risk measures?</p>	<p>Key drivers of performance:</p> <ul style="list-style-type: none"> • 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 Portfolio. • Capital Value of Property Portfolio – The value of shares will be influenced by the 	<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>This remains an ongoing process to ensure the properties remain a strong fit for the</p>

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	<p>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> <ul style="list-style-type: none"> • Future acquisitions • Level of management fees • Movement in interest rates • Capital expenditure and unrecoverable maintenance costs <p>Key risk measures:</p> <ul style="list-style-type: none"> • 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 ability to declare dividends to investors, the value of shares, and 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 investors. The Fund’s hedging policy is to fix interest (via swap arrangements) on a minimum of 60% of borrowings (within which 50% of total borrowings must have a maturity of greater than 18 months, which minimises the impact of short-term interest rate movements). • Capital Expenditure Risk - the Fund may be required to outlay capital expenditure on any properties in its portfolio for any number of reasons, including unforeseen events. The Fund may not be able to recover all, or any, of this expenditure from tenants, which may have an adverse effect on the Fund’s performance. • Valuation Risk – Property market conditions, the economic environment, and fluctuations in supply and demand for commercial properties in the sectors invested in by Pacific Property Fund Limited will affect the value of the portfolio. The value of the portfolio directly impacts the value of shares held in the Company and the gearing of the Company, among other metrics. 	<p>portfolio, and refurbishment of lower grade properties continues to be managed appropriately.</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 maintains a focus on its core skill set in this Fund, 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 this Fund as well as the Direct Office Fund 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 (divested in 2020) 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>The new properties acquired for this Fund are higher grade assets on balance. These assets should attract larger, more established businesses; thus a more defensive source of income would be expected for this part of the portfolio. The tenants will have sources of income predominantly spread across Australasian markets, as well as global markets.</p> <p>PMG works hard to ensure the weighted average lease term (WALT) sits around the mid to long term, being 3-7 years. The tenant profile is well-diversified and will increase from 50 to 62 with the new property acquisitions. The WALT is expected to sit at 5.5 years. Research IP is confident the Manager has the required skills to ensure tenant diversity and quality is retained or</p>
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	<p>The Fund is more likely to underperform relative to its property fund peers if specific issues directly associated with the Fund's properties unexpectedly arise (e.g. physical - such as structural or seismic issues, or tenant - such as a material tenant vacating without replacement) or where interest rates vary materially, and the Fund's hedging position is significantly at odds with standard market participants.</p>	<p>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. The Manager is continuously monitoring the market and relative attractiveness of the underlying property assets.</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 over 100 years the Fund and PMG's directors and employees have in the Fund Management, Financial Services, and Property/Real Estate sectors. 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 either improving returns to investors or reducing risk. (All fees stated as exclusive of GST):</p> <p>Ongoing:</p> <ul style="list-style-type: none"> • Acquisition Fee and Disposal Fees: 1% of sale or purchase price of property • Fund Management Fee: 0.50% p.a of the carrying value of the Fund's Property Portfolio. • Property Management Fee: 1.50% of gross annual rental collected from the Fund's Property Portfolio. • Property Project Fee: 5% of the total capital development/project costs incurred (where maintenance related and exceeding \$100,000 in value, or involving construction or refurbishment of a property). • Share Transfer Fee: 1.5% + GST of the secondary transfer amount from one investor to another, if using the Manager's sales facilitation service, charged directly to the investors and not the Fund. 	<p>Research IP believes the Manager is transparent from a fee perspective, noting the administration and underlying manager fees are disclosed in the PMG PPF 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.</p> <p>The absence of a performance fee for this product is a positive and a point of differentiation when comparing it with competitors' products.</p> <p>Research IP notes the PPF 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's Fees 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.</p> <p>Research IP notes the Property Project Fee is higher than the Manager's Generation Fund (5% versus 4%), however the hurdle at which this becomes relevant is twice as high (\$100,000+ versus \$50,000+).</p> <p>Although there is no Buy/Sell spread charged, there is a fee of 1.5% plus GST</p>

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		<p>charged on redemption of shares which is paid by the selling investor to the Manager. This is normal for this type of asset and fund structure.</p>
<p>Describe the quality of the organisational and investment governance processes?</p>	<p>The Fund and PMG’s governance and compliance levels is of a high standard, appropriate for the size of the Fund and structured to ensure the Fund and PMG always operate in the best interests of the Fund’s investors.</p> <p>The Fund maintains the overarching governance role and is the gatekeeper overseeing the Fund’s governance and compliance obligations. The Fund has a Board of Directors subject to its own constitution and charter, which includes two directors that are independent of PMG, one further non-executive director, and finally the CEO of PMG. Together, they bring the right balance to the board table, alongside a real depth and breadth of experience in matters of relevance to the Fund.</p> <p>PMG’s own governance structure covers the management of assets, acquisitions, the investment process, compliance, staff code of conduct and ethics amongst other areas. Given PMG is a licensed Managed Investment Scheme manager, regulatory compliance is a key focus for PMG. A compliance assurance programme covering all aspects of the business is in place, and where applicable steps are taken in relation to the Fund that meet the threshold for a retail managed investment scheme (despite the Fund not being required to comply with some of those steps as it is not a retail managed investment scheme) 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 PMG Board but subject to initial recommendation by the Investment Committee which was reinstated in 2020.</p> <p>PMG has invested in an in-house risk and compliance team, with a robust process to ensure it meets regulatory compliance requirements. PMG uses technology to streamline onsite regulatory and operational efficiency where relevant.</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. This should be used to add some diversity of views in the overall investment decision making process.</p> <p>The Manager reinstated the Investment Committee in September 2020 which will have a positive effect on governance. Separation of compliance functions from the investment decisions will enable more focussed discussion and effective decision-making. 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.</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 into PMG on a full-time basis. This is also reflected in PMG seeking to engage with financial advisers and grow the property funds business. These distribution channels will be a specific focus for the reinstated Investment Committee. Portfolio management is newer for PMG, accordingly, Research IP believe the addition of a portfolio 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</p>	<p>PMG understands that its operations impact the environment and social fabric of society.</p>	<p>Research IP has seen refurbishments completed in buildings owned by PMG. Not</p>

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<p>Sustainability policies and engagement.</p>	<p>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:</p> <ul style="list-style-type: none"> • 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/exceed 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. • supporting supplier cashflow where possible and not detrimental to investors, such as early payment during the COVID-19 level 4 lockdown and supporting tenants where required with tailored rent relief packages. 	<p>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> <p>To put the Manager's ESG approach into perspective when looking at the broader investment industry, their approach is categorically more hands-on with the impact of their policies having a direct benefit to stakeholders where they are applied. This type of asset class allows the Manager to have more of an impact. Ideally the actions that result from the Manager's policies and ESG approach could be measured and documented.</p>
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<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 large number of staff are investors in PMG's funds (on the same terms as other investors). PMG's management fees are structured so they are linked to the income and asset value performance of each of its funds (in addition to investor return and unit value increases above benchmark for funds with performance fees). PMG is therefore incentivised to ensure all properties under management are fully occupied, rental income, property and unit value are grown in line with or above market, over time.</p> <p>All members of PMG's executive and senior leadership 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 strongly aligned 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 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.

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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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