



Qualitative Fund Research

Pacific Property Fund Ltd managed by PMG

July 2018

About the Manager

Property Managers Group (PMG, the Group) own PMG Holdings Limited (incorporated in December 2016) which in turn has 100% ownership of Property Managers Limited (PML, the Manager), incorporated in 1992. PMG Holdings Limited is owned by staff or their related entities.

The Manager has a series of funds that can differ in terms of types and composition of the properties they invest in. Fundamentally the Group 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 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. The Group looks to establish each investment fund with multiple quality properties to produce diversity of buildings and

Using this Fund

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

The Pacific Property Fund Limited (the Fund or PPF) is a diversified direct property fund that invests in to physical properties. By investing in physical assets investors are exposed to the risks of direct physical assets, being reduced liquidity, leverage, and variations 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 component.

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 industrial, office and commercial properties. The investment objective of the Fund is to provide investors with strong and

tenants, to create a robust investment vehicle offering greater economies of scale, reliable cashflows, and improved liquidity.

FundSource 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 both supporting and having the team members participate in local charities.

PMG has a series of [current investment portfolios](#), with this report focusing on the [Pacific Property Fund Limited](#).

PMG has become increasingly active in the New Zealand market. Unlike the traditional portfolio manager and analyst roles, PMG's team consists of transaction, leasing and licensee, development, and property management. Individual bios for the PMG team can be found [here](#).

sustainable returns, whilst offering more diversification and liquidity.

This Fund is expected to have low correlation to listed investments and potentially complement and smooth the performance 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.

The Fund is a Portfolio Investment Entity (PIE) with distributions made on a quarterly basis with respect to the Shares, at the discretion of the Board. New investments and redemption requests are processed twice monthly.

FundSource notes that due to the Fund being a direct property fund it does not appear in the FE Analytics database. Accordingly, FundSource has provided some fund analytics on page 11 of this report.

Question	What the Manager says	What FundSource think
<p>What are the Manager's assets under management - in total and in this Fund?</p>	<p>Property Managers Limited (PML) was founded in 1994 and is a member of the Property Managers Group (PMG). As at May 2018 PML has approximately \$250 million of real estate assets under management.</p> <p>PML offers both Retail and Wholesale investment offerings to investors. Retail offerings include PPF and PMG Direct Office Fund. Wholesale offerings include PMG Direct Childcare Fund and PMG Capital Fund Limited – a private equity property fund. PML also manages a number of individual property syndicates. Pacific Property Fund Limited (PPF) was established in 2013. PPF is a property investment company which owns a diversified portfolio (valued at \$127 million) of office, industrial, and retail properties across the upper North Island. PPF was registered as a Portfolio Investment Entity (PIE) in April 2016.</p> <p>As at 30 June 2018: Pacific Property Fund: \$127M PMG Direct Office Fund: \$ 55M</p>	<p>PMG offers both retail and wholesale property investments typically in the form of unlisted commercial property funds.</p> <p>More recently Pacific Property (PPF) has acquired the Kelston Shopping Centre to bring property sector, geographic, tenant, and refurbishment opportunities to the PPF.</p> <p>PMG has spent the last two years restructuring its operations. This has prepared PMG to set itself for growth, and diversify its client base to include retail investors, as well as high net worth investors.</p> <p>This Fund and the Direct Office Fund are the only products available to retail investors. PMG offer the PMG Capital Fund and PMG Direct Childcare Fund to wholesale investors only.</p>
<p>Who is accountable for managing the Fund, and how long has the investment team worked together?</p>	<p>PPF is structured as an equity security investment, with investors issued shares in PPF. The board of PPF comprises Denis McMahon, shareholder and director; Craig Garrett, shareholder and non-executive director; Philip Tushingham, non-executive director; Scott McKenzie, CEO and director of PML. PML manages PPF and its property portfolio pursuant to a management agreement. PML 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, but that license does not strictly apply to PPF as it is an equity investment.</p> <p>PPF is managed by PML. Key personnel include the following:</p> <p>Scott McKenzie, CEO and Director of PML has 17 years of commercial, finance and leadership experience within the banking sector in New Zealand and the UK. He oversees the company's operations and is responsible for implementing PML's and PPF's strategy. Scott joined PML in 2012.</p> <p>Daniel Lem, Director and Head of Investment is responsible for sourcing new investment opportunities for PML's portfolios including PPF, and the re-positioning/re-development of assets. He is a real estate professional with 20 years' experience in NZ, the UK and Eastern Europe. Daniel joined PML in 2015.</p> <p>Nigel Lowe, Chief Financial Officer, is responsible for the financial reporting, compliance and capital and cashflow management for PPF and PML. He is a Chartered Accountant with over 15 years' experience. Nigel joined PML in 2016.</p>	<p>Unlike traditional managed funds, the PPF is not managed under a typical portfolio manager and analyst structure. The Manager's focus is investing in large lumpy assets, rather than a target security price where the noise and information is significantly higher.</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. The property management team is led by Steve Williams and Brian Berry, from a day to day perspective. Both Williams and Berry are considered to be key people, outside the executive team.</p> <p>FundSource view structure and composition of the PML investment committee favourably. FundSource notes the PMG investment committee meets on a quarterly basis or when required. Given the long lead time to identify assets for consideration, either purchase or sell assets, quarterly meetings are considered to be appropriate. As the number of assets held across the group, and as this Fund grows, the Manager may need to consider the frequency of the investment committee meetings.</p> <p>FundSource 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. FundSource believes the Manager has a strong core skill set and is</p>

	<p>Matt McHardy, Head of Sales and Investment, is responsible for developing strong relationships with investors nationwide, managing capital raises and the necessary associated compliance requirements. Matt joined PML in 2015.</p> <p>Denis McMahon, is founding director of PML. Nowadays, Denis acts in a governance capacity for PML. Denis has over 35 years of property and fund management experience. Full profiles are available on PML's website: http://www.propertymgr.co.nz/</p> <p>All key personnel have a combined fund and property management experience of 80+ years. The team established PPF in 2013 and have worked effectively together since then. On establishment, the fund was valued at \$12 million. The fund is today valued at \$127 million as a result of acquisitions and capital growth.</p>	<p>appropriately resourced for the number of current properties.</p>
<p>What objective is the Manager trying to achieve?</p>	<p>PML's aim is to deliver long term sustainability and value for investors through proactive management and innovative portfolio diversification. PPF aims to declare gross dividends 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.</p> <p>Specifically, for PPF, PML aims to grow the portfolio to total assets of \$250 million over the next three to four years.</p> <p>PPF was formed in response to market demands for a simple and robust commercial property investment vehicle with a clear strategy of investing in industrial, retail, and commercial properties across a diversified geography of the Upper North Island. This strategy strives to provide strong and sustainable returns to investors and greater liquidity.</p> <p>PML achieves this by buying well-located income-producing properties, leased to strong tenants.</p>	<p>The Fund's objective is to build a geographically diversified portfolio of industrial and office and large format retail properties. The Fund's income is derived from the leasing of each underlying property, which in turn influences the valuation of each property.</p> <p>Property location, quality, tenant profile, lease quality and weighted average lease term (WALT) will impact the property valuation and capital expenditure requirements. FundSource notes the Manager actively looks for property assets that can benefit from tenant, floor plan, refurbishment, or purpose restructuring. PMG focus on improving assets, from low grade assets in to higher quality buildings. The portfolio comprises 10 properties at present, with 77 tenants.</p> <p>Diversification is central to the Fund's investment strategy. This is being achieved on several levels, including property type, office, retail, or industrial. Leasing profile, including location and tenant profiles. As this Fund grows investors can expect the types of assets, location of assets, and tenants to change over time. This is updated to investors via a regular quarterly report, available directly from the Manager.</p>
<p>What does the Manager invest your money into?</p>	<p>PPF is a diversified portfolio which currently invests in well-located industrial, retail, and office properties of a generic nature, valued between \$10-\$50m and where it is believed PML's proactive management will create additional value. It has ten properties located across Auckland (57%), Hamilton (4%), Tauranga (23%) and Taupo (16%). These ten properties are leased to strong tenants, a total of 75, with a 98% occupancy rate and a WALT of 7.80 years (as at 31 March 2018).</p>	<p>The Fund's portfolio of properties is currently biased to the retail sector, while office and industrial represent ~30% each. The Manager intends to balance the sector allocation over time. FundSource notes this can be difficult to achieve, given the location, type, size, and potential variation in asset valuations. One characteristic FundSource does not expect to change is the Managers approach to property, acquiring properties that present opportunities for improvement, rather than growing a book of high "A Grade" lower rental growth, income streams.</p>

	<p>PMG provides a matching service for buyers and sellers of units in PPF. PMG has a good track record of providing this service within a reasonable timeframe.</p>	<p>The Manager has a buy and hold investment strategy, however an investor should expect some turnover in assets, where the opportunity arises. FundSource believes the Manager actively seeks and acts on opportunities. This can include acquiring assets from other PMG managed structures managed, provided the asset meets the Funds objectives.</p> <p>At present all assets are owned by the PPF, rather than co-investing in to other funds, or investment structures. Investors should consider the Fund to be illiquid. The Manager is reviewing the ability to provide regular liquidity for the Fund, but at present the Fund is not obligated to meet redemption requests.</p>
<p>What are the inherent risks imbedded in the Fund?</p>	<p>Rental risk – the risk that a tenant may become insolvent and unable to pay rent. Where a tenant cannot meet its contractual obligations, it could impact on PPF's distribution. However, PML's diversified and multi-property portfolio strategy mitigates this risk.</p> <p>Capital expenditure risk - PPF may be required to outlay unbudgeted capital expenditure on any properties in its portfolio for a number of reasons. PPF may not be able to recover all, of this expenditure from tenants, which may have an adverse effect on PPF's performance.</p> <p>Funding risk - Adverse market movements may cause property values to drop and therefore PPF's maximum loan to value ratio, set by lenders, may be exceeded. Interest rates may rise, therefore reducing operating profits.</p> <p>Property market risk - Property market conditions and fluctuations in supply and demand for properties can affect the value of the portfolio, as well as the costs and other underlying property fundamentals. PPF is reliant on its property investments to provide it with a return and a deterioration in the New Zealand property market could result in PPF not being able to deliver forecasted shareholder returns.</p> <p>Liquidity risk – Shares in PPF are not listed and, as such, there is no established market for shares. However, PML facilitates a secondary market service whereby it actively works with any investors who may wish to exit their investments and helps them sell to other investors.</p>	<p>The risk an investor exposes themselves to in this Fund appear to be similar to those in other PIE managed funds. However, there are some important differences, including the significantly reduced liquidity. Investors should also ensure they familiarise themselves with the key risks highlighted by the Manager.</p> <p>FundSource highlights the PPF currently invests in properties ranging from >\$10 million - <\$50 million. These are smaller properties and can be within the reach of private investors. Competition for properties can be high, which may see the Fund purchase a property at a premium. There is potential for the Fund to invest in alongside PMG vehicles, as well as purchase assets for the Fund. While this can provide diversification across the assets of the Fund, there is potential to introduce liquidity risk. FundSource notes the Manager would prefer to acquire properties in full, rather than invest in other PMG investment vehicles, such as syndicated trusts.</p> <p>Geographic and concentration risk includes the assets location. Currently there is a bias to the North Island, with a particular focus on Auckland, Hamilton, and Tauranga region. This does not prevent the Fund from owning properties outside this region. The Manager recognises its core skillset rests within this regional area, accordingly FundSource believes this will account for a majority of the Fund's assets, with Auckland likely to dominate over time.</p> <p>All underlying properties have some gearing. This means there is some interest rate risk, and financing risk involved. At present PMG have lending facilities with top tier banks, which helps to mitigate some of this risk. Historically banks have made decisions to exit parts of the property market, notably in times of stress, which can exacerbate portfolio risks. The timing of refinancing can impact the Manager and the Fund, as was the case for several Australian direct property fund managers in the global financial crisis (GFC).</p>

		<p>The Manager is aware of the broad range of risks and is mindful of them when constructing and managing the portfolio. Selecting and blending the properties takes a great deal of skill, knowledge, understanding and insight, which is developed over many years. FundSource is impressed by the PMG investment philosophy, and believes the team has appropriate experience and insight to improve a property, leading to higher rental income, and better capital expenditure management. This type of Fund is not readily replicable by an individual investor.</p>
<p>Why does the Manager believe the future prices of the Fund's investments will vary?</p>	<p>Successful direct investment in commercial property is largely driven by the Manager's skill at identifying properties and effectively managing those properties. In this respect, PML works hard to firstly sustain and then increase returns for its investors. Undertaking proactive property management practices and strategically refurbishing and re-leasing properties where appropriate, are key ways in which PML works to increase the value of properties owned by PPF.</p> <p>Successful direct investment in commercial property is largely driven by the Manager's skill at identifying properties and effectively managing those properties. In this respect, PML works hard to firstly sustain and then increase returns for its investors. Undertaking proactive property management practices and strategically refurbishing and re-leasing properties where appropriate, are key ways in which PML works to increase the value of properties owned by PPF.</p> <p>PML believes the future prices of PPF's investment will vary, due to changes, over time, in the underlying assets of the portfolio. These changes include growth in rental income from existing and/or new tenants and growth in the capital value of the underlying assets due to increased rental income and capitalisation rate compression through fluctuations in the property market.</p>	<p>The Manager's due diligence process sees each individual property modelled, the current tenant and lease profiles are evaluated so the Manager can accurately determine the capital expenditure. As the Manager focuses on acquiring lower grade assets and refurbishing them, there is some potential for increased capital expenditure and usage risk. This is evident in the Kelston shopping centre, where the Manager is seeking to rezone a part of the shopping centre and use this area as a purpose built child care centre.</p> <p>FundSource believes the Kelston shopping centre is a good example of how the Manager looks at its properties, and the best use for that property. FundSource notes for the Kelston shopping centre, this adds to the development and refurbishment risks, but shows the Manager's innovative thinking around the Fund's properties.</p> <p>PMG works hard ensure the WALE, (currently >7.5 years), occupancy rate and tenant quality remain high. FundSource believes the current tenant mix is strong and some changes in the properties use will provide opportunities for the PPF to grow the overall portfolio valuations.</p> <p>FundSource note that valuations are an important part of operating the Fund, underpinning investor expectations. Valuation only become real on the completion of a transition to sell or buy an asset. Understanding the property market conditions (the macro backdrop for property) impact investor returns and potential for capital gains, as much as the income stream from rent.</p>
<p>Why does the Manager believe you should give them your money rather than to someone else or to an inexpensive index fund?</p>	<p>PML has over 25 years' experience in property investment management. PML's team of experienced professionals care deeply about what they do and about increasing the wealth of their clients. A culture-driven business, PML lives and operates by its values of Trusted; Integrity; Proactive; Honest and Available. This coupled with PML's long history of delivering solid returns to investors makes it a highly-trusted fund and property manager.</p>	<p>FundSource view the direct property market as a specialist area, where the Manager's ability to manage the assets becomes critical to investor outcomes. FundSource believe the PMG team have appropriate skills and for the number of properties at present, on-ground resources to deliver strong investor outcomes, in line with their stated objectives. As the number of properties increases FundSource believes there is an opportunity to add to this team and look to develop some succession planning for the Manager.</p>

	<p>PML takes its responsibility seriously and aims to deliver stable quarterly income for PPF investors, combined with the potential for capital growth. Since PPF was established, PML has delivered to investors dividends on or over forecasted returns.</p> <p>Many of PML's investors have been with us from day one (for 25 years) and so are now a number of their children and grandchildren. PML is a trusted investment partner for all of our investors and in many cases PML directors invest alongside its clients (have 'skin in the game') ensuring we have our client's best interests at heart.</p> <p>Being an unlisted property fund, PPF, unlike indexed funds, is not subject to share market fluctuations that are not directly associated with the quality, value and return from the properties within the portfolio.</p>	<p>Since the Funds inception in April 2014 there has been material change to the asset allocation from a regional and sector perspective. FundSource highlights this is reflective of the Fund developing over time, rather than opportunistic buying and selling of assets. In saying that, the Manager's expertise lies in acquiring lower quality assets, refurbishing and/ or repurposing the assets to improve the asset quality, which underpins rental income and property valuations. Some performance analytics have been provided on page 11 of this report.</p> <p>FundSource believes the Manager will have significant opportunities to source new properties. 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 and/ or repurposing of the property. This must be achieved without detrimentally affecting the rental income, until completion. The Manager has been able to achieve this today</p> <p>FundSource highlights the PPF structure is not new. During the 2008 global financial crisis (GFC) several Australian direct property fund structures materially changed their underlying asset quality, tenancy profile and WALT. Having commenced in the mid 2000's with A and B grade buildings, with strong tenants and long WALTs. This resulted in the failure of these Funds. PMG has successfully navigated several market cycles, since commencing operations in 1994. FundSource highlights PMG is changing its distribution model and is actively engaging with the intermediary market.</p> <p>FundSource believes the PPF offers potential investors a fund that mixes relatively conservatively long WALT's, with some refurbishment, improvement and potential repurposing opportunities, and corresponding risks. The last three have opportunities are intended to improve leasing profiles for each property, and the valuation as well.</p>
<p>How does the Manager decide to buy or sell investments?</p>	<p>The investment committee of Denis McMahon, Scott McKenzie, Daniel Lem, Nigel Lowe, Steve Williams and Matt McHardy (which includes all the directors of PML) regularly review the performance of every portfolio and make recommendations to the board, including investment/divestment decisions.</p> <p>Each month, at the PPF board meeting, all recommendations from the investment committee are considered. Acquisition and divestment decisions are made taking into account the following factors:</p> <ul style="list-style-type: none"> • Is any major capital expenditure on the property required? 	<p>The Manager typically takes a long-term, greater than 10-year view on the properties it acquires. FundSource 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>

	<ul style="list-style-type: none"> • What is the lease (s) expiry date and is the lease (s) likely to be renewed? • What is the weighted average lease term (WALT) of the overall portfolio? • What is the Internal Rate of Return? • What are the current and forecasted property market conditions and valuations? Risks? • What is the forecasted net income? Risks? • What is the forecast compliance with banking covenants? <p>If the decision to sell or acquire a property is made, a report to board is prepared for its consideration. If approved, PML endeavours to sell or acquire the property.</p>	<p>While the due diligence process underpins acquisitions, the Manager actively seeks opportunities, and has been able to structure transactions around multiple properties to coincide around similar timeframes. FundSource believes this is a function of PMG's approach to capital management and enabling the Fund to acquire higher cost assets for the Fund. This is also reflected in the Managers responsible approach to managing debt facilities from an asset and fund perspective.</p> <p>The requirement for all transactions to be approved by the investment committee, prior to being escalated to the PMG Board viewed positively. The size of each transaction varies, the Fund has investments in underlying commercial properties which range in value from \$4.7 million to \$36.5 million to date. This is reasonably small and increases the pool of potential buyers as properties of this size sit within the reach of high net worth investors. FundSource doesn't believe the investment committee or board process delays or hampers the Manager's ability to operate the Fund in an efficient manner and is 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 involves large discounts. While the Manager will onboard investors who may have a need to sell along with investors who are looking to buy in to the fund, the Manager does not have a formal redemption process for this Fund.</p>
<p>Has the CIO/ Portfolio Manager personally invested in the Fund? If so, paying the same fees as other investors?</p>	<p>Three of the directors of PML, and/or their associated entities, own shares in PPF and also own shares in PML. The directors and associated entities all pay the same fees as all other investors within the Fund.</p>	<p>FundSource 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. FundSource believes this improves investor alignment, and all investors share the same experiences and outcomes.</p> <p>FundSource notes that due to the illiquid nature of a direct property fund, it is unreasonable to expect PMG employees to have significant wealth invested. 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>How much latitude does the Manager have to deviate from the weightings of the Benchmark portfolio?</p>	<p>The investments PPF is authorised to purchase and hold include:</p> <ul style="list-style-type: none"> • Asset Classes: Commercial property • Sectors: Industrial, Retail and Office • Geographical Location: Upper North Island of New Zealand. 	<p>Since 2016 the Fund has 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. This</p>

	<p>Target Asset Allocation is as follows:</p> <ul style="list-style-type: none"> • Commercial Property and interests in unlisted schemes :80%- 100% • Interest Rate Swap Agreements: 0% - 10% • Cash: 0%-20% 	<p>can be seen in the tables on page 11 of this report.</p> <p>Auckland and retail property now dominate the asset allocation of the Fund. FundSource highlights the Kelston shopping centre acquisition has skewed the allocation to retail property. FundSource believes this will likely change as the next acquisition is unlikely to be a retail property. The Fund intends to be fully invested, with cash usually building up post sale or pre-acquisition of a property.</p> <p>As the Fund's funds under management grows investors can expect the asset allocation on a regional and sector basis to change accordingly.</p> <p>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, it extends to debt management, and risk management, hence the use of derivatives, such as interest rate swaps, to protect against interest rate movements.</p>
<p>On what basis does the Manager believe the fees they charge are justified?</p>	<p>PML believes the fees charged to PPF are fair and in-line with the market. The fees represent the combined experience of PML's directors in the industry, which is over 80 years. They also reflect the proactive, personalised property management services PML provides PPF via its in-house, expert property management team, which is essential for direct property investments. PML's directors select and analyse all investments to ensure they are suitable and represent a great opportunity to grow the value and returns of the portfolio.</p> <p>PML's fees are also directly linked to the performance of the portfolio. Property management fees are based on the gross rental income collected (i.e. exclusive of vacant space, if any). Therefore, the performance of the overall portfolio is based on the performance of the underlying assets.</p> <p>Below is the list of PML's fees:</p> <ul style="list-style-type: none"> • Acquisition Fee: New property investments, 1% of the purchase price (until the carrying value of the Company's property portfolio exceeds \$250,000,000). • Disposal Fee: 1% of the sale price of each property which is sold by the Company. • Fund Management Fee: 0.50% p.a of the total carrying value of the properties under management. • Property Management Fee: 1.50% of gross annual rental collected from the properties under management. • Project Management Fee: 5% of the total development/project costs incurred (which exceed \$100,000). 	<p>FundSource believes the Manager is transparent from a fee perspective, noting the administration and underlying manager fees are disclosed in the Pacific Property Fund Limited Product Disclosure Statement (PDS).</p> <p>FundSource note the PPF is a unique offering in the New Zealand market. Its closest peers are Australian Unit Trusts (AUT) that 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>

	<ul style="list-style-type: none"> • Secondary Market Fee: 1.5% of the secondary transfer amount from one investor to another. <p>All fees are stated as exclusive of GST.</p>	
<p>How would you describe the quality of your organisational and investment governance processes?</p>	<p>PML's governance and compliance is of the highest possible standard and structured to ensure PML always operates in the best interests of its investors. PML'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 PML and a compliance assurance plan covering all aspects of the business has been put in place.</p> <p>The primary governance responsibility for PML sits with the PML Board which is guided by independent director, Dr Wayne Beilby, who has a Doctorate in Governance. He is joined by co-founder and director Denis McMahon.</p> <p>Governance for PPF sits with the PPF Board which includes Denis McMahon, shareholder and director; Craig Garrett, shareholder and non-executive director; Philip Tushingham, non-executive director; Scott McKenzie, CEO and director of PML.</p> <p>Additionally, all investment decisions are governed and subject to approval by the investment committee. Please see answer to the above question: "How does the Manager monitor performance and make investment decisions."</p> <p>From a compliance perspective PML has invested heavily in strengthening its in-house risk and compliance team and has developed a robust process to ensure it meets all regulatory compliance requirements. PML uses technology to streamline the onsite regulatory and operational efficiency.</p>	<p>FundSource notes that the PMG Board and investment committee consists of executive members. However, at the Board level, 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 on 1992.</p> <p>FundSource believe there may be some benefits to including a non-executive member to the investment committee, to add some diversity of views in the overall investment decision making process.</p> <p>FundSource would prefer to see compliance functions report directly to the Board, separating the function away from the investment team. Compliance and risk management is a growing aspect of funds management and requires appropriate resourcing. As the Fund grows FundSource expects to see additional compliance resources be added.</p> <p>FundSource 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, FundSource believe the addition of a funds management specialist as a Board or investment committee member could be beneficial. In saying that FundSource does not view the current PMG structure negatively.</p>
<p>Is there alignment of interests through; ownership of the Manager, and remuneration of the investment team?</p>	<p>A portion of the remuneration of all PML executive directors and Chairman are linked to the overall performance of the Manager company (PML).</p> <p>As Manager, PML's fees are linked to the performance of each of its investment portfolios. The investment team is involved in the day to day management of PPF's portfolio and is incentivised to ensure the underlying assets continue to perform and therefore maximise returns to investors.</p>	<p>To preserve capital and generate a long-term positive return for investors, the Manager must remain operational. Being 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 director and executive positions being held by shareholders and investors in PMG funds is considered to be a strong alignment with investors. The equity ownership of PMG CEO, Scott McKenzie, and other Directors and executives, is viewed as being a strong positive.</p>

FundSource notes that additional performance details for this Fund can be requested from the Manager via their [website](#) Data as at 30 March 2018.

Quarterly returns	Jun-16	Sep-16	Dec-16	Mar-17	FY 2017	Jun-17	Sep-17	Dec-17	Mar-18	FY 2018
Cash distribution to investors	248,388	336,166	561,687	788,760	1,935,001	788,760	788,760	863,775	1,220,760	3,662,055
Capital return annualised	-	-	-	23,359	23,359	-	-	-	1,756,587	1,756,587
Total return	248,388	336,166	561,687	812,119	1,958,360	788,760	788,760	863,775	2,977,347	5,418,642

Quarterly return cents per share

Income return	1.94	1.91	1.80	1.80	7.45	1.80	1.80	1.80	1.80	7.20
Capital return	-	-	-	-	-	-	-	-	2.00	2.00
Total return cents per share	1.94	1.91	1.80	1.80	7.45	1.80	1.80	1.80	3.80	9.20

Portfolio holdings by region

Tauranga	58.69%	30.83%	34.69%	34.93%	34.93%	34.25%	33.82%	22.78%	28.91%	28.91%
Whangerei	0.00%	0.00%	14.81%	14.94%	14.94%	15.98%	16.82%	11.66%	10.87%	10.87%
Hamilton	20.64%	10.53%	6.76%	6.59%	6.59%	6.47%	6.37%	4.32%	4.06%	4.06%
Auckland	20.68%	58.63%	37.47%	36.88%	36.88%	36.75%	36.53%	56.88%	52.50%	52.50%
Other	0.00%	0.00%	6.26%	6.66%	6.66%	6.55%	6.45%	4.36%	3.66%	3.66%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Portfolio Holdings by sector

Office	0.00%	48.29%	45.30%	45.36%	45.36%	44.76%	44.34%	30.01%	28.95%	28.95%
Industrial	100.00%	51.71%	39.88%	39.70%	39.70%	39.25%	38.85%	26.18%	31.43%	31.43%
Retail	0.00%	0.00%	14.81%	14.94%	14.94%	15.98%	16.82%	43.80%	39.62%	39.62%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

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Conclusion and Rating

Overall, FundSource believes the Manager is filling a gap in the New Zealand market place, not only from an asset allocation perspective, but also providing an opportunity to diversify an investors exposure to a diversified pool of New Zealand domiciled physical property assets. Investors should have a longer-term view and time horizon, due to the reduced liquidity of this Fund.

FundSource highlights the Manager provides a matching service for buyers and sellers of units but is not obligated to meet withdrawal or redemption requests.

The team has strong industry experience relevant to the asset class, with roles such as valuers, leasing managers, and property managers, that are not common in typical equity, fixed interest, and listed property funds management, other than where physical investments are core to the portfolio. This is due to investing in physical assets, dealing directly with tenants, managing maintenance, refurbishment, and fit out programs. FundSource highlights the team's alignment to investors through shareholding and/ or investment in the Fund is viewed positively.

The Fund performance, on page 11, shows how on a quarterly basis the results can vary. While historical performance is not a reliable predictor of future performance, it can provide insights as to how the Manager reacts to market change, and how the Fund reacts to asset purchases or sales.

The Fund directly and wholly owns each property at present. This Fund carries refurbishment and repurposing risk, as the Manager seeks to optimise the opportunity for each property. Accordingly, this may create some variance in income and capital growth. As the Fund's FUM grows additional property acquisitions should smooth short term income or valuation fluctuations. FundSource expect the asset mix to vary from retail, industrial, and commercial sectors over time, as well as the physical underlying properties. FundSource will continue to review asset mix over time, to ensure there the current quality and strength of the Fund maintains its current property, tenants, WALE, and team quality.

The Funds' fees are in line Australian direct property funds. This Fund does not charge a performance fee. The Fund is unique in a New Zealand context, therefore direct comparison to a New Zealand peer is not possible.

FundSource recommends that investors carefully consider that the Manager's approach to investing in direct property, and the liquidity profile of the Fund meets their investment needs and objectives. A direct property fund is typically allocated to the Property or Alternatives asset classes in a diversified portfolio.

FundSource Rating: **AA**

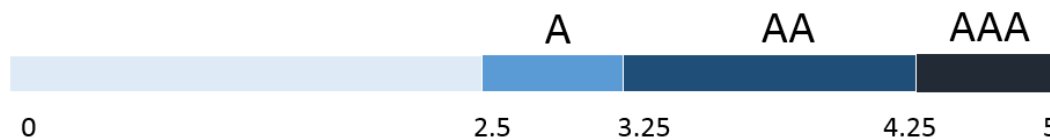
Fund ratings are current as at the date of publication of this report. FundSource reserve the right to review and update fund ratings from time to time

Research Factor Weighting

Research Process Category	Model Factor Weight	Analyst Average Score
Corporate & Investment Governance	15%	4.00 / 5
Investment Philosophy & Process	20%	4.40 / 5
People	25%	4.00 / 5
Portfolio Construction & Implementation	15%	3.33 / 5
Risk Management	15%	4.40 / 5
Investment Fees	10%	3.71 / 5
Overall Average Score:		4.01 / 5

FundSource Rating Guide

The qualitative rating of a fund is a function of the FundSource Research Factor Weighting process, which is built around the six core qualitative research process categories. The weighted scores result in an overall score, out of five, which is then matched to the following rating:



AAA: Highly Recommended

Funds that have superior average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, significantly experienced and stable senior personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management company will also have established effective controls to maintain that philosophy.

AA: Recommended

Funds that have strong average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced and stable personnel, a sound track record over a full market cycle, a clearly defined investment philosophy and process, and a portfolio consistent with that philosophy and process. The management philosophy must be coherent and consistent with existing portfolios and processes.

A: Investment Grade

Funds that have good average scores in all six underlying qualitative factors. This recognises aspects about the Manager and Fund in question that includes, but is not limited to, experienced personnel, a sound track record a defined investment philosophy and process, and a portfolio consistent with that philosophy and process.

FW: Fund Watch

There has been a material change with either the manager, this may include, but is not limited to, departures, new hires, process changes, changes to the investment philosophy. This is considered to be an interim measure, to enable further investigation, re-evaluation and an appropriate course of action to be determined.

S: Sell

This category covers previously recommended funds that are no longer recommended because of some material change. Removal from recommended status might be for a variety of reasons such as a fundamental change in the fund management company or in the manager's investment strategy, or because a fund did not meet its original expectations. The implications for ongoing service are that the fund should be reviewed on an individual client basis to ensure it still matches their original investment objective.

NR: Not Rated – Screened/ Not Rated

Funds in the Not Rated – Screened category have provided information and/or FundSource has conducted an initial analysis of the fund, but has chosen not to provide a recommendation at this stage. FOR Not Rated funds the manager may have provided information, but no review meeting has been conducted

Disclaimers, Disclosures and Warnings

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



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