Pacific Property Fund

Independent Research Report

August 2018

Northington Partners

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Abbreviations and Definitions

Asset Plus or APL	Asset Plus Limited, previously known as NPT Limited (prior to 29 June 2018)
Argosy or ARG	Argosy Property Limited
Augusta or AUG	Augusta Capital Limited
Capex	Capital expenditure
Capitalisation Rate or Cap Rate	The rate utilised by property valuers and applied to the net income of the property (assuming fully leased) to derive its market valuation (with adjustments for other market factors)
Fund	Pacific Property Fund Limited
CPI	Consumer price index
EPS	Earnings per share
FY	In relation to PPF, financial year ending 31 March
Goodman or GMT	Goodman Property Trust
Investore or IPL	Investore Property Limited
Kiwi Property or KPG	Kiwi Property Group Limited
LPV	Listed property vehicle
Manager	PML, the manager of PPF
MBIE	Ministry of Business, Innovation, and Employment
MER	Management expense ratio, being total management and administration costs (including management fees, administration and other operating expenses) relative to average total assets

NAV	Net asset value (total assets less total liabilities)
NLA	Net lettable area (m^2)
Northington Partners	Northington Partners Limited
NZX	NZX Limited, owner of the New Zealand Stock Exchange
PDS	Product disclosure statement
PFI	Property for Industry Limited
PIE	Portfolio investment entity
PMG	Property Managers Group
PML	Property Managers Limited
PPF	Pacific Property Fund Limited
Precinct or PCT	Precinct Properties New Zealand Limited
Stride or SPG	Stride Property Limited
TSR	Total shareholder return
Vital Healthcare or VHP	Vital Healthcare Property Trust
WALT	Weighted average lease term

Section 1:

Executive Summary

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Introduction

Pacific Property Fund is an unlisted, multi-sector property fund which is externally managed by Property Managers.

Pacific Property Fund Limited (“**PPF**” or the “**Fund**”) is an unlisted, externally managed, multi-sector property fund established in 2013. PPF is managed by Property Managers Limited (“**PML**” or “the **Manager**”), a subsidiary of PMG Holdings Limited and a member of the Property Managers Group (“**PMG**”). PML carries out all management and administrative duties on the behalf of PPF.

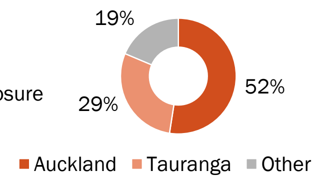
A summary of the PPF portfolio is set out in Table 1.

Table 1: Summary Portfolio & Fund Metrics

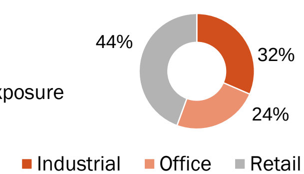
As of 31 March 2018

Portfolio Valuation	$127m	Passing Yield	7.0%
Number of Properties	10	Capitalisation Rate[1]	6.8%
Average Property Value	$12.7m	Occupancy	99.3%
WALT	7.7 years	Gearing	44.4%
		Implied Gross Dividend Yield[2]	8.1%

Geographic Exposure



Sector Exposure



Source: Annual Reports, Fund announcements and Northington Partners calculations.

[1] The capitalisation rate represents the rate utilised by property valuers and applied to the net income of the property (assuming fully leased) to derive its valuation (with adjustments for market rent variations). Where the valuer’s rate used was not available the cap rate was assumed to be market rental divided by valuation as at 31 March 2018.

[2] Implied dividend yield for an investor with a marginal 30.0% personal tax rate. This is based on PPF’s FY19 forecast pre-tax dividend of 7.20 cents per share, an assumed current PPF price per security of $1.02 (equivalent to the last traded price on the secondary market for May 2018) and approximately 2.16 cents per share of the dividend being non-taxable income to investors (the other 5.04 cents per share being taxable but at the maximum 28% under PPF’s PIE status).

Investment Summary and Risks

Based on historical and projected future performance, our summary of the investment highlights for PPF is set out below.

Investment Highlights

Attractive Dividend Yield	PPF has a history of stable income returns and offers an effective FY19 gross dividend yield of 8.1% (for an investor with a marginal 30.0% personal tax rate, based on an assumed share price of $1.02). This dividend yield is materially higher than the listed property sector median of 7.2%. PPF's high occupancy rate (99%), long WALT (7.7 years) and attractive rent review terms (approximately 50% of tenancies have CPI or fixed rental increases) should allow it to continue to offer a relatively stable income stream over the medium term. Having said that, PPF has a relatively lumpy lease expiry profile and some material lease expiries to manage in the short term.
Track Record of Performance	In the four years since inception, PPF has demonstrated its ability to identify and acquire new properties, as well as raise the necessary funding to execute its growth plans. It has acquired 10 properties and raised $68 million in equity capital through five separate transactions since fund inception. To date, all of the equity capital raisings have been completed at or near NAV per share, ensuring minimal economic dilution for non-participating shareholders. By focusing on second-tier properties with values generally between $10 - $30 million, PPF has largely avoided competing for hotly contested assets with low yields, while still securing properties with strong tenant profiles and favourable lease terms. PPF's strategy has delivered total pre-tax shareholder returns of 7.9% since inception, relative to the listed property index of 11.8% and our assessed cost of equity for PPF of 8.5%. Over the shorter 3-year and 1-year investment horizons, PPF has delivered annualised returns of 8.7% and 10.9%, relative to 8.7% and 8.9% respectively for the listed property index. We also note that while investors will generally pay brokerage or other transaction costs when investing in listed property, typically no brokerage is payable when investing in PPF. This advantage may modestly improve PPF's net returns relative to the LPVs. PPF's early earnings and NAV growth was limited by its small scale and the relatively high cost of growing the portfolio (through capital raising and acquisition fees). Consequently, returns have almost exclusively been derived through dividend income. More recently, PPF has benefited from increased scale and NAV growth has been achieved - all of its capital growth (in the form of increased traded values for PPF shares) has been realised over the last 12 months. While continued acquisition-led growth may continue to limit earnings, dividend and NAV per share growth in the short term, PPF should be in a better position to deliver maintainable equity returns to shareholders once the portfolio has reached a more sustainable size.
Quality Manager with Investor-Friendly Management Agreement Terms	PPF has no direct employees and is externally managed by PML, a subsidiary of PMG. PMG has a 25 year track record in commercial property investment. It has launched 29 investment offerings and 4 unlisted property funds (including PPF) with a total value of approximately $250 million. PMG's property and fund management expertise provides unique access to commercial property investment opportunities, tenant relationships and a private network of thousands of property investors. PPF's management contract with PML includes fee terms generally consistent with other externally managed property funds. However, the contract also includes a number of favourable features relative to the majority of externally managed listed property vehicles. These include the ability to terminate PML as manager by special shareholder resolution, as well as the absence of performance-based fees.

Investment Summary and Risks (continued)

We believe that investors should consider a wide range of factors when assessing the PPF opportunity, summarised as follows.

Investment Considerations	
Tenant and Lease Expiry Exposure	While PPF currently has high occupancy and a relatively long WALT, the top five tenants contribute approximately 45% of PPF's rental income. PPF is therefore exposed to some level of tenant concentration, although we note that the anchor tenants are large well-established businesses: they include Tui Products, General Distributors and Farmers Trading Company, all of whom have long lease expiries. PPF is exposed to tenant default risk and while few tenants have defaulted since PPF's inception, its single tenant at the Paerangi Place property in Tauranga has recently defaulted and its lease has been terminated. While this lease represents approximately 7% of PPF's overall net rental, it is covered by a rental bank bond for a period of 18 months. Therefore, PPF is unlikely to suffer any immediate lost income and has a significant amount of time to find a suitable new tenant. Nonetheless, if the property were revalued today, we expect it would suffer a valuation loss to reflect the tenant uncertainty. PPF also has a relatively lumpy lease expiry profile. While almost 50% of PPF's lease income is secured for more than 8 years, approximately 23% of PPF's leases (by income) expire over the next two years. PPF is therefore relatively exposed to a short-term decline in rental income if these tenants do not elect to renew their leases or PPF is unsuccessful in identifying new tenants.
Low Growth While Scale is Obtained	While PPF has delivered consistent and attractive dividend returns through underlying rental income, earnings and capital growth (per share) have been ellusive (FY18 EPS and NAV of 7.3 cents and $1.03 respectively relative to 7.2 cents and $1.00 in FY16). New lower-yielding property acquisitions like Kelston and new equity capital raisings associated with the acquisitions have inhibited growth in earnings per share. Property revaluation gains have also been eroded by transaction costs associated with acquiring the new properties and raising the necessary equity capital. We note that PPF currently has a high management expense ratio ("**MER**") relative to the listed property sector due its relatively small size. Despite the potential to limit short-term upside in earnings and capital gain, we believe that growing the portfolio through appropriate acquisitions will be beneficial over the long-run. A portfolio valued at greater than $250 million (consistent with PPF's target) should provide sufficient scale benefits while allowing PPF to deliver more sustainable shareholder returns.
Gearing and Interest Rates	PPF's gearing of 44% is higher than the listed property sector average of 35%, but is not uncommon for private property investment vehicles. This level of gearing does mean however that PPF is more sensitive to interest rate movements versus its listed peers. PPF's investment properties tend to be second tier properties which can experience larger fluctuations in capitalisation rates as economic conditions change. In an increasing interest rate environment, PPF could be more exposed to downward property valuation pressures at the same time as earnings are impacted by increased interest costs. However, PPF's value-add strategy through property redevelopment (e.g. Kelston Mall), reconfiguring tenancies and improving occupancy are intended to counter this risk with the objective of delivering underlying net rental growth. PPF's policy is also to have at least 50% of core debt hedged for 12 months or longer, and this helps to mitigate some of the interest rate risk exposure.
Capex	PPF has a number of capital expenditure projects underway, representing a mixture of growth and maintenance capex. While the maintenance expenditure is expected to improve asset quality, the capex may not result in a commensurate increase in rental income. Similarly, there is always a risk that PPF's properties require additional un-budgeted maintenance capex for structural repairs, as a requirement to bring the property up to designated standards or as a result of unforeseen events.
Share Liquidity and Price Transparency	PPF's shares are not listed on the NZX or any other established market. While PPF offers a periodic share sale facilitation service, there is limited pricing transparency or liquidity in its shares. Consequently, it may be hard for investors to buy or sell shares as required or obtain "market" pricing for their shares.
Governance	While we believe that the current directors of PPF have the necessary skills and expertise to govern the Fund, the PPF board comprises a majority of directors associated with the Manager. Best practice would be for the board to include a majority of independent directors and for directors associated with the Manager to not vote on resolutions regarding related party transactions.

Financial and Valuation Summary

Based on its most recent trades, PPF has a forecast gross dividend yield of 8.1%.

Table 2 summarises PPF's financial performance since establishment, illustrating the significant increase in total assets and net rental as a result of the 10 property acquisitions that have been completed to date. Despite this growth in assets, NAV per share and EPS growth have been relatively modest.

Table 2: Summary Portfolio & Fund Metrics

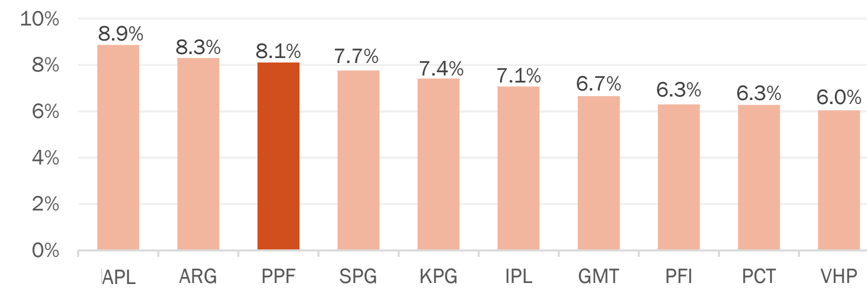
$000s	FY2015	FY2016	FY2017	FY2018	FY2019F
Total Assets	12,736	23,139	74,952	129,152	130,632
Total Debt	6,287	9,300	28,539	56,568	57,668
Total Net Assets	5,970	13,100	44,886	70,322	70,799
NAV Per Share ($)	0.94	1.02	1.02	1.03	1.04
Gearing	*50%*	*41%*	*38%*	*44%*	*44%*
Net Rental Income	887	1,248	3,027	6,080	8,884
Operating Earnings before Finance Costs	784	1,037	2,618	5,273	7,798
Distributable EPS[1] (cents)	*7.5*	*7.5*	*7.2*	*7.0*	*7.6*
DPS (cents)	*6.7*	*7.3*	*7.5*	*7.2*	*7.2*
Management Expense Ratio	*0.88%*	*1.28%*	*0.91%*	*0.88%*	*0.95%*

Source: PPF annual reports, Northington Partners' estimates.
[1] EPS excluding revaluation gains and other fair value movements and after allowing for the time weighted number of shares on issue following new equity capital raisings.

Figure 1 highlights PPF's FY2019 gross dividend yield relative to the LPV sector, and shows that the PPF yield is above the market median. While PPF's yield is below two of the three diversified listed companies we consider to be the most comparable to PPF (Argosy, Stride and Asset Plus), we note that the comparable companies with yields above PPF (Asset Plus and Argosy) trade at a greater discount to NAV than PPF.

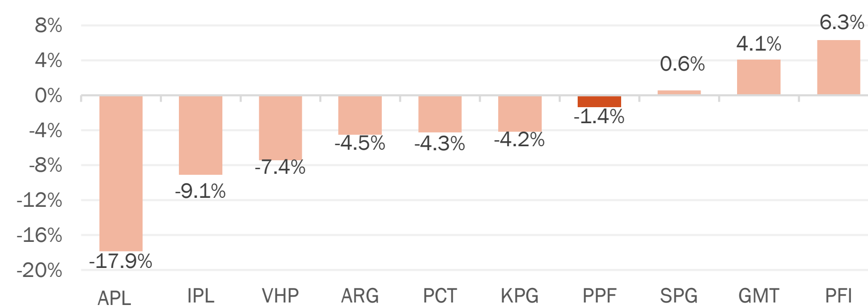
The range of discounts to NAV for the listed LPVs and PPF are presented in Figure 2.

Figure 1: Forecast Gross Dividend Yield[1] for PPF and New Zealand LPVs



Source: Capital IQ, Northington Partners' estimates. PPF dividend yield based on the last traded price on the secondary market in May 2018 of $1.02. LPV FY19 share prices as at 30 June 2018.
[1] Reflects implied gross dividend yield for an investor with a 30.0% marginal personal tax rate.

Figure 2: Price to NAV Ratio for PPF and New Zealand LPVs



Source: Capital IQ, IRESS, Northington Partners' estimates. PPF share price based on the last traded price on the secondary market in May 2018 of $1.02 relative to NAV of $1.03 as at 31 March 2018. LPV share price based on the last traded price as at 30 June 2018.

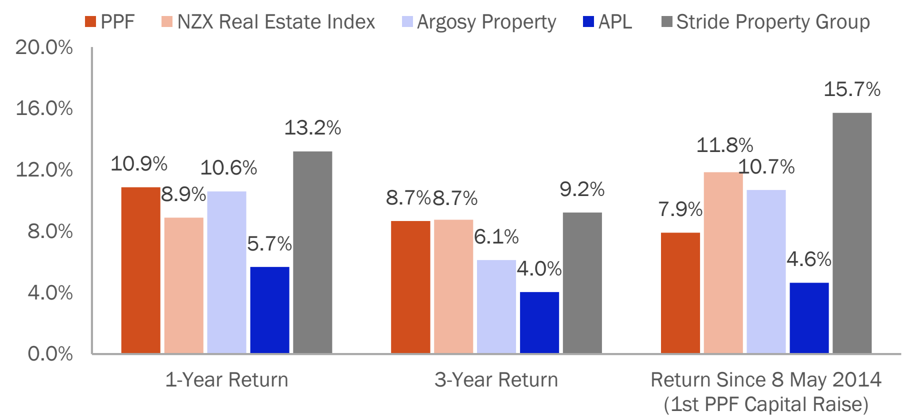
Summary of Historic Returns

Since inception, PPF has delivered annualised pre-tax returns of 7.9%.

PPF has delivered annualised pre-tax returns of 7.9%[1] to its shareholders since inception. This compares to 11.8% for the NZX Real Estate Gross index[2] , and a range of 4.6% to 15.7% for PPF's key diversified comparable companies (Argosy, Asset Plus and Stride) over the same period. Approximately 7.2% of the PPF return has been derived from dividend returns and the remaining 0.7% from capital appreciation.

As shown in Figure 3, PPF's performance relative to the listed property sector and its key peers is better when measured over the shorter 1-year and 3-year investment horizons. For example, the total shareholder return for PPF over the last three years was 8.7% per annum, which is in line with the returns from the sector as a whole and higher than the returns from Argosy and Asset Plus. The PPF return for the last year has also been generally higher than most of the chosen comparables.

Figure 3: PPF total shareholder returns vs. NZX Property Index and comparable LPV's



Source: Capital IQ, IRESS, Northington Partners' estimates. TSR reflects total dividend (gross) and capital returns for period from 8 May 2014 (the settlement date for PPF's first capital raising) until 30 June 2018. PPF share price based on the last traded price on the secondary market for May 2018 of $1.02.

[1] *Based on holding PPF securities since inception, maintaining a fixed pro-rata share of the Fund following each of the five capital raisings undertaken by PPF and assuming a current PPF share price of $1.02 (reflecting the most recent trading in PPF securities). No allowance has been made for the potential tax benefits from holding PIE status for any of PPF or the LPVs.*

[2] *A free-float market capitalisation weighted index of NZX-listed property companies.*

Section 2:

Profile of the Fund

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Overview of the Fund

PPF was established in June 2013 with the aim of building a diversified commercial property portfolio.

PPF was established in June 2013 with the aim of building a diversified commercial property portfolio consisting of industrial, retail and office buildings. In order to cost effectively grow and diversify the Fund, PPF appointed PML as its property manager pursuant to the Management Agreement (see Section 4). PPF's target is to build the portfolio to a value of $250 million.

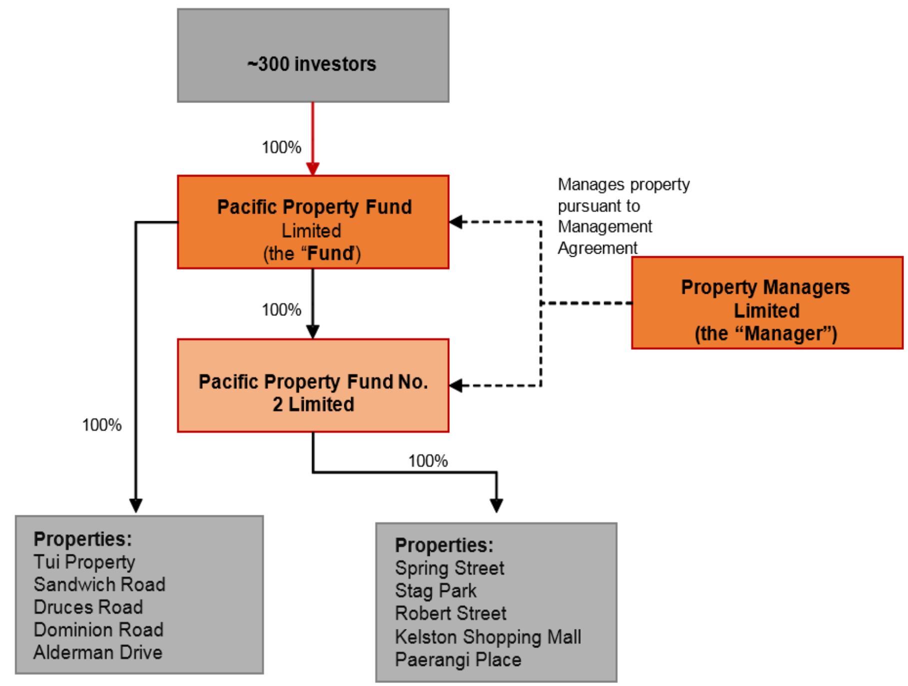
The Manager's strategic objectives for PPF are to actively manage the property portfolio to maximise the value of PPF's properties for the benefit of PPF shareholders. The Manager also has an objective to grow the portfolio where PPF believes any acquisition would improve the quality and value of the portfolio or sell properties where the opportunity for increasing value is limited. Since inception, PPF has acquired 10 properties.

PPF's focus is on properties with the following characteristics:

- Industrial, retail and office properties valued at $5 million and above. The Fund has targeted properties at this scale because it believes it will have better opportunities to purchase assets on attractive terms due to more limited competition from individual investors and large listed and institutional investors.
- While PPF is a passive property investor, it will consider development potential within its existing portfolio or in conjunction with new property acquisitions. However, PPF does not target greenfield property development.
- The Fund's primary focus is on the Auckland, Waikato and Bay of Plenty regions, although it will contemplate other regions which meet PPF's investment objectives.
- The main acquisition targets are sound, well-located buildings which offer sustainable yields and have good lease structures and tenant covenants.

The Fund is owned by approximately 300 investors and consists of the parent entity, Pacific Property Fund Limited and a wholly owned subsidiary, Pacific Property Fund No. 2 Limited, as shown in Figure 4. Both entities hold approximately half of the Fund's properties each. This structure has been established primarily for banking security purposes.

Figure 4: Summary Fund Structure



Investment Property Portfolio

The PPF portfolio currently consists of 10 properties with a total value of $127m.

PPF's first investment was the Tui Property located in Tauranga. This was purchased for $12.3 million in 2014 and funded through the issue of $6.3 million in new shares at $1.00 per share, with the balance funded by debt. Since inception, PPF has acquired a further nine properties with the most recent acquisition in January 2018.

Table 3 provides a summary of PPF's current property portfolio metrics and the acquisition details for each property.

Table 3: PPF Portfolio

Property	Location	Sector	Tenants	WALT	NLA (sqm)	Occupancy (by Area)	Passing Yield	Cap Rate	Valuation March 2018 (000's)	Purchase Price	Equity Funding[1]	Debt Funding[1]	PPF Equity Funding Price/Share	Acquisition Date
Tui Property	Tauranga	Industrial	1	17.5	11,404	100%	7.6%	6.9%	$15,175	$12.75	$6.32	$6.42	$1.00	Apr-14
Sandwich Road	Hamilton	Industrial	2	1.5	4,042	94%	6.9%	7.8%	$5,150	$4.25	$6.50	$2.81	$1.00	Dec-15
Druces Road	Auckland	Industrial	3	1.2	4,681	100%	7.4%	7.3%	$5,650	$4.50				
Dominion Road	Auckland	Office	5	6.2	3,657	97%	6.8%	6.9%	$16,400	$14.50	$15.00	$10.10	$1.00	Aug-16
Alderman Drive	Auckland	Office	9	3.4	3,183	100%	8.4%	8.1%	$8,100	$7.40				
Spring Street	Tauranga	Office/ Retail	13	2.6	3,174	100%	6.3%	6.7%	$12,250	$10.30	$16.00	$13.00	$1.00	Dec-16
Stag Park	Taupo	Industrial	6	1.6	4,350	100%	6.5%	7.0%	$4,750	$4.50				
Robert Street	Whangarei	Retail	1	14.4	5,204	100%	6.5%	6.5%	$13,800	$10.62				
Kelston Mall	Auckland	Retail	33	5.4	7,811	100%[2]	7.0%	6.4%	$36,500	$36.08	$24.48	$16.00	$1.02	Dec-17
Paerangi Place	Tauranga	Industrial	1	14.3	4,066	100%	6.9%	6.1%	$9,275	$9.25	-	$9.25	-	Jan-18
Portfolio Total/Average[3]			**74**	**7.7**	**51,572**	**99%**	**7.0%**	**6.8%**	**$127,050**	**$114,150**	**$68,300**	**$57,580**		

Source: Fund announcements, PPF Product Disclosure Statement disclosures, Northington Partners' estimates.
[1] The sum of equity and debt funding at the time of acquisition exceeds the property purchase price due to costs associated with the transaction and required capital expenditure post-acquisition.
[2] Including vendor underwrite. Kelston Mall's occupancy is 91% excluding the underwrite.
[3] Portfolio Total - Tenants, NLA, and Valuation. Portfolio Average - WALT, Occupancy, Passing Yield, and Cap Rate.

Lease and Tenant Profile

PPF's portfolio has a strong WALT of 7.7 years but relies on a relatively small number of key tenants.

Figure 5 illustrates PPF's relatively strong lease expiry profile. The portfolio has a reasonably high WALT of 7.7 years and approximately half of its income is secured for more than 8 years. However, as we would expect given the portfolio size, the lease profile is reasonably lumpy: leases for approximately 23% of the portfolio (by income) expire over the next two years, excluding leases underwritten by the vendor of the Kelston Mall property.

A significant proportion of PPF's leases (by income) also provide tenants with one or more rights of renewal. Assuming that the current tenants exercise those rights of renewal, less than 10% of the portfolio (by income) expires in two years.

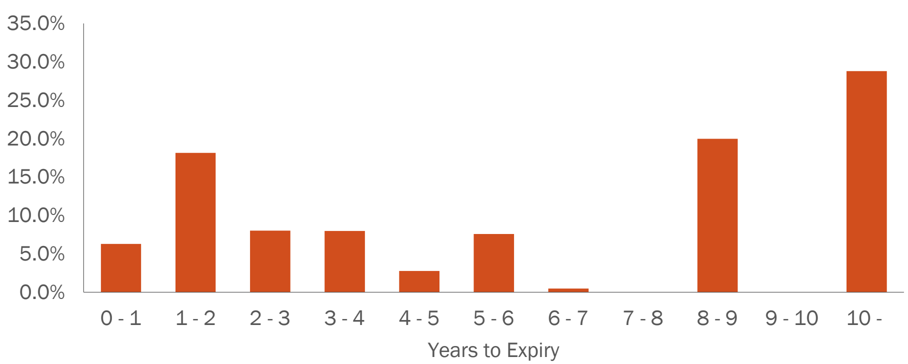
We also note that PPF has negotiated a new lease for a childcare operator at Kelston Mall which will largely occupy the current vacant space, as well as a number of tenancies identified as potential default risk at the time of acquisition. These tenancies collectively account for 12.7% of Kelston Mall's income and approximately 3% of PPF's overall income, and were underwritten for two years by the vendor. While a significant amount of strategic refurbishment is required at Kelston Mall for the new childcare centre, the new long-term lease, new community service-oriented offering and increased occupancy should be value enhancing to PPF.

Figure 6 illustrates that approximately half of PPF's leases have fixed or CPI-linked rental increases, with the remainder being based on market revisions or mixed structures. This includes PPF's top two tenants, for which rent reviews are partly market-driven. The portion of rents with fixed or CPI-linked reviews is generally consistent with the LPV sector and should provide PPF with real underlying rental growth.

PPF's tenants are typically corporates (for industrial and office properties) and retailers, with the top tenants including Tui, Countdown, Farmers Trading Company and Finance Now. PPF's income is currently heavily reliant on its top tenants, with the top five tenants comprising 44.8% of income, and the top 10 comprising 59.6% of income (see Figure 7). However, this tenancy concentration risk is mitigated to some degree by the fact that its top five tenants are all contracted for at least eight years. If PPF executes on its strategy to expand the portfolio, it will further diversify its tenancy base and reduce the potential re-leasing risk.

PPF has recently indicated that its single tenant at the Paerangi Place property in Tauranga has defaulted and its lease has been terminated. We understand this is one of the first tenant defaults experienced by PPF and is unfortunate given that the property was only acquired in January 2018. While this lease represents approximately 7% of PPF's overall net rental, it is covered by a rental bank guarantee for a period of 18 months. PPF is therefore unlikely to suffer any immediate loss of income (as the lost rental income is covered by the bank guarantee) and has a significant amount of time to find a suitable new tenant. Nonetheless, if the property were revalued today we expect it would suffer a valuation loss to reflect the tenant uncertainty and the potential additional capital expenditure required to attract a new tenant.

Figure 5: Lease Expiry Profile as at 31 March 2018 (by Gross Rent)



Source: PPF, Northington Partners Analysis

Figure 6: Rent Review Profile by Gross Rent as at 31 March 2018

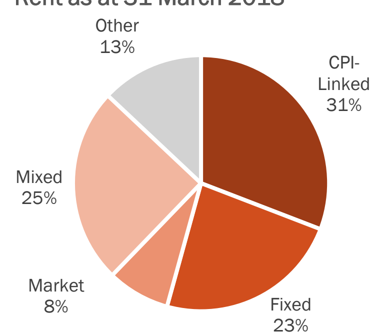
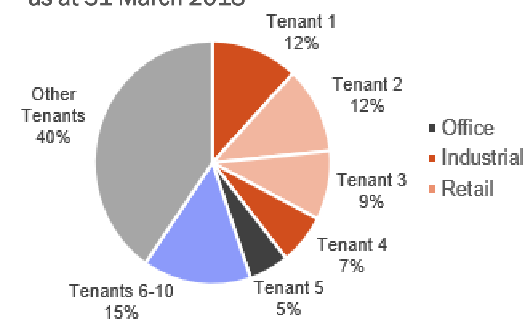


Figure 7: Tenancy Breakdown by Gross Rent as at 31 March 2018



Source: PPF, Northington Partners Analysis

Mixed rent reviews are typically some combination of CPI-linked and market review. "Other" includes seasonal and periodic leases, leases in negotiation and leases without rent reviews.

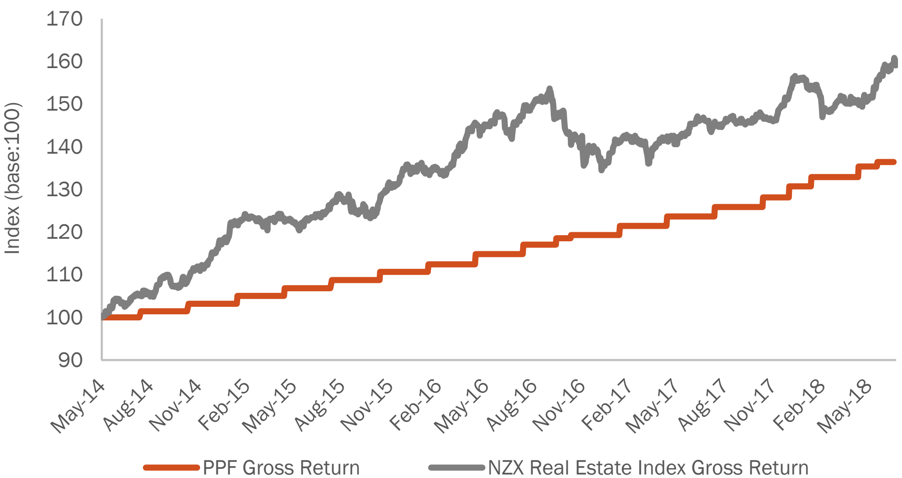
Historical Fund Return & Share Trading History

PPF has underperformed the wider property sector since inception.

Historical Fund Return

Figure 8 illustrates PPF's total pre-tax shareholder returns since inception based on its quarterly dividends and utilising limited share trading as a proxy for share price capital returns. PPF has delivered 7.9% in total annualised shareholder returns over the four year plus period, underperforming the listed property sector which has produced annualised returns of 11.8% over the same period. However, over a 3-year investment horizon, PPF's return is in line with the index (see Figure 3).

Figure 8: PPF Total Shareholder Returns vs NZX Gross Real Estate Index since 8 May 2014



Source: IRESS, Northington Partners' Analysis

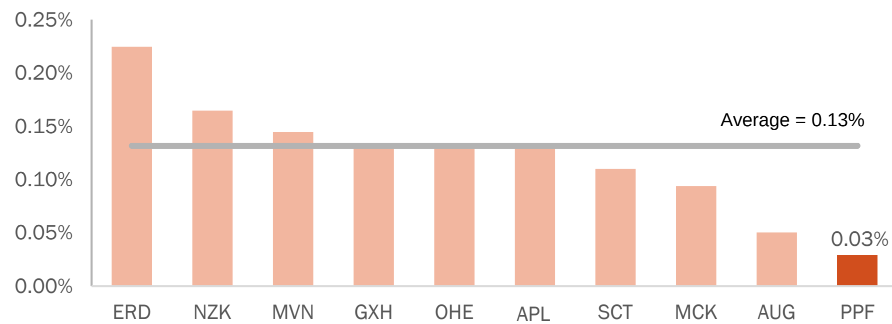
Share Trading History

As an unlisted fund, PPF's Manager facilitates trades between buyers and sellers through an internal order book. This provides a limited secondary market and liquidity for shares in the Fund. From 1 March 2017 to 31 May 2018 there were 48 trades through this secondary market, resulting in a total traded volume of 5,020,000 shares.

A useful way of measuring liquidity across different companies is the daily average volume traded expressed as a percentage of the total free float shares outstanding. Free float shares exclude shares that are held by strategic shareholders, management and directors of the company.

Figure 9 compares the liquidity of PPF to NZX-listed companies of a similar size ($50m to $100m free float market capitalisation) for the period of 1 March 2017 to 31 May 2018. The comparison clearly shows that PPF is very illiquid. Based on the average liquidity of similar sized NZX-listed stocks, we estimate that PPF's liquidity is approximately one-fifth of what it would be if was listed on the NZX. We note that this selection of companies includes Asset Plus (APL), an LPV similar in size to PPF.

Figure 9: Daily Volume Traded as a % of Free Float Shares for PPF and Similar Sized NZX-listed Stocks[1]



Sources: PPF, IRESS, Capital IQ, Northington Partners' Analysis.
[1]Similar sized stocks are those with free float market capitalisation between $50m and $100m as at 1 March 2017.

Financial Results

A summary of PPF's historical financial performance for the four-year period between FY15 and FY18 is set out in Table 4 below, along with our adjusted FY19 forecast.

Table 4: Historical Financial Performance

Year ended 31 March (NZ $000s)	FY2015	FY2016	FY2017	FY2018	FY2019F
Rental income	952	1,190	3,180	6,461	9,240
Property operating expenses recovered	104	270	673	1,176	1,479
Direct property operating expenses	(169)	(211)	(826)	(1,557)	(1,835)
Net rental income	**887**	**1,248**	**3,027**	**6,080**	**8,884**
Management fees	(94)	(96)	(256)	(552)	(797)
Other operating expenses	(10)	(115)	(154)	(254)	(288)
Operating Earnings before Finance Costs	**784**	**1,037**	**2,618**	**5,273**	**7,778**
Net Finance Costs	(357)	(639)	(532)	(1,982)	(2,631)
Operating Earnings after Finance Costs	**426**	**398**	**2,086**	**3,291**	**5,167**
Unrealised fair value gain on investment properties	377	1,099	1,271	3,527	-
Profit Before Tax	**803**	**1,497**	**3,356**	**6,818**	**5,167**
Tax expense	(117)	(105)	-	-	-
Profit After Tax	**686**	**1,392**	**3,356**	**6,818**	**5,167**
Distributable profit adjustments	(377)	(892)	(1,466)	(3,243)	-
Distributable Profit	**309**	**500**	**1,890**	**3,575**	**5,167**
Earnings per share (cents)	12.1	17.1	12.8	13.4	7.6
Distributable profit before tax per share (cents)	7.5	7.5	7.2	7.0	7.6
Dividend per share (cents)	6.7	7.3	7.5	7.2	7.2
Management expense ratio	0.88%	1.28%	0.91%	0.88%	0.95%
Number of properties	1	3	8	10	10

Sources: PPF Annual Reports (FY15-FY18) and PDS dated 5 October 2017. FY19 forecasts have been made with reference to PDS forecasts, adjusted for the acquisition of Paerangi Place, FY18 actual property values and prevailing interest rates. Totals may not sum due to rounding. MER is calculated based on average total tangible assets for each financial year (based on property acquisition dates).

The main features of PPF's historical and forecast financial performance can be summarised as follows:

- Rental income has grown significantly as the Fund has acquired nine further properties since the first acquisition in FY15.
- PPF's MER has reduced from 1.28% in FY16 to 0.88% in FY18 as the portfolio has been scaled up. Over time this should translate to higher distributable profits relative to the status quo. Estimated MER increases in FY19F as no capital growth in properties is assumed, while costs are assumed to increase.
- Distributable profit per share and dividend per share growth has been muted as the Fund has grown. This largely reflects that the Fund has generally acquired lower yielding assets (eg. Kelston at 6.9% passing yield) in line with declining overall yields over the same time horizon, coupled with modest dilution from equity capital raisings.
- FY19F distributable profit is anticipated to grow to approximately $5.2 million (7.6 cents per share) after allowing for the full year impact of the Kelston and Paerangi property acquisitions. The Fund should be in a position to provide a FY19 dividend of 7.2 cents per share, consistent with the dividend for FY18.
- PPF ceased paying company tax in FY17 when it became a multi-rate PIE scheme. Under this scheme, the Fund withholds tax on an individual investor basis based on their prescribed tax rates.

Financial Position

Table 5 summarises PPF's historical financial position for the four-year period between FY15 and FY18, together with our adjusted FY19 forecast.

Table 5: Historical Financial Position

As at 31 March (NZ$ 000's)	FY2015	FY2016	FY2017	FY2018	FY2019F
Assets					
Cash and cash equivalents	61	463	258	1,295	111
Other receivables	10	102	364	527	795
Investment properties held for resale	-	-	-	4,750	4,750
Investment properties	12,665	22,575	74,300	122,577	124,977
Other fixed assets	-	-	31	3	-
Total Assets	**12,736**	**23,139**	**74,952**	**129,152**	**130,632**
Liabilities					
Trade and other payables	42	104	1,479	1,897	1,800
Derivative financial instruments	-	207	12	296	296
Other payables & liabilities	38	28	37	69	69
Provision for establishment costs	400	400	-	-	-
Secured term liabilities	6,287	9,300	28,539	56,568	57,668
Total Liabilities	**6,766**	**10,039**	**30,067**	**58,830**	**59,833**
Net Assets	**5,970**	**13,100**	**44,886**	**70,322**	**70,799**
Gearing %	50%	41%	38%	44%	44%
NAV per share	0.94	1.02	1.02	1.03	1.04

Sources: PPF Annual Reports (FY15-FY18) and PDS dated 5 October 2017. FY19 forecasts have been made with reference to PDS forecasts, adjusted for the acquisition of Paerangi Place, FY18 actual property values and prevailing interest rates. Totals may not sum due to rounding. Gearing is calculated as interest-bearing debt / investment property portfolio value.

The main features of PPF's historical and forecast financial position can be summarised as follows:

- Total assets have increased from $12.7 million in FY15 to $129.2 million as at the end of FY18, primarily driven through $115 million of acquisitions, capital expenditure and modest revaluation gains.
- PPF's gearing has generally been around 40% – 45%, consistent with its target. While PPF's most recent acquisition was entirely debt funded and resulted in an increased gearing position as at the end of FY18, PPF continues to hold the Stag Park property as being available for sale. Proceeds from any eventual sale will obviously reduce the gearing level.
- NAV per share has been relatively static between $1.00 to $1.03 over the historic period. This reflects that property revaluation gains have been largely offset by transaction and equity capital raising costs.
- The FY19 forecast is based on PPF's current portfolio and planned capital expenditures, without any new capital raising and assuming no change in current property valuations (other than to reflect planned capital expenditure).

Section 3:

Overview of the Managed Property Sector

Northington
Partners

Industry Overview

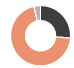
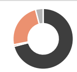
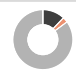
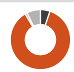
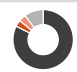
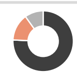
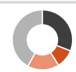
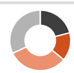
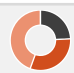
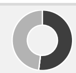
While PPF is one of the larger unlisted property funds, it is considerably smaller than almost all of the listed property vehicles.

Investors can obtain an equity interest in the commercial property sector via a number of alternatives, including listed property vehicles that trade on the NZX, unlisted property funds (such as PPF) and single asset property syndications. PPF is one of the larger unlisted property funds available to retail investors, with the other major funds and syndications being managed by Augusta Capital and Oyster Property Group. However, the listed property sector provides a large and transparent benchmark for PPF when considering its risk and return profile of the Fund.

Table 6 summarises the entities operating in the New Zealand listed property sector by size, sector focus, and geographic focus. While a number of LPVs focus on sectors such as retail (Kiwi and Investore), industrial (Goodman and PFI), or office (Precinct), Argosy, Stride and Asset Plus are diversified across the retail, industrial and office sectors and are therefore more comparable to PPF.

Four of the LPVs are internally managed, while the remaining five are externally managed under arrangements that are similar to those for PPF.

Table 6: Comparison of Listed Property Vehicles on the NZX and PPF

Entity	Entity Type	Market Capitalisation	Sector Exposure	Geographic Exposure
Kiwi Property Group	Internally managed company	$1,923m		
Goodman	Externally managed trust	$1,873m		
Precinct	Externally managed company	$1,635m		
Argosy	Internally managed trust	$885m		
Vital Healthcare	Externally managed company	$878m		
PFI	Internally managed company	$865m		
Stride	Internally managed company stapled to property manager	$668m		
Investore	Externally managed company	$390m		
Asset Plus	Externally managed company	$94m		
PPF	Externally managed company	$70m		

Source: Annual Reports, Fund announcements and presentations for each LPV, Capital IQ. Market Capitalisation as of 30 June 2018.

Listed Property Sector Metrics

Compared to most of the listed entities, PPF's portfolio has a relatively high cap rate and a higher level of gearing.

Table 7 summarises the key portfolio operating metrics and valuation metrics for the listed property sector relative to PPF. This comparison highlights the relatively small scale of the PPF portfolio, the lower average value of each property contained in the portfolio, and PPF's higher level of gearing.

Table 7: Key Property and Valuation Metrics for New Zealand LPVs[1] and PPF

Entity	Portfolio Value	No. of Properties	Avg. Property Value	Portfolio Cap Rate	Occupancy	WALT	Gearing[2]
Kiwi Property	$3,052m	13	$235m	6.30%	99.6%	5.3	29.9%
Precinct	$2,561m	13	$197m	5.80%	99.0%	8.8	23.7%
Goodman	$2,231m	11	$203m	6.00%	98.0%	6.1	36.9%
Vital Healthcare	$1,655m	42	$39m	3.50%	99.2%	18.4	36.2%
Argosy	$1,513m	61	$25m	7.20%	98.8%	6.1	36.5%
PFI	$1,211m	92	$13m	6.30%	99.9%	5.3	30.6%
Stride	$919m	29	$32m	6.20%	98.2%	4.9	38.8%
Investore	$738m	40	$18m	6.10%	99.9%	13.1	41.6%
PPF	$127m	10	$13m	6.80%	99.3%	7.7	44.6%
Asset Plus	$123m	3	$41m	8.40%	97.4%	4.4	36.1%
Average[3]	**$1,556m**	**34**	**$89m**	**6.20%**	**98.9%**	**8.0**	**34.5%**

Source: Annual Reports, Fund announcements and presentations of each LPV, Capital IQ and Northington Partners' estimates as at 30 June 2018. Gross dividend yields assume marginal investor tax rate of 30%.
[1] Values for all entities have been adjusted for unconditional post-balance date acquisitions and disposals of properties (based on available information). Acquisitions are assumed to be entirely debt funded unless the entity has specified otherwise and disposal proceeds are assumed to be applied to debt reduction.
[2] Gearing is calculated as interest-bearing debt / investment property portfolio value.
[3]Average values do not include PPF.

Key Valuation Metrics

Valuations and expected yields for property vehicles are largely dependent on the outlook for interest rate outlook.

Table 8 summarises the key valuation metrics for the listed property sector relative to PPF. This shows that the listed property sector is on average currently trading at a discount to NAV, with a corresponding positive impact on dividend yield. The sector average FY19 gross dividend yield is projected at 7.2%, below PPF's forecast of 8.1%.

Both the yields and the trading prices of listed property vehicles relative to NAV are highly correlated with interest rate expectations. While PPF has a track record of trading at, or near NAV (recent trading between $1.00 to $1.028), in a liquid trading environment we would also expect to see PPF demonstrate greater pricing volatility.

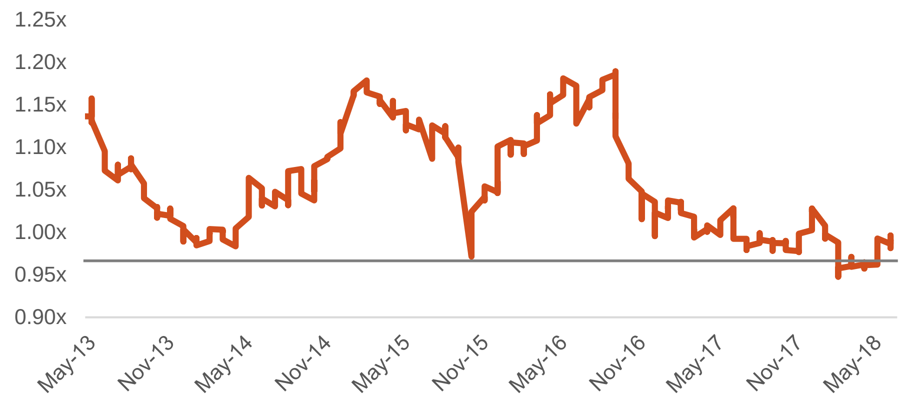
Figure 10 and Figure 11 highlight the sector price to NAV and forecast gross dividend yield relative to bond rates over the last 5 years. Generally, when market interest rate expectations are low, demand for higher yielding LPVs increases and this results in an increase in price relative to NAV. Consequently, LPVs (and property in general) exhibit a strong correlation between dividend yields and market interest rate expectations.

Table 8: Key Valuation Metrics for New Zealand LPVs and PPF

Entity	Price / NAV	FY18 Cash Dividend Yield	FY18 Gross Dividend Yield	FY19 Cash Dividend Yield	FY19 Gross Dividend Yield
Kiwi Property	0.96x	4.8%	6.9%	4.9%	7.1%
Precinct	1.04x	4.4%	6.3%	4.6%	6.5%
Goodman	0.96x	4.7%	6.7%	4.8%	6.8%
Vital Healthcare	1.23x	4.2%	6.0%	4.2%	6.0%
Argosy	0.93x	5.7%	8.2%	5.8%	8.3%
PFI	0.95x	4.4%	6.3%	4.5%	6.4%
Stride	1.06x	6.1%	8.7%	5.6%	7.9%
Investore	1.01x	5.1%	7.3%	4.9%	7.0%
PPF	1.00x	5.7%	8.1%	5.7%	8.1%
Asset Plus	0.82x	6.1%	8.7%	6.1%	8.7%
Average[1]	**0.99x**	**5.1%**	**7.2%**	**5.0%**	**7.2%**

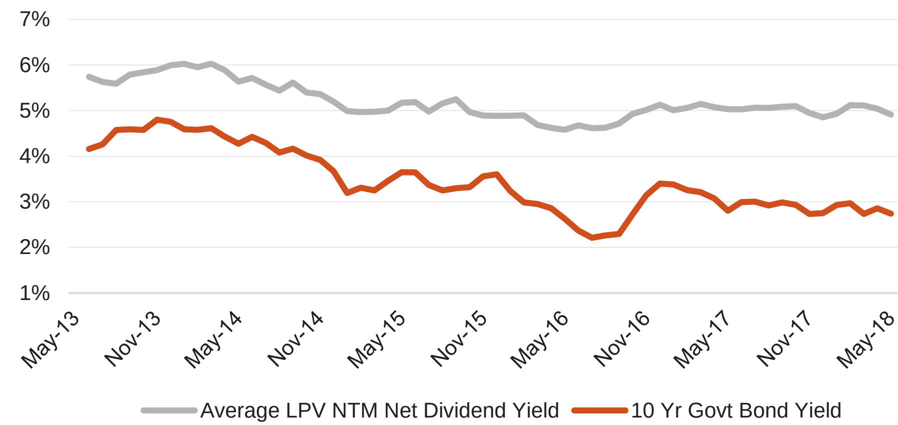
Source: Capital IQ, Northington Partners' estimates. PPF metrics based on share price of $1.033 and LPV share prices as of 30 June 2018. Gross dividend yields assume marginal investor tax rate of 30%.
[1] values do not include PPF.

Figure 10: Sector Price / NAV Ratio for the Last Five Years



Source: Capital IQ, Northington Partners Analysis.

Figure 11: Relationship Between LPVs' Forecast Dividend Yield and NZ 10yr Government Bond Yield



Source: Capital IQ, RBNZ, Northington Partners Analysis.

Trends in the New Zealand Property Sector (Industrial / Office / Retail)

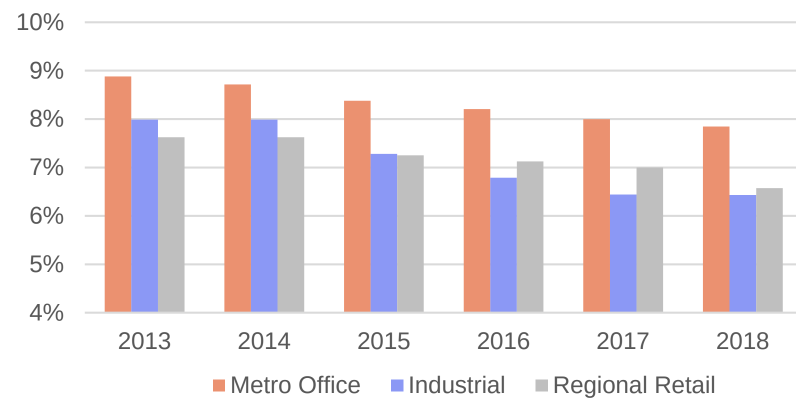
The New Zealand commercial property market has remained buoyant over the last five years.

The New Zealand commercial property market has remained buoyant over the last five years with continued momentum in most centres, but particularly in PPF's key markets of Auckland and Tauranga. In general, yields have continued to firm through time, with on-going strong interest from offshore and local investors keeping competition high across the retail, industrial and office sectors. The decline in market yields in both markets is summarised in Figures 12 and 13.

General trends across PPF's key sectors include:

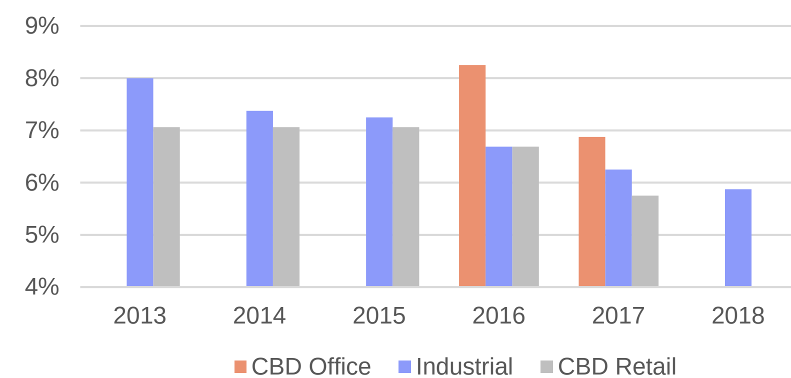
- Auckland industrial rents continue to track upwards with a lack of supply prompting significant new developments. The Tauranga industrial market is currently experiencing record low vacancy as a result of high population growth over the past few years.
- For office space, employment growth is keeping tenant demand strong and high occupancy is driving rental growth upwards in both regions. Again, significant new development (particularly in Auckland) may moderate rental growth in the medium term as new large-scale developments such as Commercial Bay are completed.
- Population growth and booming tourism have consolidated the positive retail environment in Auckland and the Tauranga region. Like the other commercial sectors, investors are struggling to find opportunities to purchase property and this demand has supressed yields. The ~$100m upgrades of both the Bayfair Centre (Mt. Maunganui) and Farmers building (Tauranga) may eventually slow rental growth in the Tauranga region but many of these large-scale developments are not due to be completed until after 2020.
- Retailers are facing an increasingly challenging environment, and this poses a longer-term risk to landlords and investors. The rise of e-commerce is constantly challenging traditional bricks and mortar stores and shopping malls to adapt and evolve, with increasing focus on how to 'Amazon-proof' retail destinations.

Figure 12: Market Yields for Auckland



Source: Colliers Research Data

Figure 13: Market Yields for Tauranga / Mt. Maunganui



Source: Colliers Research Data

Management Expense Ratios Across Property Entities

PPF's management expense ratio of 0.88% is higher than the sector average but is expected to decrease as the portfolio grows.

The total level of management costs is a key consideration for property investors. The MER is a common measure of management costs, reflecting total management and administrative expenses (including management fees, administration and other operating expenses) relative to average tangible assets.

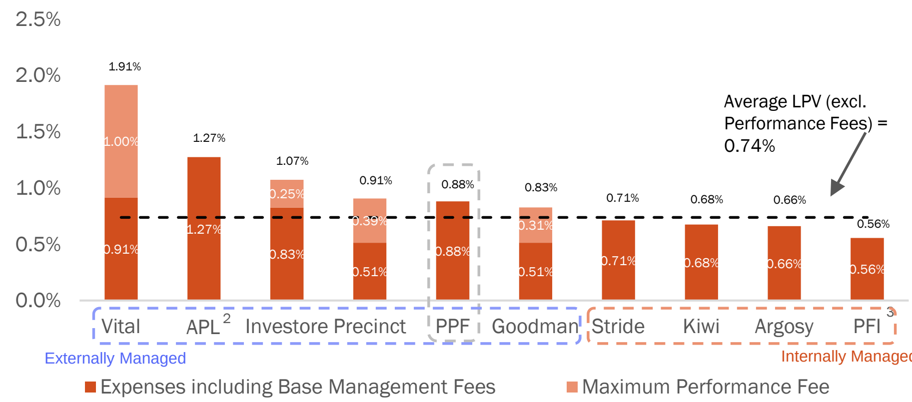
Figure 14 shows the MER for all of the LPVs relative to PPF. For externally managed entities, we also include the potential maximum performance fee (noting that PPF has no performance fee).

Excluding potential performance fees, MERs range from 0.56% to 1.27% across the LPVs. While PPF's MER of 0.88% for FY2018 is only lower than that for Asset Plus, PPF is significantly smaller than the other LPVs and does not therefore enjoy the same benefits of scale. At the same time, PPF does incur lower administration and compliance costs than entities listed on the NZX.

As PPF's operating costs include a range of fixed administration costs (e.g. audit, valuation and administration costs), the MER should be expected to marginally decrease as the Fund achieves scale and spreads these costs over a larger asset base. However, the extent of any decrease is potentially limited as the majority of PPF's MER consists of the base management fee and property management fee, which are a fixed percentage of property value and rental income respectively.

For externally managed entities, the MER is primarily driven by the base asset management fee. We note that PPF's base fee of 0.50% of the opening carrying value of investment properties is in line with best practice amongst externally managed LPVs, which all have a base management fee of 0.50% or higher for up to $500m in assets. Base management fees tend to decline to ~0.40% for assets above $500m but PPF is not expected to reach that scale in the short to medium term.

Figure 14: Management Expense Ratios and Maximum Performance Fees Across LPVs[1]



Source: Annual Reports, Capital IQ, Northington Partners' estimates.

[1] Based on latest full financial year (FY17 or FY18) for each entity and the average total tangible assets over that financial year. MER excludes leasing fees, fees paid to the managers that are typically capitalised (e.g. development fees) and those direct property fees that are fully recovered from tenants (e.g. property management fees).

[2] Asset Plus' management was externalised at the end of FY18. MER for Asset Plus reflects the final year of internal management.

[3] PFI's management was internalised mid-way through FY17. Its MER reflects half a year of external management and half a year of internal management.

Unlisted Property Issuance Costs and Tax

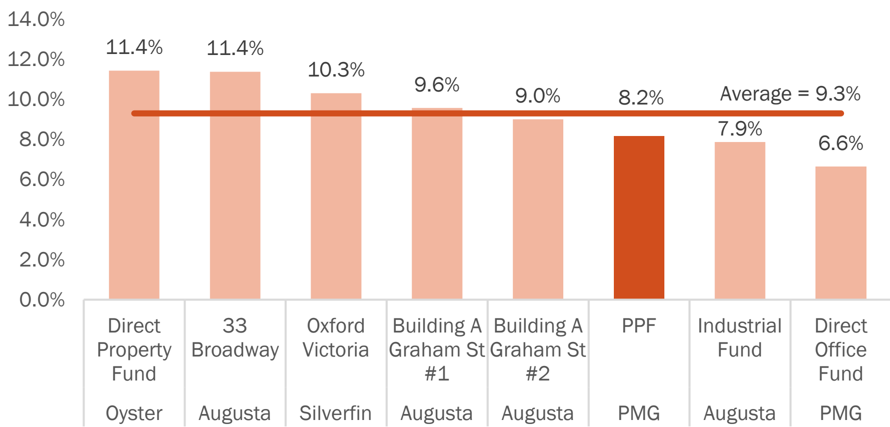
Both issuance costs and tax treatment can have a significant impact on investor returns.

Unlisted Property Issuance Costs

When making investments in unlisted property funds and syndications, investors should consider the issuance costs of each vehicle. Unlisted property vehicles typically have high issuance costs relative to LPVs due to their smaller scale and in the case of new funds/syndications, high fixed establishment costs. These costs can materially impact the net return received by investors over time.

Figure 15 outlines the issuance cost as a percentage of capital raised for major unlisted property funds and syndicates within the last two years. This illustrates that PPF's issuance costs for the most recent equity capital raise ($24.5m to fund the acquisition of Kelston Mall) equated to 8.2% of funds raised, lower than both the average cost of 9.3% and the most comparable issues.

Figure 15: Issuance Costs for Unlisted Property Funds and Syndicates over Last Two Years



Source: Scheme / Fund disclosures, Northington Partners' estimates.

Tax

PPF is structured as a multi-rate PIE for tax purposes, whereas the LPVs are "Listed PIEs". The key difference is that multi-rate PIEs such as PPF pay tax on behalf of their underlying investors at their prescribed investor rate ("**PIR**") up to a maximum PIR of 28%. Conversely, listed PIE distributions are made after corporate tax but those distributions are non-taxable in the hands of investors. Both types of PIE structure have a tax advantage for investors that are on a marginal tax rate higher than 28%, as long as the entity has the benefit of a tax shield for depreciation (e.g for property fixtures and fittings).

For a multi-rate PIE such as PPF, this advantage is recognised through a portion of each distribution being non-taxable in the investor's hands. Historically, approximately 30% of PPF's pre-tax dividends have been non-taxable and the remaining component is taxed at each investor's PIR (up to a maximum of 28%). Future gross dividend yields for PPF are dependent on the proportion of future dividends that are non-taxable, and that may be higher or lower than the 30% level realised on average in the past.

Section 4:

Fund Management and Governance

Northington Partners

Manager and Governance

The Fund is externally managed by Property Managers Limited, a member of the Property Managers Group.

Overview of the Manager

PPF contracts out its responsibilities for the management of PPF to PML, a subsidiary of PMG. PMG was formed in 1992 and has established over 29 commercial property syndications in the past 25 years in Auckland, Tauranga, Hamilton, Rotorua, Taupo and Christchurch. PMG is one of the largest property fund managers in New Zealand, having established a strong track record in the syndication and unlisted property fund market.

Under the terms of the Management Agreement between PPF and PML, PML is responsible for the day-to-day management of the properties owned by PPF. This role includes finding tenants, dealing with tenancy issues and ensuring that the properties are properly maintained and meet all legal requirements. PML is also responsible for the identification of new property opportunities.

Governance

PPF's board currently comprises Denis McMahon, Philip Tushingham, Scott McKenzie and Craig Garret. We consider the board has the necessary financial skills and expertise in the property sector, but note that:

- Messrs McMahon and McKenzie are also directors and shareholders of the Manager;
- Mr Tushingham is a shareholder and former director of the Manager.
- Three of the current four directors of PPF are therefore associates of PMG and Mr Garret is the only independent director on the board of PPF.

While we do not necessarily see this as a significant issue, we believe that best practice would be for the board to comprise a majority of directors that are independent of the Manager. This is consistent with the board structures for all externally managed listed property entities (Precinct, Goodman, Investore, Vital Healthcare and Asset Plus).

Property Managers Group

Key Management Contract Terms

The fee structure for PPF is generally in line with the externally managed LPVs.

The fees payable to PML by PPF under the Management Agreement are as follows:

- an annual asset management fee of 0.50% of the total carrying value of the properties under management;
- a fee of 1.5% of gross annual rental collected from the properties under management. Gross annual rental refers to all moneys payable under a lease;
- an acquisition fee equal to 1.0% of the purchase price of any new property acquired (with a minimum fee of $150,000 per property) until the carrying value of PPF's portfolio exceeds $250,000,000.
- a disposal fee equal to 1.0% of the sale price of each property sold by PPF;
- a project management fee of 5.0% of total development / project costs incurred for maintenance projects which are budgeted to exceed $100,000 or any project involving construction or refurbishment of a property; and
- any disbursements (such as legal and valuation costs) and other out of pocket costs reasonably incurred by the Manager in connection with the performance of its obligations and duties as the manager of PPF's properties.

Table 9 compares the fees payable under PPF's Management Agreement against those for externally managed LPVs. We believe that PPF's fee structure compares favourably with the LPVs, with its fees being in line with best practice for all fee types charged. Additionally, unlike the LPVs, PPF does not pay any performance fees.

Table 9: Summary of Management Contract Fees for PPF and Externally Managed LPVs

	PPF	Asset Plus	Goodman	Precinct	Investore	Vital Healthcare
Base Fee:						
Amount	0.50%	0.50% up to $500m, 0.40% thereafter	0.50% up to $500m, 0.40% thereafter	0.55% up to $1,000m, 0.45% $1,000m - $1,500m and 0.35% thereafter	0.55% up to $750m, 0.45% thereafter	0.75%
Asset base	Investment Properties	Total tangible assets	Average total assets	Investment Properties	Investment Properties	Average total assets
Performance Fee:						
Amount	None	10% of return above threshold	10% of return above threshold	10% of return above threshold	10% of return above threshold	10% of average annual increase in total assets over prior 3 years
Threshold	NA	Relative: NZX Property Index	Relative: NZX Property Index	Relative: NZX Property Index	Absolute: 10%	NA
Cap	NA	5% of annualised outperformance	5% of annualised outperformance	5% of annualised outperformance	5% of annualised outperformance	1% of total assets
TSR excess and deficits carried forward	NA	Yes, max 2 years	Yes, perpetual	Yes, max 2 years	Yes, max 2 years	NA
Paid as	NA	Cash	GMT units	Cash	Cash	VHP units
Other Fees:						
Leasing fees	NA	12-15% of annual rental income	Reasonably agreed	11%-20% of annual rental income	8.0% of new lease gross rent	Can charge other fees but subject to an overall cap for all management fees of 1.75% of total assets
Property management fee	1.5% of gross rent	1.5% of gross rent	Reasonably agreed	Separately agreed	$10,000 per building per annum + 4.0% of repairs	
Property acquisition / disposal fee	1.0%	1.0%	Reasonably agreed	1.0%	0.50%	
Development management fee	5.0% of development cost	3.5% of development cost	Reasonably agreed	Up to 4.0% of development cost	4.0% of development/ R&M cost	

Section 5:

Key Investment Considerations

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Drivers of Future Returns

1 Lease Income

PPF has delivered consistent underlying earnings from a diversified property portfolio with a relatively high occupancy rate and reasonably long WALT. As of 31 March 2018, PPF had 74 tenants, an occupancy rate of 99.3% and WALT of 7.7 years. This compares to the listed property sector average occupancy of 98.9% and WALT of 8.0 years. The broad range and relative credit quality of tenants provides protection against tenant default risk and a relatively stable income stream over the medium term. Furthermore, while PPF does have some upcoming lease expiries to manage, it has reduced the vacancy risk identified at Kelston Mall when it was acquired via the recent negotiation of a new long-term lease to a childcare operator.

2 Dividend vs Capital Growth

While PPF has delivered consistent dividend returns through underlying rental income, capital growth (NAV per share) had been limited prior to the FY18 financial year. Much of the property revaluation gains since inception were eroded by transaction costs associated with growing the portfolio and raising the necessary equity capital.

PPF's 7.9% total shareholder return since the initial May 2014 capital raising has been derived almost exclusively from dividend income and is below the LPV sector returns of 11.8% generated over the same period. However, PPF's more recent total shareholder returns are consistent with its listed peers and our assessed cost of equity for PPF (8.5%). Furthermore, the FY19 forecast gross yield of 8.1% (based on guidance of 7.2 cents per share) is above the sector average (7.2%). While PPF's forecast yield is below key peers Argosy and Asset Plus (8.3% and 8.9%, respectively), PPF's forecast FY19 dividend reflects a lower dividend pay-out (relative to distributable profit and adjusted funds from operations).

3 Acquisition Driven Scale

Notwithstanding the short-term negative impact on NAV and earnings growth, we consider that PPF's strategy to grow through acquisition is appropriate in order to deliver the necessary scale benefits of passive commercial property investment (including cost efficiencies, improved liquidity and more sustainable returns) and to achieve diversification (tenant, sector and geography). While PPF continues to grow in line with its target portfolio size of $250 million, the current low cap rate environment, focus on properties with limited value-add or redevelopment opportunities and modest fund size is likely to continue to inhibit its ability to grow NAV or earnings per share. Consequently, future equity returns are likely to continue to be derived predominantly by dividend income. With a focus on second-tier, higher yielding property assets, a relatively long WALT and high occupancy, PPF is likely to maintain dividend yields in line with its key listed peers over the short to medium term.

Over the longer-term, PPF's future performance will be partly reliant on reaching a size where it can:

- realise scale benefits through a lower MER; and,
- recycle its property portfolio to allow NAV and earnings per share growth with less need for new equity.

Key Investment Risks

1 Occupancy

Approximately 23% (by income) of PPF's leases expire over the next two years. PPF is therefore relatively exposed to potential vacancies if existing tenants do not elect to renew their leases or if PPF is unsuccessful in identifying new tenants. However, we believe that this risk is relatively low considering the likelihood of at least some lease renewals, the long WALT for PPF's anchor tenants and PPF's success in reducing vacancy and potential tenant default risk at Kelston Mall.

2 Tenant Default

Like all property landlords, PPF is exposed to ongoing tenant default risk. However, we note that the overall credit quality of PPF's tenants remains relatively strong with its anchor tenants generally large, well-established businesses.

3 Capital Expenditure

PPF has a number of capital expenditure projects underway, some of which are growth related (Kelston Mall). While the expenditure is expected to improve asset quality, the capex may not result in a commensurate increase in rental in the short term. In addition, PPF may be required to incur additional un-budgeted capex in order to attract new tenants, or retain existing tenants for the lease expiries expected over the next two years. Similarly, there is always a risk that PPF's properties require additional un-budgeted maintenance capex for structural repairs, as a requirement to bring the property up to designated standards or as a result of unforeseen events.

4 Gearing and Funding

Although PPF has high debt levels relative to its listed peers, its gearing level is not uncommon for private property investment vehicles. In the current property environment and considering the current tenancy mix, the risk of breach of PPF's banking covenants is likely to be limited. In addition, PPF continues to assess the potential sale of Stag Park which would reduce the ongoing debt position. Having said that, reduced occupancy, increased interest rates and/or property capitalisation rates could result in future breaches of PPF's banking facilities.

5 General Market Conditions

In general, property yields have continued to firm over the last five years, with strong on-going interest from offshore and local investors ensuring that competition for assets remains high. Whilst demand continues to exceed supply in most markets, yields are expected to remain at or close to all-time lows. However, any material uplift in interest rates or other negative economic shocks will likely have a significant effect on the value of PPF's properties and its cost of debt.

Other Considerations

Price Transparency & Share Liquidity

PPF's shares are not listed on the NZX or any other established market. While PPF offers a periodic share sale facilitation service with trades historically trading at, or near, NAV per share, there is limited "market" pricing for PPF shares. Consequently, it may be hard for investors to obtain a market price when buying or selling shares.

In this respect we note that while the listed property sector provides increased price transparency, it also results in more volatile share prices. Prices for most LPVs have gone from trading at a significant premium to NAV to currently trading at a modest discount to NAV. To the extent that PPF can continue to facilitate share trades close to NAV, this lower level of price volatility may be relatively attractive to investors.

While PML assists with the share sale facilitation service, there may not be sufficient demand or liquidity to enable PPF shareholders to buy or sell their shares at any given time. In addition, there is currently no intent to list on a licenced exchange such as the NZX and therefore liquidity may be an issue for investors who need to exit their shareholding in the future. Nonetheless, as PPF has grown, liquidity has improved and once sufficient scale is achieved the Fund is likely to have greater liquidity options (e.g. IPO on NZX).

Manager Control

As noted in Section 4, PPF's board comprises a majority of directors who are also directors or shareholders of the Manager. While this is not ideal, we do not consider that it has necessarily resulted in any potential conflicts between the interests of PPF and PMG. Nonetheless, it may create future potential conflicts (either real or perceived) when the directors are reasonably expected to act in the best interests of the Fund by taking actions which may be detrimental to the interests of PMG. Extreme examples of these circumstances include proposals to terminate the Manager for non-performance, to internalise the management of PPF or when acquiring or disposing of properties between associated companies of the Manager.

PPF's constitution provides that where a minimum or maximum number of directors has not been fixed by the board, the minimum is two and the maximum is four directors. We consider best practise would be for the board to comprise a majority of independent directors, or that an independent chair has a second casting vote for a board comprising an even number of independent and non-independent directors.

Other Considerations

In order to grow the Fund, PPF will likely require additional equity from new and existing investors. PPF has raised $68.3 million in equity capital since inception through five capital raisings, and all of the equity capital raisings have been carried out via placements which have not been on a pro rata basis. However, because the historic capital raisings have been completed at pricing close to NAV per share, there has been limited or no economic dilution to those investors that have not participated in each successive raise.

In order to avoid future value dilution, any equity capital raising will either have to be achieved at NAV per share or shareholders will have to participate pro rata to their existing shareholding. Therefore, investors should consider the possibility that they may need to make further investment in PPF in order to avoid economic dilution.

Appendix – Disclaimer & Disclosures

Declarations

This report has been commissioned by Property Managers Limited ("PML", the Manager of Pacific Property Fund Limited) and prepared and issued by Northington Partners Limited in New Zealand. Northington Partners received a fee from PML for the preparation of this report. All information used in the publication of this report has been compiled from publicly available sources or information provided directly by PPF. Although that information is believed to be reliable, neither PML nor Northington Partners guarantee the accuracy or completeness of this report.

Prior drafts of this report were provided to Property Managers Limited for review and discussion. Although minor factual changes to the report were made after the release of the first draft, there were no changes to our methodology, analysis, or conclusions.

Qualifications

Northington Partners provides an independent corporate advisory service to companies operating throughout New Zealand. The company specialises in mergers and acquisitions, capital raising support, expert opinions, financial instrument valuations, and business and share valuations. Northington Partners is retained by a mix of publicly listed companies, substantial privately held companies, and state-owned enterprises.

The individuals responsible for preparing this report are Greg Anderson B.Com, M.Com (Hons), Ph.D and Jonathan Burke B.Com (Hons), BCM. Each individual has a wealth of experience in providing independent advice to clients relating to the value of business assets and equity instruments, as well as the choice of appropriate financial structures and governance issues.

Disclaimer

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Indemnity

Property Managers Limited has agreed to indemnify Northington Partners (to the maximum extent permitted by law) for all claims, proceedings, damages, losses (including consequential losses), fines, penalties, costs, charges and expenses (including legal fees and disbursements) suffered or incurred by Northington Partners in relation to the preparation of this report, except to the extent resulting from any act or omission of Northington Partners finally determined by a New Zealand Court of competent jurisdiction to constitute negligence or bad faith by Northington Partners.

Property Managers Limited has also agreed to promptly fund Northington Partners for its reasonable costs and expenses (including legal fees and expenses) in dealing with such claims or proceedings upon presentation by Northington Partners of the relevant invoices.

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