PFI Property For Industry Limited

NOTICE OF MEETING

NOTICE OF 2017 **ANNUAL MEETING** OF SHAREHOLDERS

NOTICE IS GIVEN that the 2017 annual meeting of the shareholders of Property for Industry Limited will be held at Eden Park on Thursday 22 June 2017 at 11.00am.

In addition to the ordinary business of the annual meeting, shareholders will be asked to consider, and if thought fit pass, a resolution relating to the internalisation of the management of PFI.

Venue & parking information

The meeting will be held at
Level 4 Lounge, South Stand,
Eden Park, Auckland

ENTRY AND FREE PARKING
through P5 off Reimers Ave

Contents

THIS NOTICE OF MEETING CONTAINS THE FOLLOWING INFORMATION:

Chairman's letter

Dear Shareholders

I am pleased to invite you to attend the PFI Annual Meeting of shareholders on Thursday 22 June 2017 at 11.00am at Eden Park in Auckland.

The annual meeting is an opportunity for you to meet your Board and the PFI management team and to hear more about our progress. Our company continues to perform well with a record profit after tax achieved in the full year ending December 2016, supported by increased portfolio valuations, positive rent reviews, robust lease terms and occupancy, and a sound balance sheet.

As well as the usual meeting formalities, this year shareholders will also be asked to vote on internalising the management of PFI. This means that PFI will terminate the Management Agreement with PFIM, the external management company which has held the agreement since late 2011. PFIM will be paid a total consideration of $42 million for giving up its rights under the existing Management Agreement and PFI will become an internally managed company.

The management by PFIM has been very positive for PFI and has contributed to the delivery of strong and stable returns for our shareholders. Pleasingly, internalisation would see this partnership continue, with the retention of the existing highly experienced management team and employees.

Currently, the Management Agreement is for a perpetual term and PFI has very limited rights to terminate the agreement. PFI also has very limited control if a third party wished to negotiate to acquire the agreement from PFIM. Internalisation removes these concerns and provides PFI with complete control over the management of the company, and an ability to manage the company at a significantly lower cost.

There are a number of additional benefits also expected from internalisation:

- It will ensure the continuity of our successful strategy to invest in quality industrial property in New Zealand's main urban centres and a continued focus on delivering strong and stable shareholder returns by:
  - Managing the vacancy and upcoming lease expiries;
  - Opportunistically pursuing both core and value-add industrial acquisitions;
  - Maximising utilisation of the portfolio; and
  - Divesting non-core assets when value has been maximised and recycling capital into industrial property opportunities.
- Significant cost savings are expected to be achieved.
- It is expected to result in earnings per share accretion for shareholders.
- Post-internalisation, PFI is expected to have one of the lowest management expense ratios in the New Zealand listed property sector.

Northington Partners was appointed to provide an Appraisal Report for shareholders on the merits of the Proposed Internalisation and has concluded that:

"Taking all the key elements of the Proposed Internalisation into account, we conclude that the consideration and terms and conditions are fair to the PFI shareholders not associated with PFIM."

This statement is supported by the following conclusions made by Northington Partners in its Appraisal Report:

- Northington Partners has assessed the market value of the Management Agreement at $48 million - $56 million and estimated the valuation of the Proposed Internalisation to PFI at $63 million - $78 million, versus the Internalisation Payment of $42 million nominally, and $30.3 million on a post-tax basis.
- As a result, the Proposed Internalisation is expected to add between $33 million and $48 million of value to PFI on a post-tax NPV basis.
- The Proposed Internalisation is estimated to provide earnings accretion of approximately 6% per annum on a pro forma basis, enhancing distributable profits for PFI which allows for higher future dividends in line with PFI's dividend policy.[1]
- Post-transaction gearing remains at a reasonable level and generally in line with other listed property vehicles.

A copy of the Northington Partners report is enclosed and includes further details of the business arrangements of the Proposed Internalisation. We recommend you read this report carefully and in full.

PFI's Independent Directors also believe that internalisation will be of benefit to shareholders and unanimously recommend that PFI shareholders approve the resolution.

More details on the Proposed Internalisation and the other resolutions being put forward at the Annual Meeting are provided in the Explanatory Notes in this Notice of Meeting. We recommend you read these carefully.

Your vote is important. If you are unable to attend the annual meeting, you are able to appoint a proxy online at www.investorvote.co.nz or by completing the enclosed proxy form. Please ensure your proxy is received by 11.00am on 20 June 2017. Details on how to vote are included in the Notice of Meeting and on the proxy/voting form enclosed.

The meeting will also be streamed via live webcast at http://edge.media-server.com/m/p/fcgev3xn, and if you cannot attend the live webcast, a recording will be available to view on PFI's website shortly after the conclusion of the live event. Please note that there will be no facility to vote or participate virtually in the meeting via the live webcast.

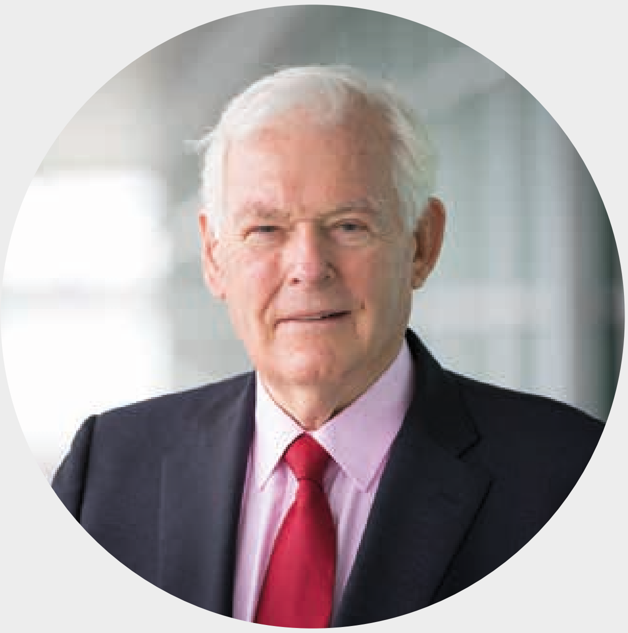
Your Board and the management team look forward to seeing you at Eden Park ■

Yours faithfully

PETER MASFEN

Chairman – Property for Industry Limited

1. PFI's dividend policy is available on the Company's website at https://www.propertyforindustry.co.nz/investor-centre/dividend-information/



“Taking all the key elements of the Proposed Internalisation into account, we conclude that the consideration and terms and conditions are fair to the PFI shareholders not associated with PFIM.”

— Northington Partners

Agenda

01

BOARD AND MANAGEMENT PRESENTATIONS

02

SHAREHOLDER DISCUSSION

03

FINANCIAL STATEMENTS

To receive the financial statements for the year ended 31 December 2016 together with the report of the auditors.

04

RESOLUTIONS

ANNUAL MEETING RESOLUTIONS

Resolution 1

That Humphry Rolleston, who retires and is eligible for re-election, be re-elected as a director of the Company.

Resolution 2

That Anthony Beverley, who retires and is eligible for re-election, be re-elected as a director of the Company.

Resolution 3

That the directors are authorised to fix the fees and expenses of the auditors, PricewaterhouseCoopers Auckland.

The directors recommend you vote in favour of resolutions 1 to 3.

INTERNALISATION RESOLUTION

Resolution 4

That the shareholders ratify, confirm and approve, pursuant to an agreement between the Company and PFIM dated 31 March 2017, the:

a. termination of the Management Agreement between the Company and PFIM; and

b. acquisition by the Company of the business of PFIM,

for consideration totalling $42,000,000, to be satisfied by way of additional borrowings, and that the Independent Directors be authorised to take all actions, do all things and execute all necessary documents and agreements necessary or considered by them to be expedient to give effect to such transactions.

The Independent Directors recommend you vote in favour of Resolution 4.

05

GENERAL BUSINESS

The Board of PFI invites attendees to join them for light refreshments at the end of the meeting.

By order of the Board of Directors.

Peter Masfen
Chairman
Property for Industry Limited

Explanatory Notes

RESOLUTION 1 AND 2:
Re-election of Directors

Under Listing Rule 3.3.11 and clause 19.5 of the Company's constitution, at least one third of Directors, or if their number is not a multiple of three, the number nearest to one third, are required to retire from office at the annual meeting. Those who retire are eligible for re-election at the annual meeting. Accordingly, Mr Humphry Rolleston and Mr Anthony Beverley both retire by rotation and, being eligible, offer themselves for re-election.

HUMPHRY ROLLESTON

Term of Office:
Appointed 1994
Board Responsibilities:
Independent Director

Humphry joined the PFI Board in 1994 when the company listed. He is chairman of tourism operator ANZCRO New Zealand Limited and a director of NZX listed company Infratil Limited. He also owns the investment company Asset Management Limited which has significant interests in a number of private Australasian companies including Matrix Security Limited, Stray Limited, Spaceships Limited, Mercer Group Limited, Plant Miner Pty Limited and Media Metro NZ Limited.

The Board considers Mr Rolleston will be an Independent Director, if reappointed, and supports his re-election.

ANTHONY BEVERLEY

Term of Office:
Appointed 2001
Board Responsibilities:
Independent Director, Deputy Chairman, Chairman Audit and Risk Committee, Chairman Nomination Committee

Anthony joined the PFI Board in 2001. He is a professional director and consultant, consulting to both the private and public sector on a wide variety of property matters. Anthony's other directorships include Arvida Group Limited, Ngai Tahu Property Limited, Harbour Quays A1 Limited, Harbour Quays D4 Limited and Harbour Quays FIF2 Limited. He was formerly head of property for AMP Capital Investors (New Zealand) Limited and is a Chartered Fellow of the New Zealand Institute of Directors, a Fellow of the New Zealand Institute of Valuers, a Fellow of the Property Institute of New Zealand, and a Fellow of the Financial Services Institute of Australasia.

The Board considers Mr Beverley will be an Independent Director, if reappointed, and supports his re-election.

RESOLUTION 3:
Auditor's Fees and Expenses

PricewaterhouseCoopers is the auditor of the Company and has indicated its willingness to continue in office. The Companies Act 1993 provides that a company's auditor is automatically reappointed unless the shareholders resolve to appoint a replacement auditor or there is some other reason for the auditor not to be reappointed.

The Companies Act provides that the fees and expenses of the auditor are to be fixed in such manner as the Company determines at the annual meeting. The Board recommends that, consistent with commercial practice, the auditor's fees be fixed by the directors.

BOXKRAFT, PENROSE

Explanatory Notes

MAINFRIEGHT, EAST TAMAKI

RESOLUTION 4: Internalisation of the Management of PFI

Resolution 4 relates to the proposed internalisation of the management of PFI, as announced to the market on 3 April 2017.[2]

Background

Currently PFI is managed by PFIM under a management agreement adopted in accordance with a deed of amendment and restatement dated 22 May 2013 entered into in connection with the merger of PFI and Direct Property Fund.

In turn, PFIM subcontracts the property and administrative management function to MRCO, a company with common, but not identical, ownership arrangements to PFIM.

The Management Agreement has a perpetual term and PFI has very limited rights to terminate the agreement. PFI also has very limited control if a third party wished to negotiate to acquire the agreement from PFIM.

Internalisation means the Management Agreement with PFIM will be terminated and PFI will take over management of the company and its property assets. This will provide PFI with complete control over the management and an ability to manage the company at a significantly lower cost.

Key Terms of the Internalisation

PFI has reached agreement to internalise the management of PFI with PFIM, with the key terms of the internalisation being:

- A payment of $42.0 million (implying a net cost for internalisation of $30.3 million post tax deductibility and before transaction costs) to PFIM as consideration for the termination of the Management Agreement and the acquisition by PFI of the business and certain assets of PFIM (business records, goodwill, fixed assets, intellectual property and contracts);
- Greg Reidy, Simon Woodhams and Craig Peirce will continue to act as Managing Director, General Manager and Chief Financial Officer respectively, under independent service contracts with PFI;
- All other employees of MRCO are offered employment with PFI, and will continue to provide the same services currently provided to PFI by them under the externalised management arrangements; and
- PFI will grant MRCO a licence under which MRCO may continue to operate its other non-PFI business out of the Prince's Wharf premises, have access to PFI's IT support systems and use PFI employees for MRCO business. To ensure that PFI business takes priority, the MRCO licence is subject to a reasonable use policy, and requires that PFI employees deliver a level and quantum of service equal to that which they provided prior to the Proposed Internalisation. In consideration for granting the MRCO licence, MRCO will pay a licence fee of $100,000 (plus GST) per annum which will be reviewed annually. Further information about the MRCO Licence, including termination rights, can be found in section 5.4.3 of the Appraisal Report.

Payment will be funded by an expansion of PFI's bank facilities, which will result in pro forma drawn bank debt of $364.2 million as at 31 December 2016 (which implies a pro forma gearing ratio of 33.6%[3]). To this end, a $50 million Institutional Credit

facility has been established with ANZ. The facility expires on 31 July 2018 and ranks alongside PFI's existing syndicated bank loan facility.

Structure of PFI After the Internalisation

In practical terms, the management structure of PFI is not expected to change following the Proposed Internalisation. MRCO's current employees have accepted continued employment with PFI and the Senior Executives will be engaged by PFI as independent contractors to ensure management continuity.

Reason for Resolution and Appraisal Report

As Greg Reidy is a director and shareholder of PFIM and represents PFIM on the PFI board, PFIM is considered a Related Party of PFI under Listing Rule 9.2.3(c). The Listing Rules prohibit PFI from entering into a "Material Transaction" with a Related Party, unless the transaction is approved by an ordinary resolution of shareholders. The internalisation is considered a Material Transaction for these purposes under Listing Rule 9.2.2(e). This relates to providing or obtaining services in respect of which the actual gross cost to PFI exceeds 1% of the average market capitalisation of the Company.

The Listing Rules require that an Appraisal Report be prepared in respect of the internalisation and comment on whether the consideration and terms and conditions of the internalisation are fair to the PFI shareholders not associated with PFIM.

Northington Partners has been appointed by the Independent Directors as an independent appraiser to provide that report. A full copy of that report is included at page 12 and includes further details of the business arrangements of the internalisation (outlined in section 5.4 of that report) including the terms of the senior executives' services contracts. The Independent Directors encourage shareholders to review that report.

Northington Partners Conclusion

Northington Partners has concluded that "the terms and conditions of the Proposed Internalisation are fair to shareholders of PFI not associated with PFIM and that the Proposed Internalisation is in the best interests of PFI". These conclusions are discussed in further detail in section 8.0 of the Appraisal Report.

This statement is supported by the following conclusions made by Northington Partners in their Appraisal Report:

- Northington Partners has assessed the market value of the Management Agreement at $48 million - $56 million and estimated the valuation of the Proposed Internalisation to PFI at $63 million - $78 million.
- As a result of the Internalisation Payment of $42 million being below the estimated value to PFI, the Proposed Internalisation is expected to add between $33 million and $48 million of value to PFI on a post-tax NPV basis.
- The Proposed Internalisation is estimated to provide earnings accretion of approximately 6% per annum on a pro forma basis, enhancing distributable profits for PFI which allows for higher future dividends in line with PFI's dividend policy.
- Post-transaction gearing remains at a reasonable level and generally in line with other listed property vehicles.
- The Proposed Internalisation ensures continuity of the management team and limits disruption.
- The Proposed Internalisation provides a potential one-off opportunity to acquire the management rights of PFI as a result of the entrenched position of the Manager.
- The Proposed Internalisation removes the possibility of potential alternative outcomes, including a sale of the Management Agreement to a third party with PFI's consent (which cannot be

2. A copy of the internalisation announcement is available on the NZX website at https://www.nzx.com/companies/PFI/announcements/299217, and on the Company's website at https://www.propertyforindustry.co.nz/investor-centre/company-announcements/

3. Total debt / total property assets. Pro forma as at 31 December 2016

Explanatory Notes

unreasonably withheld), which may occur if the Proposed Internalisation does not proceed.

The Independent Directors unanimously support the internalisation and believe that it is in the best interests of PFI shareholders.

- In particular, the Independent Directors believe that internalisation is expected to deliver:
- earnings per share accretion for shareholders as a result of significant cost savings;
- one of the lowest management expense ratios in the New Zealand listed property sector with an MER of approximately 0.4% compared to the sector average of 0.8% (excluding potential performance fees paid by other externally managed entities);
- continuity of PFI's proven management team and alignment of shareholder and management interests; and
- the continuity of PFI's successful strategy and a continued focus on delivering strong and stable shareholder returns.

The internalisation is conditional upon PFI shareholder approval. The internalisation will not occur unless Resolution 4 is approved by 50% of the valid votes cast at the meeting. Certain voting restrictions apply to Resolution 4 – these are described on page 08, under the heading "**Entitlement to Vote**".

The internalisation was also conditional upon receipt from the Inland Revenue Department of a binding ruling from the Inland Revenue Department confirming that the termination payment made by PFI to PFIM is deductible for the purposes of income tax. That binding ruling was obtained on 22 May 2017. Accordingly, the internalisation is now solely conditional on the passage of Resolution 4.

The consequences of Resolution 4 not being passed are described on pages 34 to 35 of the Appraisal Report, under the heading "**Alternatives to Internalisation**".

In summary, these alternatives include maintenance of the status quo and the risk of sale of the Management Agreement to an unknown third party (as described above).

If the transaction is not approved, PFI and PFIM will continue in their current form and the existing external Management Agreement would continue. PFIM will continue to be the manager of PFI until such time as an alternative internalisation proposal is approved by shareholders or if PFIM sells the management rights to a third party.

PROCEDURAL NOTES

Voting

Voting at the meeting shall be decided by a poll of PFI shareholders entitled to vote and voting. Set out below are details on voting matters for the meeting.

A Voting/Proxy Form for use at the meeting is enclosed with this notice of meeting, which you should bring to the meeting as it also constitutes your voting paper.

Entitlement to Vote

Every PFI shareholder whose name is registered in the share register as at 5.00pm on 20 June 2017 and who is present at the meeting in person or by proxy or in the case of a body corporate shareholder, by representative, can vote in respect of Resolutions 1 through 4 and shall have one vote in respect of every fully paid PFI share held by that PFI shareholder at that time, subject to the following voting restriction.

By virtue of Listing Rule 9.3.1, neither PFIM nor its Associated Persons (as defined in the Listing Rules) are entitled to vote in favour of Resolution 4 and accordingly any votes cast by PFIM (or its Associated Persons) in favour of the resolution will be disregarded by the Company (unless such votes are cast by such person acting as an express proxy to a person who is not disqualified from voting on the resolution, in accordance with the express instructions of the appointor to vote for or against the resolution). As noted above, Greg Reidy is a shareholder and director of PFIM, so he will be unable to vote or be appointed as a discretionary proxy in respect of Resolution 4.

How you can vote

PFI shareholders can vote in any one of the following ways:

- In person
- By appointing a proxy online at www.investorvote.co.nz
- By appointing a proxy using the enclosed form
- By representative (if the shareholder is a body corporate)

Proxies and Corporate Representatives

Any shareholder who is entitled to vote at the annual meeting may appoint a proxy (or in the case of a corporate shareholder, a representative) to attend and vote in your place. A proxy or representative need not

BOXCRAFT, 80 HUGO JOHNSTON DR, PENROSE

Explanatory Notes

be a shareholder of the Company. You may direct your proxy or representative to vote, or give your proxy or representative a discretion to vote how he/she sees fit. If you wish to give your proxy or representative such discretion you should mark the box accordingly. If you do not mark any box then your direction is to abstain.

A Proxy/Voting Form is attached to this notice of meeting. If you wish to appoint a proxy to vote on your behalf, you must complete the Voting/Proxy Form and produce it to the Company so as to be received (either by post, fax or online) **no later than 11.00am on Tuesday 20 June 2017**.

Alternatively, shareholders can appoint a proxy online at www.investorvote.co.nz in accordance with the instructions set out in the enclosed Proxy/Voting Form.

The Chairman of the Company is willing to act as proxy. If you appoint the Chairman as proxy but do not direct him how to vote on any particular matter, then the Chairman intends to vote in favour of each of the resolutions.

Required Votes

Resolutions 1 through 4 are ordinary resolutions that each require a simple majority of more than 50% of the valid votes cast at the meeting.

Shareholder Questions

Shareholders present at the meeting will have the opportunity to ask questions during the meeting.

In addition, shareholders have the opportunity to ask questions in advance of the meeting. If you would like to ask a question please either email your question to info@propertyforindustry.co.nz with 'Meeting Question' in the subject line, or post your question to the Company Secretary, Property For Industry Limited, PO Box 1147, Shortland Street, Auckland 1140. Please include your name and shareholder number. During the meeting, the Board intends to answer as many of the most frequently asked questions as is reasonably practicable. All questions should be received by PFI by 11.00am on 20 June 2017.

Motions will not be allowed from the floor.

Presentations

The presentations from the annual meeting will be released to the NZX and published on the Company website at https://www.propertyforindustry.co.nz/investor-centre/annual-meeting/ on 22 June 2017 at the conclusion of the meeting. A summary of the meeting and the results of voting will be released to the NZX as soon as practicable following the close of the annual meeting.

VENUE AND PARKING INFORMATION

The meeting will be held at the **level 4 Lounge, South Stand, Eden Park, Auckland.**

Following the Meeting

Shareholders are invited to join the directors and management for refreshments following the meeting.

Glossary

Appraisal Report	Independent Appraisal Report dated 24 May 2017 prepared by Northington Partners in relation to the Proposed Internalisation
Board	The board of directors of PFI
Company	Property for Industry Limited
Independent Director	An independent director in accordance with Listing Rule 1.6.1, being a director who is not an executive officer of PFI, and does not have any direct or indirect interest or relationship that could reasonably influence, in a material way, the director's decisions in relation to PFI
Listing Rule(s)	NZX Main Board Listing Rules
Management Agreement	The management agreement for PFI adopted in accordance with a deed of amendment and restatement dated 22 May 2013 entered into by PFI and PFIM
MER	Management Expense Ratio, being total management and administration costs (including management fees, administration and other operating expenses relative to average total assets)
MRCO	McDougall Reidy & Co Limited
MRCO Licence	Licence granted by PFI to MRCO under the Proposed Internalisation
Northington Partners	Northington Partners Limited
NPV	Net Present Value
NZX	NZX Limited
PFI	Property for Industry Limited
PFIM	PFIM Limited
Proposed Internalisation	Internalisation of the management of PFI as described in this Notice of Meeting and the Appraisal Report
Senior Executives	Greg Reidy, Craig Peirce, Simon Woodhams

Northington Partners

Property for Industry Limited

Independent Appraisal Report Prepared in Relation to the Proposed Management Internalisation

May 2017

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Abbreviations and Definitions

Appraisal Report	This report prepared by Northington Partners
Argosy	Argosy Property Limited
AUM	Assets under management
Augusta	Augusta Capital Limited
Company	Property for Industry Limited
DPF	Direct Property Fund Limited, which merged with PFI in July 2013
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
FY	In relation to PFI, financial year ending 31 December
Goodman	Goodman Property Trust
Internalisation Payment	The payment of $42m to PFIM as consideration for the termination of the Management Agreement and the acquisition of the business and assets of PFIM
Investore	Investore Property Limited
Kiwi Property Group	Kiwi Property Group Limited
LPV	Listed property vehicle
Management Agreement	The management agreement for PFI adopted in accordance with a deed of amendment and restatement dated 22 May 2013 entered into by PFI and PFIM
Manager	PFIM, the manager of PFI
MER	Management expense ratio, being total management and administration costs (including management fees, administration and other operating expenses) relative to average total assets
MRCO	McDougall Reidy & Co Limited
Northington Partners	Northington Partners Limited
Notice of Meeting	The notice of meeting of PFI shareholders and accompanying material in relation to the Proposed Internalisation
NPT	NPT Limited
NTA	Net tangible assets
NZX	NZX Limited
PFI	Property for Industry Limited
PFIM	PFIM Limited, the manager of PFI
Precinct	Precinct Properties New Zealand Limited
Proposed Internalisation	The cancellation of the PFI Management Agreement and related transactions as described in this Appraisal Report
Senior Executives	Each of Greg Reidy, Craig Peirce and Simon Woodhams pursuant to the Senior Executive Services Contracts
Senior Executive Services Contracts	The services contracts entered into between PFI and each of the Senior Executives under which the services, terms and remuneration of the Senior Executive is determined
Stride	Stride Property Limited
TSR	Total shareholder return
Vital Healthcare	Vital Healthcare Property Trust
WALT	Weighted average lease term

1.0 Executive Summary

1.1. Introduction

Property for Industry Limited ("**PFI**" or the "**Company**") is an industrial property fund that is listed on the main board of the NZX. PFI is currently externally managed by PFIM Limited ("**PFIM**"), pursuant to a management agreement that was originally put in place in 1994 and which was last amended in 2013 ("**Management Agreement**").

PFI and PFIM have reached a conditional agreement to a transaction which will effectively internalise the management of PFI (the "**Proposed Internalisation**"). The total consideration that will be paid by PFI is $42 million ("**Internalisation Payment**"), representing the negotiated payment to PFIM for giving up its rights under the existing Management Agreement.

Given the nature of the contractual relationship between PFI and PFIM, the Proposed Internalisation constitutes a material transaction with a related party under the NZX Listing Rules and must be approved by an ordinary resolution of PFI's shareholders. As part of that process, PFI has appointed Northington Partners Limited ("**Northington Partners**") to prepare an Appraisal Report for the benefit of the PFI shareholders not associated with PFIM. The main purpose of the report is to assist those shareholders to decide whether or not to approve the Proposed Internalisation.

As set out in more detail in Section 2.0, this report has been prepared in accordance with the requirements of Rule 1.7.2 of the NZX Listing Rules.

1.2. Summary of the Proposed Internalisation

A subcommittee of PFI's independent directors has negotiated the Proposed Internalisation with PFIM whereby PFI will internalise its management through the following:

- Paying the total Internalisation Payment of $42.0 million to PFIM, comprising:
  - A termination payment of $41.9 million for the relinquishment of the Management Agreement; and
  - Payment of $0.1 million for the acquisition of certain assets used in the PFIM business.
- Entry into a new lease allowing PFI to effectively continue operating at the current office premises used by PFIM;
- The entry into services contracts between PFI and each of the key executives of PFIM under which the services and terms for PFI's managing director, general manager and CFO are determined; and
- Transitioning existing employees involved in managing PFI (other than the key executives above) to PFI on terms substantially similar to their current terms of employment.

Following the Proposed Internalisation, PFI will no longer continue to pay base management and performance fees to PFIM but instead incur internal management costs for the retention of employees/contractors and other administrative functions of managing PFI in-house.

1.3. Summary of our Assessment of the Proposed Transaction for PFI Shareholders

Our full assessment of the merits of the Proposed Internalisation for PFI shareholders is set out in Section 6.0 and Section 7.0, and summarised below in Table 1.

Table 1: Summary of Conclusions in Relation to Internalisation of PFI's Management

Item	Key Conclusions	Further Information
Internalisation Payment	▪ We have assessed the fair market value for the Management Agreement to be in a range between \$48 million and \$56 million, with a mid-point valuation of \$52 million. This represents the likely price achievable in an arms-length sale of the Management Agreement to a third party. ▪ The Internalisation Payment of \$42 million is 19% lower than our mid-point valuation. PFI also has a binding ruling from the IRD that the termination component of the Internalisation Payment is deductible for tax purposes. The post-tax value of the Internalisation Payment of \$30 million represents a 41% discount to our mid-point market valuation for the Management Agreement. ▪ On the basis of this comparison, we conclude that the value of the Internalisation Payment is fair to PFI shareholders not associated with PFIM.	Section 6.0
Other Considerations	▪ We have also assessed the value to PFI of the Proposed Internalisation, being the present value of the future cost savings from internal management, valued at PFI's weighted average cost of capital. This results in a value range of \$63 to \$78 million. Based on the post-tax value of the Internalisation Payment of \$30 million, the Proposed Internalisation represents a net present value benefit to PFI of between \$33 million to \$48 million (with a mid-point of \$40 million). ▪ The Proposed Internalisation will significantly reduce PFI's overall management expenses. Following the Proposed Internalisation, PFI will likely have the lowest management expense ratio ("**MER**") in the listed property sector with an MER of approximately 0.4%, relative to the sector average at 0.8% (excluding potential performance fees paid by other externally managed entities). ▪ We estimate that the Proposed Internalisation will result in increased distributable profits to PFI shareholders of between 5% to 6% (on a normalised FY2016 pro forma basis). All else being equal, this increase in earnings should allow for increased dividends. ▪ While the Proposed Internalisation will modestly increase gearing by approximately 3% (to 34%), and reduce NTA by approximately 7 cents per share to \$1.54 (FY2016 pro forma), in our view these impacts are more than outweighed by the net present value benefit and earnings enhancements noted above. Collectively, we believe that the Proposed Internalisation will provide material financial benefits to PFI shareholders. ▪ Other non-financial benefits of the Proposed Internalisation include: – Elimination of the risk that the Management Agreement could be sold to another third party which does not have the same skills and experience to ensure optimal on-going management of PFI; – The removal of potential conflicts of interest between PFI shareholders and PFIM; and – Greater control over the management of PFI.	Section 7.0

1.4. Conclusion Regarding the Merits of the Proposed Internalisation

Taking all the key elements of the Proposed Internalisation into account, we conclude that the consideration and terms and conditions are fair to the PFI shareholders not associated with PFIM:

- The Internalisation Payment is well below our assessment of the market value for the Management Agreement, especially when considered on a post-tax basis and relative to the net present value of the costs savings from the Proposed Internalisation to PFI;

- The Proposed Internalisation will improve PFI's distributable profits and should allow for increased dividends;
- Given the relatively orderly transition expected from external to internal management, there are limited downside risks to PFI shareholders from the Proposed Internalisation process; and
- PFI currently has no ability to remove PFIM as manager unless it becomes insolvent or does not carry out its duties under the Management Agreement. The Proposed Internalisation therefore provides PFI with an opportunity to acquire the management rights for the Company which may not become available again in the foreseeable future.

2.0 Scope of the Report

2.1. Regulatory Requirements

2.1.1. NZX Listing Rule Requirements

The Proposed Internalisation is subject to rule 9.2 of the NZX Listing Rules. Pursuant to rule 9.2.1, PFI may not enter into a Material Transaction with a Related Party unless that transaction is approved at a meeting of shareholders by an ordinary resolution.

Based on the approach taken by NZX Market Supervision in precedent transactions, the appropriate threshold to apply when assessing whether the internalisation is a "Material Transaction" for the purposes of the Listing Rules is the threshold contained in Listing Rule 9.2.2(e). This relates to providing or obtaining services in respect of which the actual gross cost to PFI exceeds 1% of the average market capitalisation of the Company. Under the Proposed Internalisation, PFI would make a payment of $42 million to the Manager for the termination of the Management Agreement and the acquisition of the business and certain assets of PFIM, representing approximately 6% of PFI's current market capitalisation.

Listing Rule 9.2.5(b) requires that the notice of meeting to consider the ordinary resolution referred to above must be accompanied by an Appraisal Report, prepared by an independent adviser to opine on the fairness of the transaction to shareholders not associated with the related parties. This report is therefore addressed to the independent directors of PFI for the benefit of shareholders not associated with PFIM.

The report should not be used for any other purpose and should be read in conjunction with the declarations, qualifications and consents set out in Appendix 5.

2.1.2. Declarations

Pursuant to Listing Rule 1.7.2, we state that:

(i) In our opinion, the consideration and the terms and conditions of the Proposed Internalisation are fair to shareholders of PFI other than those associated with PFIM. The grounds for this opinion are set out in this report;

(ii) We believe that the shareholders entitled to vote on the resolution in relation to the Proposed Internalisation will be provided with sufficient information to understand all relevant factors and on which to make an informed decision. The two main sources of information are this report and the Notice of Meeting;

(iii) We confirm that we have been provided with all of the information that we believe is required for the purposes of preparing this report; and

(iv) The material assumptions on which our opinion has been based are clearly set out in the body of this report.

2.2. Basis of Assessment and Evaluation

The content required to be included in the Appraisal Report pursuant to the NZX Listing Rules is clearly set out in rule 1.7.2. Among other things, the Appraisal Report must state whether or not the reporter considers that the terms and conditions of the proposed transaction are "*fair*" to the Company's shareholders other than those shareholders (if any) that may be associated with the related parties to the transaction. Although there is no statutory definition of "*fair*" or any specific guidance provided in the NZX Listing Rules, our assessment of the fairness of the Proposed Transaction is based on a consideration of:

- The consequences for the existing shareholders if the Proposed Internalisation is approved or not approved; and
- The overall terms of the Proposed Internalisation.

Northington Partners has evaluated the Proposed Internalisation by reviewing the following factors:

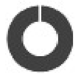
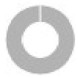
- The assessed value range for the management contract of PFI and the termination payment under the Proposed Internalisation when compared to that assessed value range; and
- Other considerations that may be necessary for shareholders to make an informed decision in relation to the Proposed Internalisation.

3.0 Overview of the New Zealand Listed Property Sector

3.1. Industry Overview

Table 2 summarises the entities operating in the New Zealand listed property sector by size and sector focus, and illustrates that half of the entities remain externally managed. The table also highlights that several entities have a primary focus on one property type; these include PFI (industrial), Precinct (office), Vital (medical properties) and Investore (retail). The remainder are largely diversified across a combination of property types.

Table 2: LPVs on the NZX

Entity	Entity Type	Management Structure	Market Capitalisation	Sector Exposure
Kiwi Property Group	Company	Internal	$1,813m	
Goodman Property	Trust	External	$1,555m	
Precinct Properties	Company	External	$1,453m	
Vital Healthcare	Trust	External	$948m	
Argosy Property	Company	Internal	$819m	
PFI	Company	External	$719m	
Stride Property	Stapled Group	Internal	$628m	
Investore Property	Company	External	$346m	
NPT	Company	Internal	$100m	
Augusta Capital[1]	Company	Internal	$89m	

Source: Annual Reports, Company announcements and presentations of each LPV, Capital IQ. Market Capitalisation as of 8 May 2017.
[1] Augusta Capital has contracted to progressively sell its entire investment property portfolio by April 2019.

3.2. Key Metrics for each Listed Entity

Table 3 sets out some of the key metrics for each LPV including relative portfolio size, weighted average lease term ("**WALT**"), market price relative to net tangible assets ("**NTA**") and gearing levels. These represent some of the key factors that both property investors and managers focus on. Generally, all managers seek to maximise occupancy, extend the WALT of the portfolio and smooth the lease expiry profile, while also optimising equity returns through the use of an appropriate level of gearing.

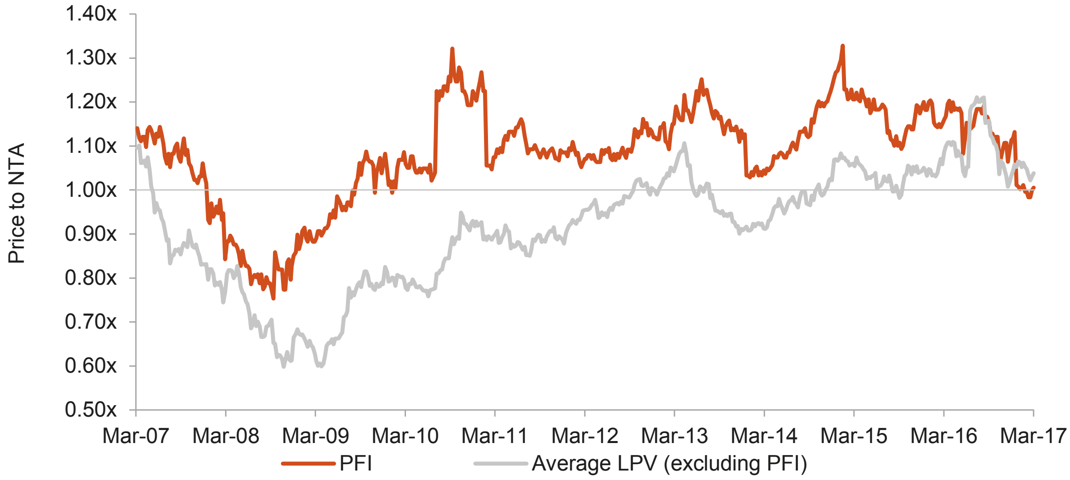
Table 3: Key Metrics Across LPVs

Entity	Portfolio Value	No. of Properties	Avg. Property Value	Occupancy	WALT	Price to NTA	Gearing[1]
Kiwi Property Group	$2,879m	14	$206m	98.6%	5.5	1.05x	34.9%
Goodman	$2,110m	14	$151m	96.0%	5.7	0.99x	28.3%[2]
Precinct	$1,814m	13	$140m	99.0%	5.9	1.03x	18.4%
Vital Healthcare	$1,064m	32	$33m	99.0%	17.6	1.28x	24.4%
Argosy	$1,405m	64	$22m	97.9%	5.3	0.98x	35.8%
PFI	$1,083m	83	$13m	99.6%	4.8	1.01x	30.7%
Stride	$846m	29	$29m	92.1%	5.5	1.07x	34.7%
Investore	$643m	39	$16m	99.7%	14.4	0.90x	40.5%
NPT	$169m	5	$34m	96.5%	5.2	0.83x	32.8%
Augusta	$94m	5	$19m	97.2%	5.7	1.03x[3]	38.6%
Average	$1,211m	30	$72m	97.6%	7.6	1.02x	31.9%

Source: Annual Reports, Company announcements and presentations of each LPV, Capital IQ.
[1] Gearing is calculated as interest-bearing debt / investment property portfolio value, except for Augusta which is based on total assets due to the significance of its fund management operations.
[2] Gearing measured net of receivables from properties contracted for sale.
[3] Augusta NTA adjusted to include intangibles relating to the purchase of fund management business assets.

Figure 1 sets out PFI's historical price to NTA compared to the sector average. Historically, PFI has generally traded at a premium to NTA apart from during the period following the global financial crisis. It has also typically traded at a premium to the broader listed property sector although more recently, PFI's price to NTA has converged with the sector average and is now trading at levels close to current NTA.

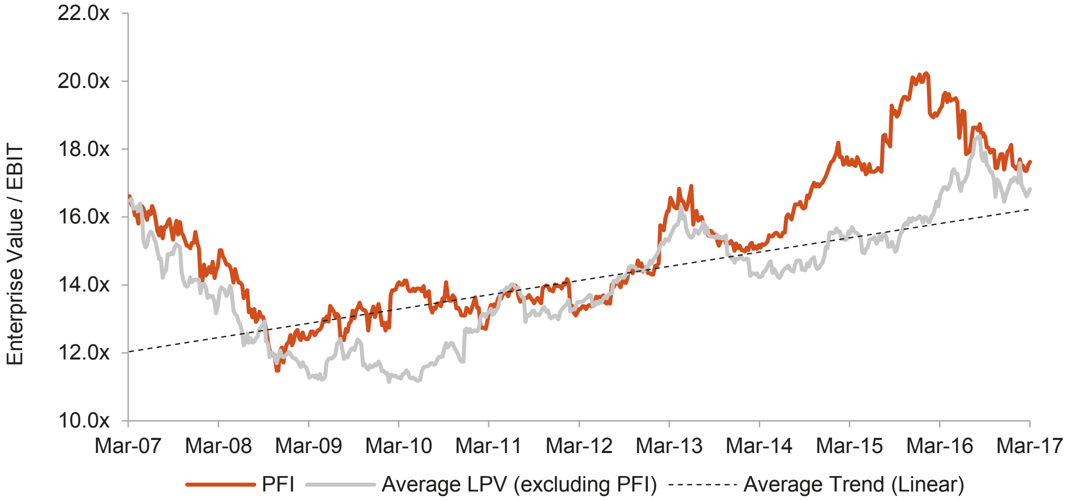
Figure 1: Price to NTA over the Last 10 Years for PFI and Listed Property Sector



Source: Capital IQ, Northington Partners Analysis.

Figure 2 sets out PFI's historical Enterprise Value ("**EV**") / EBIT multiple relative to the sector and shows that PFI's valuation multiple has been historically consistent with the market average. While the sector's EV / EBIT multiples dropped significantly in the two-year period following the global financial crisis, they have steadily increased since then to levels above pre-crisis highs. The current market average price implies a multiple of approximately 17x EBIT. This significant valuation multiple expansion largely reflects the current low interest rate and strong economic environment which New Zealand has enjoyed over the last few years.

Figure 2: Sector Enterprise Value / EBIT Multiple over the Last 10 Years



Source: Capital IQ, Northington Partners' Analysis.

3.3. Property Management Structures

All LPVs are either managed by an internal management team or by a separate external entity. Externally managed entities typically have no staff of their own and appoint a third party to undertake management of the property portfolio in return for management fees. Conversely, internally managed vehicles undertake responsibility for the management of property portfolios through directly employed staff.

Historically, New Zealand LPVs were often established using unit trust structures which, under the Unit Trusts Act, required the appointment of an external manager. The small number of LPVs initially listed as companies were also often established with external management. There has however been an increasing trend to internalisation over the last five - seven years, both here in New Zealand and in other offshore markets. This is reflected in the fact that all of the 10 New Zealand LPVs were at some point externally managed, but five have internalised since 2010 (DNZ/Stride, NPT, Argosy, Kermadec/Augusta and Kiwi Property). Vital Healthcare also proposed to internalise but the manager of Vital Healthcare subsequently sold the management agreement to a third party.

The main benefits usually associated with internalisation include:

- Removal of a potential misalignment of interests between the manager and the managed entity, whereby the manager has a strong incentive to grow assets under management in order to maximise management fees, but when the growth may not be in the best interests of the entity itself. Under internalisation, the property vehicle gains control of the management team and is directly responsible for the entity's strategic direction.
- Retention of the management team and institutional knowledge within the managed entity.
- Elimination of the risk that the management agreement could be sold to a third party which may not have the skills or experience to ensure optimal on-going management.
- A potential reduction in overall management expenses. Depending on scale, external management fees often exceed the cost of internal management, partly reflecting that the shareholders of the external management company require a profit over and above the costs of managing the entity. Cost savings can be significant, particularly for larger entities with the potential benefits of scale.
- Removal of the possible impediment to corporate takeover or merger activity.

3.4. External Management Fees

The management functions for LPVs can generally be split into two broad categories:

- Fund management services. These involve management of the listed vehicle itself including financial reporting, debt management and strategy development and execution. For externally management vehicles, fees for these services are typically charged as base fees calculated as a percent of assets under management.

- Property management services. Key services include day to day management of the properties and tenants, collecting rents, tenancy leasing (for both new leases and lease renewals), conducting rent reviews, and project and property development. For externally managed vehicles these services are typically charged in accordance with a prescribed fee schedule, or are outsourced to other external parties with the cost charged back to the managed entity.

We note that it is often difficult to directly compare base management fees in isolation due to different levels of services being provided. For example, the base management fee paid by PFI to PFIM covers a range of property management services which other managers are either not required to perform or which attract a separate fee. The different structure partly reflects the industrial nature of PFI's portfolio, which would generally require less intensive property management than larger multi-tenanted office or retail properties.

In addition to fund and property management fees, all of the externally managed LPVs charge performance fees which attempt to align the interests of the manager and the managed vehicle. These performance fees are usually based on the total shareholder return ("**TSR**") for the listed entity, with the manager sharing a portion of any return achieved above a prescribed return threshold. With the exception of Vital Healthcare, the threshold is either an absolute benchmark or a relative benchmark set with reference to a market index (in the case of Goodman and Precinct, the performance of the funds relative to the NZX property index).

Table 4 below sets out a summary of the current management fee structures for the five externally managed LPVs.

Table 4: Summary of Management Contracts for New Zealand Externally Managed Property Vehicles

	PFI	Goodman	Precinct	Investore	Vital Healthcare
Base Fee:					
Amount	0.725% up to $425m, 0.45% between $425m and $775m and 0.35% thereafter	0.50% up to $500m, 0.40% thereafter	0.55% up to $1,000m, 0.45% between $1,000m and $1,500m and 0.35% thereafter	0.55% up to $750m, 0.45% thereafter	0.75%
Asset base	Total tangible assets	Average total assets less cash & debtors	Investment Properties	Investment Properties	Average total assets
Performance Fee:					
Amount	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, excluding any increase in assets acquired arising solely through the issue of new equity
Threshold	Absolute: 10%	Relative: NZX Property Index (excl GMT)	Relative: NZX Property Index (excl PCT)	Absolute: 10%	NA
Cap	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	Yes, max 2 years	Yes, perpetual	Yes, max 2 years	Yes, max 2 years	NA
Paid as	Cash	GMT units	Cash	Cash	VHP units

	PFI	Goodman	Precinct	Investore	Vital Healthcare
Property Management/ Other Fees?:	No	Yes	Yes	Yes	Can charge other fees but subject to an overall cap for all management fees of 1.75% of total assets
Leasing fees		Reasonably agreed	New leases: Leasing fees of between 11% to 20% of annual rental income depending on the term of the lease. Renewals: 25%/50%/75% of the level for new leases based on the level of engagement and whether competitively renewed	8.0% new lease gross rent	
Property management		Reasonably agreed	Separately agreed	NA	
Facilities management		Reasonably agreed	Separately agreed	$10,000 per building per annum	
Property acquisition / disposal fee		Reasonably agreed	1.0% where no agent and up to 1.0% total including agent	0.50%	
Development / capital expenditure		Reasonably agreed	Up to 4.0% of development cost	4.0% of development/ R&M cost	

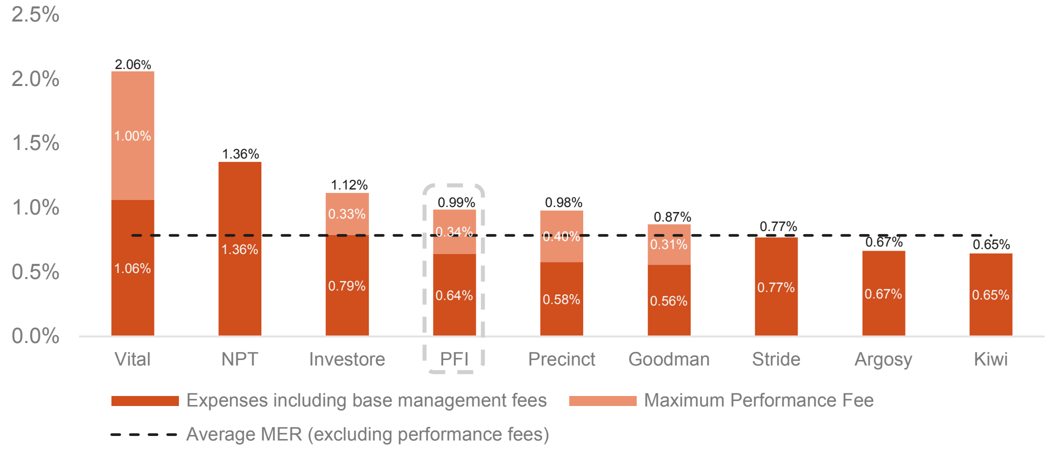
Source: Public Documents for Company / Trust, Northington Partners Analysis.

3.5. Management Expense Ratios

Whether a LPV is externally or internally managed, a key consideration for investors is the total level of management costs. We have estimated the total management expense ratio ("**MER**") for all of the LPVs in FY2016, reflecting the total management and administration expenses (including management fees, administration and other operating expenses) relative to average total assets. For externally managed vehicles, we have also added the potential maximum performance fee even though we note that in FY2016 only PFI and Vital Healthcare actually paid any performance fees. The results of our analysis are provided in Figure 3 below[1].

[1] This analysis is provided for high level comparative purposes only. The estimation approach is difficult to apply consistently across entities and does not include fees for all of the services that have been charged by external managers. For example, whereas PFIM is not entitled to charge additional fees, some external managers are paid for expenses which are treated as direct property expenses (e.g. leasing fees and property management fees) or which are capitalised (e.g. development and disposal fees).

Figure 3: FY2016 Management Expense Ratios and Maximum Performance Fees Across LPVs (% of Average Total Tangible Assets)[1]



Source: Annual Reports, Capital IQ, Northington Partners' estimates. Augusta excluded due to sale of investment property portfolio.
[1] Based on FY2016 results for each entity and the average total tangible assets over FY2016 (i.e. the average of FY2015 and FY2016 closing total tangible assets). MER excludes leasing fees, fees paid to the managers that are capitalised (e.g. development fees) and non-recoverable direct property costs other than management fees not recovered from tenants.

Excluding potential performance fees, the MER ranges from 0.65% to 1.36% across the nine listed entities above, with an average of 0.79%. PFI's MER was 0.64% (excluding performance fees) and 0.81% including the $1.8 million of performance fees actually paid in FY2016 (as opposed to a total MER of 0.99% reflecting the maximum level of performance fees that could have been paid). While PFI's MER is in-line with other similar sized LPVs, we estimate that had the Proposed Internalisation occurred at the start of FY2016, this would have resulted in a MER for PFI of 0.38% (0.42% when including 50% of potential performance bonuses payable to the Senior Executives) which would have represented the lowest MER in the listed property sector (this is illustrated further in Section 7.1).

4.0 Profile of PFI

4.1. Overview of the Company

PFI was founded in 1993 jointly by Willis Bond & Co and Morrison & Co, and soon listed on the NZX Main Board in December 1994. The other material event in PFI's history was its merger with Direct Property Fund ("**DPF**") in July 2013, which more than doubled its portfolio value to $814 million. Today PFI is the only LPV in New Zealand that focuses solely on industrial property.

PFI's management agreement has changed hands twice since the Company was formed. AMP Capital Investors acquired the management rights in 1999 from Willis Bond & Co and Morrison & Co and then sold them to the current managers, PFIM in 2011.

4.2. Property Portfolio

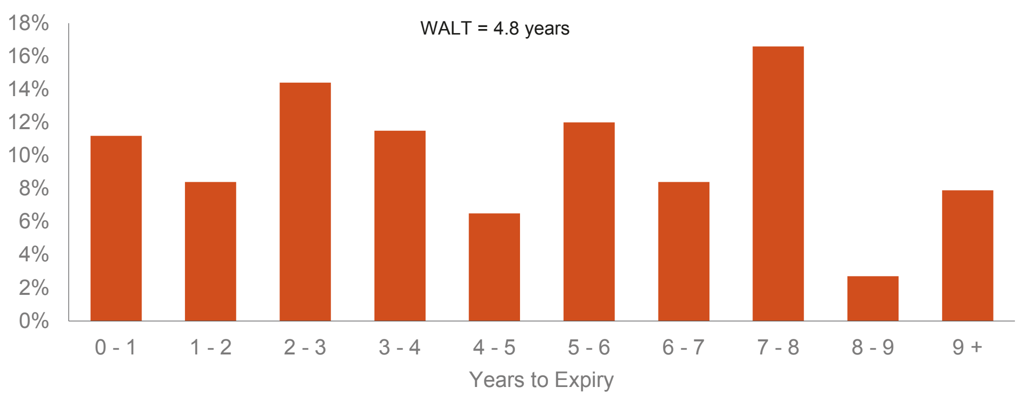
PFI has 83 properties in its portfolio with an aggregate value of $1,083.3m as at 31 December 2016, including $3.6m of development land relating to 4 of these properties. Post balance date (in February 2017), PFI purchased a $14.2m industrial property in East Tamaki.

PFI has an active strategy to focus its portfolio on industrial property, predominantly located in Auckland. Most of its properties are in Auckland's commercial hubs such as Mount Wellington, Penrose and East Tamaki. A full list of PFI's properties is detailed in its Annual Report.

PFI has 143 tenants across its portfolio properties with an overall occupancy rate of 99.6% as at 31 December 2016. PFI's income is diversified with regards to tenancy concentration risk with the top 10 tenants contributing just 34.1% of total rental income. Its tenants are typically large, established corporates with the top 10 tenants including Fisher and Paykel Appliances, Fletcher Building, Nestle and Mainfreight.

Figure 4 shows the lease expiry profile for leases in place as at 31 December 2016. This demonstrates a relatively smooth expiry profile, with a weighted average lease term of 4.8 years.

Figure 4: Lease Expiry Profile (by Income)



Source: PFI.

4.3. Significant Historical Events

Key milestones in PFI's history are summarised below.

Date	Event
1993	PFI founded by Willis Bond & Co and Morrison & Co.
1994	Listed on the NZX.
1999	Management contract sold to AMP Capital Investors.
2012	AMP Capital Investors sells management contract for PFI to PFIM, a company associated with the manager of Direct Property Fund.

2013	PFI merges with DPF to create the fifth largest LPV in New Zealand. PFI's current fee structure for the management agreement introduced following shareholder approval.
2015	Raises $49.5m via rights issue to fund partially acquisitions and developments. PFI acquires a set of five Penrose properties leased to Sistema Plastics and 232 Cavendish Drive.

Source: PFI announcements, website.

4.4. Capital Structure and Ownership

As at 30 April 2017, PFI had 452,458,592 ordinary shares on issue. PFI's shares are largely held by custodial entities on behalf of a range of investors. The top five shareholders as at 30 April 2017 are set out in Table 5.

Table 5: Top 5 Shareholders

Shareholder	Shares Held	Shareholding Percentage
FNZ Custodians Limited	32,613,386	7.2%
Forsyth Barr Custodians Limited	21,705,884	4.8%
The New Zealand Guardian Trust Company	21,599,961	4.8%
Accident Compensation Corporation	16,397,378	3.6%
Custodial Services Limited	13,804,809	3.1%
Top 5	**106,121,418**	**23.5%**
Other Minority Shareholders	346,337,174	76.5%
	452,458,592	**100%**

Source: IRESS

Based on shareholder disclosures there are two substantial security holders (those with a beneficial interest of 5% or more in PFI's shares), being the investment management arms of ANZ and BNZ. These are summarised in Table 6.

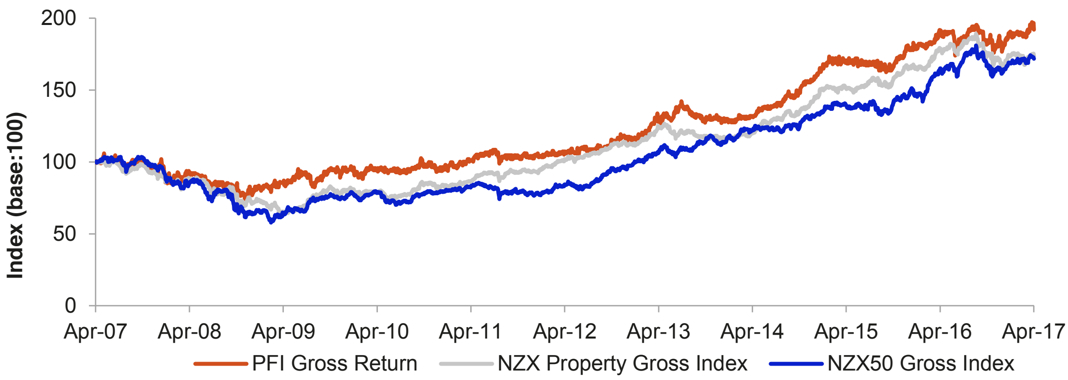
Table 6: Substantial Security Holders (Based on Current Shares on Issue)

Shareholder	Shares Held	Shareholding Percentage
ANZ New Zealand Investments Limited	24,022,302	5.3%
Bank of New Zealand (Investment Management)	22,845,158	5.0%

4.5. Share Price Performance and Liquidity

Figure 5 summarises PFI's share price performance over the last 10 years to 20 April 2017, relative to the NZX Property Gross Index and NZX50 Gross Index (all inclusive of dividends). This illustrates that PFI has generally outperformed the wider property sector and NZX50 indices over this period.

Figure 5: PFI Total Shareholder Return Relative to NZX Property Gross Index (Rebased to 100)



Source: IRESS, Northington Partners

4.6. Summary Financial Results

4.6.1. Financial Performance

A summary of PFI's financial performance for the five year period between FY12 and FY16 is set out in Table 7 below.

Table 7: Historical Financial Performance

Year ended 31 December (NZ$ millions)	FY2012	FY2013	FY2014	FY2015	FY2016
Rental income	29.2	47.8	63.4	66.6	70.7
Management fee income	0.2	0.2	0.3	0.4	0.4
Operating Revenue	**29.4**	**48.0**	**63.7**	**66.9**	**71.1**
Management fees	(1.9)	(3.8)	(5.6)	(7.6)	(7.3)
Other operating expenses	(2.2)	(3.1)	(3.1)	(3.4)	(2.9)
Operating Earnings before Finance Costs	**25.3**	**41.1**	**55.0**	**55.9**	**61.0**
Net Finance Costs	(8.1)	(12.9)	(18.2)	(19.4)	(17.8)
Operating Earnings after Finance Costs	**17.2**	**28.3**	**36.8**	**36.6**	**43.1**
Unrealised fair value gain on investment properties	12.3	12.3	36.3	46.5	88.2
Gain (loss) on disposal of investment properties	1.1	0.0	(2.1)	0.5	0.3
Fair value gain (loss) on derivative instruments	1.4	8.1	(6.4)	(4.0)	0.4
Business combination transaction costs	0.0	(1.4)	0.0	0.0	0.0
Insurance proceeds	0.0	0.0	1.3	0.0	0.0
Profit Before Tax	**32.0**	**47.4**	**65.9**	**79.6**	**132.1**
Tax expense	(5.0)	(6.9)	(6.0)	(6.8)	(8.7)
Profit After Tax	**26.9**	**40.5**	**59.9**	**72.8**	**123.4**
Distributable profit adjustments	(12.3)	(17.5)	(29.4)	(43.2)	(89.3)
Distributable Profit	**14.6**	**23.0**	**30.5**	**29.6**	**34.1**
Earnings per share (cents)	12.24	12.79	14.55	17.25	27.42
Distributable profit per share (cents)	6.64	7.28	7.41	7.01	7.58
Dividend per share (cents)	6.60	7.20	7.25	7.30	7.35

Sources: PFI Annual Report (FY13-FY16, PFI Management). Totals may not sum due to rounding.

The main features of PFI's historical performance over the five year period to FY2016 can be summarised as follows:

- The significant increase in rental income between FY2012 and FY2014 was due to PFI's merger with DPF which occurred in July 2013. The FY2013 result only partially reflected the impact of the merger, with approximately $16.3 million total revenue in that period being contributed from DPF.
- Rental income has grown by 6% annually since FY2014, driven by increased market rents and new property development and acquisitions. Rental income has increased at a slower rate than property values (see below) due to reduced capitalisation rates.
- Distributable profit and dividends per share have grown at approximately 3% per annum with a dividend pay-out ratio that has averaged close to 100% of distributable profit.

4.6.2. Financial Position

A summary of PFI's financial position for the last five years is set out in Table 8, with the main features summarised as follows:

- PFI's 2013 merger with DPF resulted in the following impacts on the Company's financial position:
  - Value of Investment Properties increased by $422 million (excluding fair value gains).
  - Borrowings increased by $182 million.
  - Goodwill of $29.1 million was recorded as the valuation of both PFI and DPF occurred at a premium to NTA.
  - Share capital increased by $264 million, comprising of net identifiable assets and goodwill on consolidation.
- Since the merger in FY2013, investment properties have grown by 29% to $1,083 million as at the end of FY2016. While this has been primarily driven by capital gains in property values, significant acquisitions and capital expenditure was made in FY2015 with $64 million of net expenditure. No additional properties were acquired in FY2016 although PFI incurred $17 million of capital expenditure.
- Gearing has reduced each year since the merger with DPF and currently stands at 30.7% (measured as debt as a percentage of investment properties).
- The 2015 rights issue increased share capital in FY2015 by $47.9 million, being proceeds of $49.5m less transaction costs.
- Accounts receivable, prepayments and other assets in FY2015 and FY2016 includes amounts receivable from the sale of properties.

Table 8: Historical Financial Position

As at 31 December (NZ$ millions)	FY2012	FY2013	FY2014	FY2015	FY2016
Assets					
Cash at bank	0.2	1.3	0.6	0.5	0.0
Accounts receivable, prepayments and other assets	2.3	1.4	1.1	10.9	9.0
Investment properties	382.2	841.8	876.0	986.6	1,083.3
Derivative financial instruments	0.0	3.3	0.1	0.1	0.4
Goodwill	0.0	29.1	29.1	29.1	29.1
Total Assets	**384.6**	**876.9**	**906.9**	**1,027.2**	**1,121.8**
Liabilities					
Accounts payable, accruals and other liabilities	3.3	9.8	9.5	14.7	8.8
Taxation payable	1.1	1.7	1.8	2.2	2.6
Borrowings	114.2	314.6	312.8	330.9	332.9
Derivative financial instruments	8.1	3.3	6.5	10.5	10.4
Deferred tax liabilities	7.9	12.4	11.3	10.9	11.0
Total Liabilities	**134.5**	**341.8**	**341.9**	**369.2**	**365.7**
Equity					
Share capital	171.5	435.0	435.0	485.7	493.2
Retained earnings	78.6	100.2	130.0	172.3	262.9
Total Equity	**250.1**	**535.2**	**565.0**	**658.0**	**756.1**

Sources: PFI Annual Reports (FY13-FY16). Totals may not sum due to rounding.

4.6.3. Investment Properties

A summary of the movements in the aggregate value of PFI's investment properties over the last five years is set out in Table 9.

Table 9: Historical Movements in Investment Properties Value

Year ended 31 December (NZ$ millions)	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**
Opening Balance	355.9	382.2	841.8	876.0	986.6
Acquisitions from DPF merger		422.0			
Capital movements:					
Additions	23.2	14.6	15.4	48.2	0.0
Disposals	(15.6)	(0.0)	(28.7)	(9.0)	(8.0)
Capital expenditure	4.7	10.8	11.1	23.0	17.1
Other movements	1.6	(0.1)	0.0	1.8	(0.5)
Net Property Expenditure	14.0	25.3	(2.1)	64.1	8.5
Unrealised fair value gain	12.3	12.3	36.3	46.5	88.2
Investment properties value as at 31 December	**382.2**	**841.8**	**876.0**	**986.6**	**1,083.3**

Sources: PFI Annual Reports (FY13-FY16). Totals may not sum due to rounding.

5.0 Overview of the Manager and Proposed Internalisation

5.1. Overview of PFIM

PFIM is a private company owned by interests associated with McDougall Reidy & Co Limited ("**MRCO**"), and has been the manager of PFI since acquiring the management rights in January 2012. PFIM contracts out the property and administrative management services required under the Management Agreement to MRCO. In addition to its management role with PFI, MRCO is also involved in a range of property development activities; it has completed numerous property projects throughout New Zealand, and has various other commercial and residential projects currently under design or construction.

5.2. Summary of the Management Agreement

PFI is managed by PFIM under the terms of the Management Agreement. The Manager's responsibilities include:

- Making recommendations to the Board and managing property acquisitions and divestments;
- Managing relationships between PFI and agents, lessees, vendors, valuers, investors, the NZX, professional advisors and other relevant parties;
- Arranging funding for PFI and managing the Company's financial affairs;
- Arranging for valuations of PFI's properties to be completed at regular intervals;
- Ensuring collection of rents and compliance by lessees of PFI's properties;
- Ensuring payment of permissible outgoings and recoveries (where possible) from lessees;
- Managing negotiations of rent reviews, variations of leases and lease renewals;
- Managing any development projects and maintenance on the properties;
- Ensuring compliance by PFI with all relevant rules and regulations; and
- General administrative and reporting duties.

Fees payable to PFIM are also set out in the Management Agreement. These fees were approved by way of an ordinary resolution at the time PFI shareholders also approved the merger of PFI and DPF. PFIM's remuneration comprises a base management fee and a performance fee. The base fee is a three-tiered fee structure based on the value of PFI's total tangible assets, as follows:

- 0.725% per annum on total tangible assets up to $425 million;
- 0.45% per annum on total tangible assets between $425 million and $775 million; and
- 0.35% per annum on total tangible assets exceeding $775 million.

The base management fee is calculated monthly and paid in arrears.

The performance fee is calculated based on returns accruing to PFI's Shareholders each quarter. PFI's Manager is entitled to be paid 10% of the amount by which the total shareholder return ("**TSR**") exceeds 2.5% per quarter (10% per annum) up to a maximum of 3.75% per quarter (15% per annum). Where the TSR exceeds 15% per annum, the excess is carried forward to subsequent quarters for a maximum period of eight quarters (2 years). If the TSR is less than 2.5% for a quarter, the deficit is also carried forward (for a maximum of eight quarters) and taken into account in calculating the entitlement to performance fees in subsequent quarters.

TSR is defined in the PFI Management Agreement as the pre-tax profits of PFI for the relevant quarter (excluding investment property revaluations and non-recurring items) and the change in PFI's share price over the relevant quarter.

The term of the Management Agreement is open ended. Providing the Manager is performing its obligations under the Management Agreement, the agreement will continue indefinitely. This open-ended provision is quite different compared to the vast majority of observed management agreements for other externally managed entities, and means that PFI has effectively no ability to remove or terminate PFIM as manager unless PFIM fails to perform its duties or becomes insolvent[2].

Other key elements of the Management Contract include:

- There is no change of control clause in PFI's Management Agreement. That means that PFIM's position as the manager of PFI is not affected in the event that a controlling position in PFI is acquired by a third party; and
- PFIM has the right to assign the Management Agreement to a third party with PFI's consent, which cannot be unreasonably withheld. Consequently, PFIM may sell the Management Agreement to a third party through a contested open market process, where the negotiated purchase price would likely reflect the future earnings that the new manager could generate from the contract.

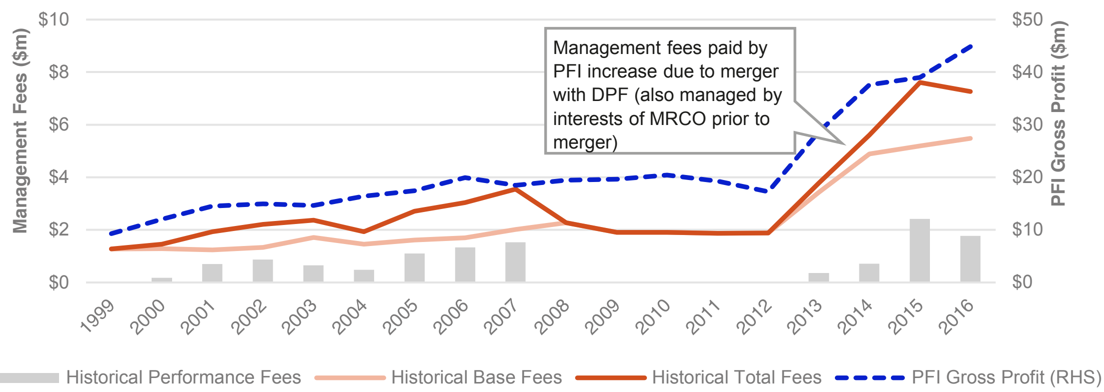
These two provisions combined mean that any party wishing to acquire control of PFI (via a takeover offer or another similar transaction) would effectively need to negotiate the purchase of PFI's Management Agreement directly with PFIM if it wished to change or remove PFIM as manager. PFIM's position as manager is therefore very well entrenched and, all else being equal, is likely to act as a deterrent to potential acquirers of PFI.

5.3. Historical Performance of the Manager

Figure 6 illustrates the historical base management and performance fees paid to PFIM under the terms of the Management Agreement. The results cover the 18 year period from FY1999 to FY2016 and are presented relative to the underlying performance of PFI using our estimate of PFI's gross profit (as defined in the Management Agreement). This demonstrates that in addition to regular base management fees, PFI has paid performance fees to PFIM in 12 of the 18 financial years. While PFIM's total fees can vary significantly depending on the level of performance fees, we note quarterly performance fees tend to be close to the fee cap in the periods that they are paid.

Figure 6 also clearly illustrates the impact of the merger with DPF part way through 2013. The transaction substantially increased assets under management but also reset the fees to a higher level than under the fee terms of the Management Agreement prior to the merger. However, we note that PFIM was a subsidiary of the manager of DPF and essentially the merger of PFI and DPF also consolidated PFIM's management interests in both entities.

Figure 6: Historical Management and Performance Fees Relative to PFI's Gross Profit



Sources: PFI Annual Reports, Northington Partners' analysis.

While Figure 6 summarises the income of PFIM, the ultimate profitability of the Management Agreement depends on the resources and associated costs required to manage PFI. Because we have not been provided with any financial information from PFIM, we are not in a position to accurately determine the historical earnings that PFIM has generated from its position as Manager.

[2] PFIM can however terminate the Management Agreement by giving six months' notice.

However, we have been provided with the standalone cost estimates for the future management of PFI assuming that the Proposed Internalisation goes ahead. These costs are summarised below, and form the basis for determining the market valuation of the Management Agreement (Section 6.4) and the financial impact on PFI of the Proposed Internalisation (Section 7.1).

Table 10: Costs of the Proposed Internalisation

	$m
Employment costs	2.22
Additional administration costs from the Proposed Internalisation	0.65
Less: MRCO Licence fee (see Section 5.4.3)	(0.10)
Total internalisation costs of Proposed Internalisation excluding performance bonuses (see Section 5.4.4)	**2.77**

Source: PFI.

5.4. Proposed Internalisation

5.4.1. Overview

The Proposed Internalisation involves the following key elements:

- The termination of the current Management Agreement with PFIM;
- The acquisition by PFI of the PFIM business and assets used in the PFIM business (other than the PFI shares held by PFIM);
- Net payments by PFI totalling $42.0 million to PFIM in consideration for the termination of the Management Agreement and acquisition of the assets used in the PFIM business;
- The entry by MRCO (as landlord) and PFI (as tenant) of a new lease relating to PFI's occupation of the business premises at Prince's Wharf effective from completion of the Proposed Internalisation;
- The entry into services contracts between PFI and each of the key executives of PFIM (the "**Senior Executive Services Contracts**") (see Section 5.4.4 below); and
- The employment of MRCO employees (other than the key executives under the Senior Executive Services Contracts) by PFI on terms substantially similar to their terms of employment with MRCO.

5.4.2. Conditions

The Proposed Internalisation is conditional upon the following:

- Approval by way of ordinary resolution of PFI shareholders under the NZX Listing Rules; and
- Receipt of a binding ruling from the IRD that the termination payment is deductible in full for PFI for the purposes of calculation of PFI's income tax.

Other obligations required prior to, or on, settlement of the Proposed Internalisation include:

- Entry into a licence between PFI and MRCO under which MRCO may use the resources of PFI for limited non-PFI related work; and
- Entry into the Senior Executive Services Contracts.

Each of these obligations are detailed further below.

5.4.3. MRCO Licence

Under the Proposed Internalisation, PFI will grant MRCO a licence (the "**MRCO Licence**") under which MRCO (through the Senior Executives) may operate its other non-PFI business. The MRCO licence is subject to a reasonable use policy and the principle that the level of service received from the employees and contractors is not less than the level and quantum of service provided to PFI prior to the Proposed Internalisation.

The MRCO Licence will allow MRCO to continue to operate its non-PFI related business activities out of the Prince's Wharf premises (while the Senior Executives also fulfil their PFI duties), have access to PFI's IT and support systems and use PFI employees for MRCO business (but with PFI business taking priority). In consideration for granting the MRCO Licence, MRCO shall pay PFI a licence fee of $100,000 (plus GST) per annum which will be reviewed annually. At such reviews, PFI and MRCO shall determine, in good faith, whether the licence fee is reasonable having regard to the level of use of PFI resources by MRCO and the underlying costs incurred by PFI.

If at an annual review the parties are unable to agree on a variation to the licence fee, the licence fee will remain unchanged but either party may terminate the MRCO Licence on giving the other party three months' notice in writing.

5.4.4. Terms of the Senior Executive Services Contracts

Rather than directly employing each of Greg Reidy, Simon Woodhams and Craig Peirce, PFI will enter into separate service contracts with each of the Senior Executives (or their nominated entities). The service contracts will be signed on completion of the Proposed Internalisation.

The services to be provided by each Senior Executive to PFI are to be consistent with the scope of services provided by the relevant individual prior to the Proposed Internalisation, namely:

- Greg Reidy – Managing Director services;
- Simon Woodhams – General Manager services; and
- Craig Peirce – CFO services.

The terms of the individual services contracts are not dissimilar to the terms that would ordinarily be expected under a standard employment contract to perform the respective service duties of each individual, including remuneration, confidentiality obligations and contract term. The services and duties of the Senior Executives are being performed as independent contractors rather than under direct employment contracts with PFI primarily due to their continued roles with MRCO. This is similar to the current position where each of the Senior Executives perform roles for both PFI, subject to the obligations of PFIM under the Management Agreement, and MRCO.

Under the services contract, PFI will pay each of the Senior Executives a fixed remuneration and an equal share of potential performance bonuses. The performance bonuses are payable quarterly based on the performance of PFI relative to the NZX Property Index (excluding PFI and including the value of imputation credits) with the TSR for PFI (defined for the purposes of the services contract as the share price movement for PFI plus gross distributions paid in the quarter). The performance bonus is 2.5% (10% per annum) of the amount by which the TSR exceeds the NZX Property Index benchmark multiplied by PFI's market capitalisation for the quarter. The performance bonus is subject to the following overriding limitations:

- The performance bonus in any quarter is limited to 0.0225% of PFI's market capitalisation for the quarter (0.09% per annum);
- No performance bonuses will be paid if PFI's "total internalisation costs" exceed 0.3% of total tangible assets, measured on an annual basis. These costs relate to the internal management of PFI including PFI's employment and administrative costs, the fixed remuneration paid to the Senior Executives and performance bonus in the relevant quarter[3];
- No performance bonus being payable in respect of a quarter if PFI's TSR is negative, even if above the NZX Property Index benchmark; and
- Any performance bonus which would have otherwise exceeded the above caps will be carried forward to estimate performance bonuses in subsequent quarters for the next two years. Similarly, any underperformance is also carried forward to use in calculating the performance bonuses in subsequent quarters for the next two years.

While the Senior Executives are permitted to perform non-PFI related business under the Senior Executive Services Contracts, this allowance is similar to the current arrangements. The Senior Executive Services Contracts also require PFI services to be performed as a priority and have certain conflict provisions, including that during the term of the contract each Senior Executive will not (either directly or indirectly):

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[3] Note that total internalisation costs, as defined for the purposes of the performance bonus payments, do not include a range of corporate costs such as Directors' fees, NZX listing fees and shareholder communication costs. Under the current management structure, these expenses are already borne by PFI directly (paid in addition to the management fees paid to PFIM).

- Operate or conduct a property investment or property development business relating to industrial property, provided that the opportunity is not first offered to PFI and deemed unsuitable for PFI unless PFI's independent directors decline such involvement by the Senior Executive (acting reasonably).
- Establish or manage a property investment fund or scheme unless the Senior Executive has sought a waiver from PFI's independent directors to proceed with involvement in such opportunity (such approval to not be unreasonably withheld).

6.0 Valuation of the Management Agreement

6.1. Introduction

An assessment of the fairness or otherwise of the Proposed Internalisation to shareholders not associated with PFIM is largely a valuation exercise. This section sets out our valuation of the Management Agreement, and provides a comparison of that value to the proposed Internalisation Payment of $42 million.

6.2. Valuation Methodology

For most assets, value should be determined as a function of the estimated level of cash returns that the assets are expected to generate in the future. The specific approach that is used to estimate this value is dependent on the nature of the asset and the expectations regarding future performance. The two main approaches usually adopted in the valuation of larger assets and companies are summarised as follows:

- Earnings Multiple: This method determines value by applying a valuation multiple to the assessed level of maintainable annual earnings (or cash flows), where the multiple is chosen to reflect the risk associated with the future performance of the asset. Depending on the nature of the business, multiples can be applied to earnings measured at various levels often including revenue, EBITDA, EBIT or NPAT.
- Discounted Cash flows ("**DCF**"): A DCF approach is based on an explicit forecast of the annual cash flows that will be generated over a specified forecast period (typically between 5 and 10 years). The value of cash flows that may occur after the end of the explicit forecast period is incorporated into the valuation process by capitalising an estimate of maintainable cash flows for the terminal period. A DCF model is therefore usually made up of two components:
  (i) The present value of the projected cash flows during the forecast period; and
  (ii) The present value of all other cash flows projected to occur after the explicit forecast period. This component is commonly referred to as the terminal value.

Given the nature of the PFI Management Agreement, we have considered the value of the PFI management agreement from two perspectives:

i. The fair market value of the Management Agreement, being the likely price achievable by PFIM if its rights were offered for sale via a competitive market process; and

ii. The value of the Management Agreement to PFI, determined using an estimate of the future cost savings that PFI will generate if the Proposed Internalisation goes ahead (where cost savings are estimated as the difference between the management fees currently paid to PFIM less the costs that will be incurred for internal management).

In both cases, we have primarily relied on the DCF valuation approach to valuing the PFI Management Agreement and cross-checked the valuation against implied earnings multiples inferred from comparable transactions and listed property management entities.

6.3. Forecast Assumptions

6.3.1. Overview

Our DCF valuation framework for the PFI Management Agreement is based on medium-term forecasts prepared by the Manager prior to the Proposed Internalisation, with a range of modifications to reflect our assessment of key input parameter assumptions. The DCF valuation of the PFI Management Agreement essentially reflects the forecast level of profitability of PFIM, which is primarily driven by the rate of growth in assets under management ("**AUM**") from which base management fees, and potential performance fees, are derived.

Details of the DCF structure are set out in Table 11, while a summary of the key input parameters is presented Table 12.

Table 11: DCF Model Structure

Assumption	Discussion
Valuation Date	1 July 2017
Model Term	Forecasts cash flows for financial years ending 31 December 2017 to 31 December 2025 (8.5 years)
Cash Flow Basis	Post-tax nominal
Cash Flow Timing	Mid-period discounting

Table 12 below summarises the key assumptions and variables used to forecast PFIM's future cash flows.

Table 12: Forecast Cash Flow Assumptions

Assumption	Discussion
Property Price Inflation (ex-capex)	We note that commercial property capitalisation rates are near cyclical lows with many commentators and analysts suggesting that the commercial property sector is nearing its peak. Rather than speculate on the magnitude of a potential increase in capitalisation rates and the timing of the subsequent decrease in commercial property prices, we have adopted a low average rate of property price inflation over the medium-term. This allows for the potential of a price decline while avoiding the need to explicitly forecast its timing and quantum. Our base case model reflects: ▪ Nominal growth in the value of PFI's existing properties at circa 1% per annum until the year ending FY2021, reflecting a modest level of expected industrial property sector price growth over the medium-term. This would imply an overall increase in the capitalisation rates applied to the valuation of PFI's properties considering that annual rental growth across the portfolio is currently assumed at 1.6% - 2.8% by PFI's valuers. ▪ Over the longer-term (post FY2021) we have assumed nominal property price inflation of 2.4%, based on the long-term historical capital returns from the New Zealand industrial property sector.[4] When combined with our allowance for net property expenditure (see below), PFI's property portfolio is forecast to grow at approximately 3% on average over the term of the explicit cash flow forecast period.
Net Property Expenditure	We have assumed $18 million per annum of net property expenditure in real terms. PFI has a demonstrable track record of growing its portfolio through the acquisition of new properties or development of new and existing properties. Over the last five years (including the period before the merger with DPF), PFI has averaged $22 million of net property expenditure (gross acquisition and development of investment properties less property disposals) per annum. However, we note that some of this activity was funded through the $49.5 million equity capital raising in 2015 to support PFI's growth. Our assumption of $18 million of net expenditure per annum reflects the level of property expenditure that PFI could maintain without raising new equity and while maintaining debt levels at less than 35% of investment property value (relative to 40% permitted under the Management Agreement). It also assumes a constant dividend pay-out ratio of 95% of distributable profit and ongoing dividend reinvestment support at current levels.
Base Management Fees	The forecast base management fees reflect PFI's forecast total tangible assets for FY2017 and our estimated property growth thereafter accounting for assumed property price inflation and net property expenditure.
Performance Fees	Accurately forecasting performance fees is difficult because it relies on long-term estimates of TSR, which in turn rely on future financial outcomes and PFI's share price performance over the forecast period. Because it is not possible to generate reliable

[4] NZ Property Council/IPD Quarterly Property Index; Industrial sector data available from December 1993 to March 2017.

Assumption	Discussion
	forecasts for future share price movements, we suggest the most practical approach is to consider the history of past performance fee payments. In this respect, we note the following: ▪ Since 1999, we estimate that PFI has delivered annual TSR (broadly defined as gross profits and the change in share price under the Management Agreement) of 12.3% relative to the performance fee threshold of 10%. Ignoring carried forward excess and deficit returns which may have accumulated over the period, this would otherwise suggest performance fees of 0.23% of PFI's annual average opening market capitalisation (based on 10% of the excess above 10%); ▪ Since 1999, the annualised quarterly performance fee relative to PFI's quarterly average market capitalisation has averaged approximately 0.21%, compared to a potential maximum performance fee of 0.50%; and ▪ Since the merger with DPF in July 2013, PFI has paid approximately $4.9 million in performance fees, including the payment of $1.8 million in FY16. The annualised quarterly performance fee relative to PFI's quarterly average market capitalisation over this period has averaged approximately 0.19%. Based on these historical outcomes, we have assumed an average annual performance fee range of 0.05% to 0.20% over the explicit cash flow forecast period. For the purposes of this calculation, PFI's assumed market capitalisation is based on forecast NTA and the assumption that market price remains equal to NTA. We note that under our assumptions, performance fees do not exceed $2.0 million over the explicit cash flow forecast period (relative to $1.8 million paid in FY2016 and $2.4 million in FY2015).
Management Costs	In order to determine the profitability of the Management Agreement, it is necessary to determine the cost of managing PFI on a standalone basis. We have been provided with forecasts for the costs associated with the core management and administrative team for the internalised management of PFI (as summarised in Table 10 on page 22). Relying primarily on this forecast, we have adopted costs of $2.8 million for FY2017 with assumed cost inflation of 2.4% per annum thereafter (reflecting the medium-term wage inflation outlook and our estimate of long-run inflation for both industrial property and wage costs).

6.3.2. Discount Rate

Our assumed discount rates are based on the standard Weighted Average Cost of Capital ("**WACC**") framework. This results in a range of 7.90% to 8.40% for the market value of the Management Agreement and 6.45% to 6.85% for the value of the Proposed Internalisation to PFI. The key outputs of our assumptions are summarised in Table 13.

The variation in discount rates reflects the relative risks faced by PFIM (as the external manager of PFI) relative to the risks of owning the underlying diversified industrial property portfolio, with consideration of the following factors:

- Notwithstanding that the PFI Management Agreement provides for very limited termination rights and therefore effectively represents a perpetual income stream, profitability is more variable than the income derived from owning the underlying property (as illustrated in Figure 6).
- While PFI can utilise its properties as security to obtain debt funding, it is unlikely that much debt could be utilised to fund the manager in isolation and would therefore be majority funded through equity (we have assumed 100%).

As a result of both of these factors, the estimated WACC for PFI is materially lower than our estimated required rate of return for PFIM.

Table 13: WACC Inputs and Outputs Summary

WACC Input Parameter	Market Value of Management Agreement	Value of Internalisation to PFI
Cost of Equity	7.90% – 8.40%[1]	7.85% – 8.35%
Cost of Debt	NA	5.00% – 5.25%
Target Gearing	0%	33%
WACC	7.90% – 8.40%	6.45% – 6.85%

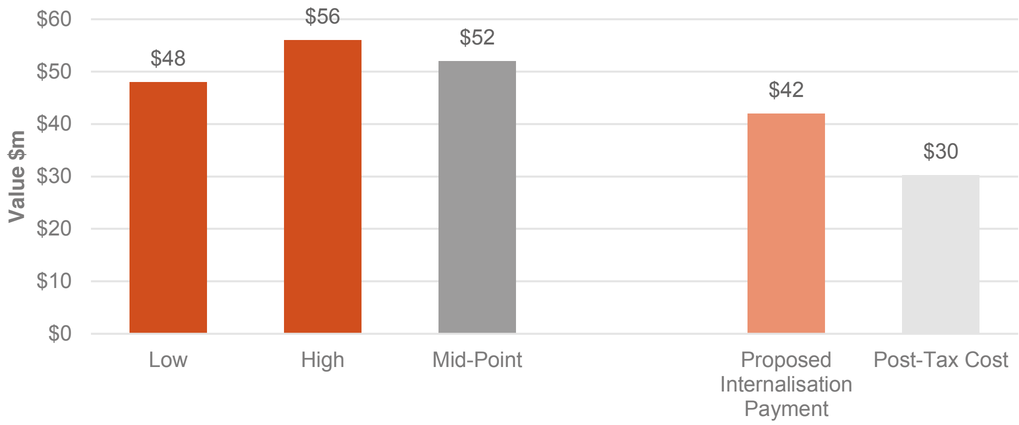
[1] While the cost of equity for the market value of the Management Agreement is similar to the cost of equity for the value of the Proposed Internalisation to PFI, the assumed asset beta under the capital asset pricing model is higher for the market value of the Management Agreement reflecting the higher earnings variability/risk but is offset by the assumed nil gearing.

6.4. Fair Market Value of PFI Management Agreement

We estimate the market value of the Management Agreement is between $48 million and $56 million, with a mid-point of $52 million.

As set out in Figure 7 below, the bottom end of our assessed value is $6 million higher than the Internalisation Payment of $42 million. When considering the net cost of the Internalisation Payment to PFI, the post-tax cost of approximately $30 million represents a 42% discount to our mid-point valuation of $52 million.

Figure 7: Management Agreement Valuation Assessment

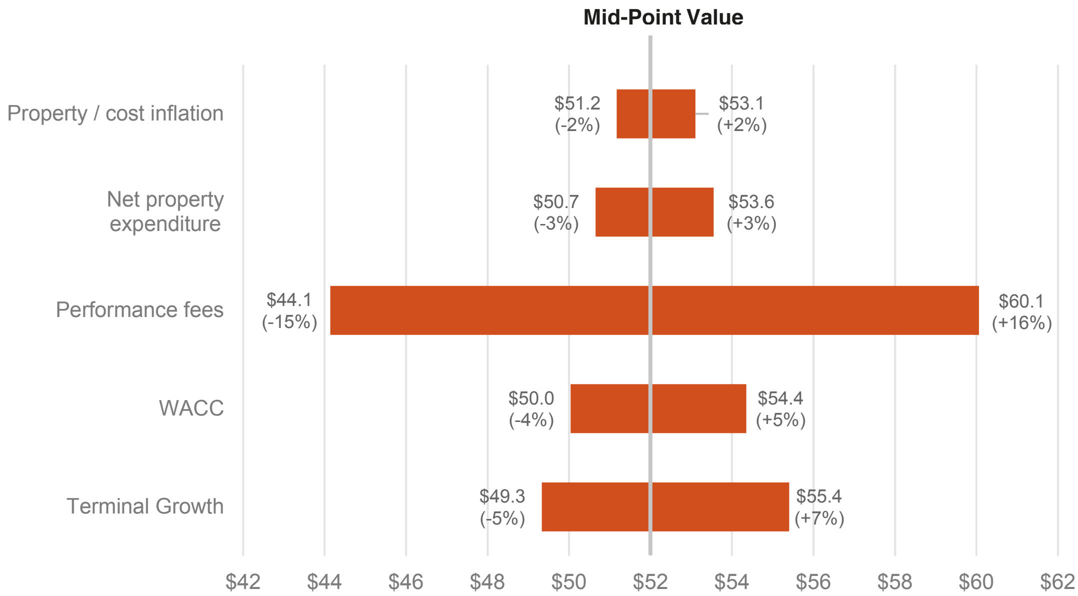


Our assessed value range is reliant on a number of input assumptions. We have therefore estimated the value impact of reasonable changes to the key input parameters, as summarised in Table 14. The results are set out in Figure 8.

Table 14: DCF Valuation Sensitivity

Assumption	Range
Property Price Inflation & Cost Inflation	+/- 1% of base assumptions over term of explicit cash flow projection
Net Property Expenditure	$13 to $23 million per annum
Performance Fees	0.05% to 0.20% of forecast market capitalisation (NTA) per annum
WACC	7.90% to 8.40%
Terminal Growth	1.9% to 2.9%

Figure 8: Market Valuation of PFI Management Agreement Sensitivity Analysis



These results clearly demonstrate significant sensitivity to the assumed level of performance fees (from 0.05% to 0.20% of assumed market capitalisation), with a resulting valuation range between $44 million and $60 million. This range is consistent with the overall value range for PFIM set out above. Given the difficulties involved in accurately forecasting the future level of performance fees, it is important to note that our assessed value remains higher than the Internalisation Payment for any reasonable level of assumed performance fees (including the low end of our range, assumed at 0.05% per annum). Even if potential future performance fees are ignored altogether, the resulting value of PFIM is estimated at $39 million, just 8% below the proposed Internalisation Payment.

6.4.1. Assessment of Implied Valuation Multiples

Based on the estimated valuation range set out above, Table 15 summarises some implied valuation multiples for the Proposed Internalisation.

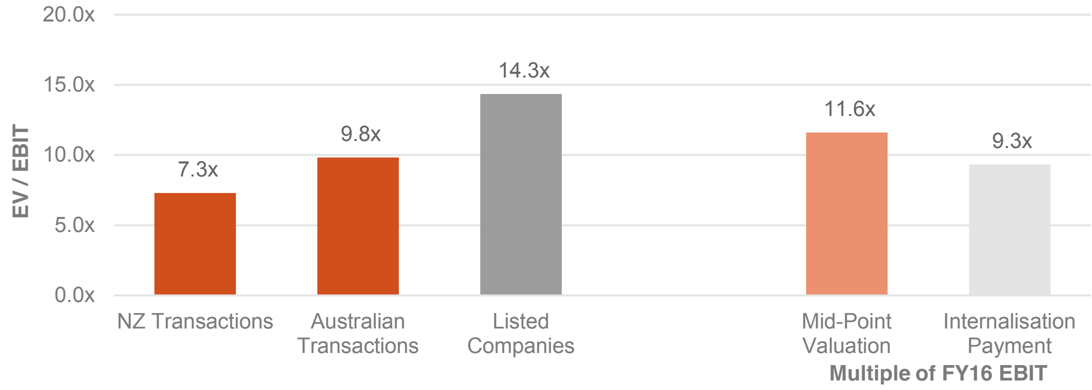
Table 15: Proposed Internalisation Implied Valuation Multiples

	Low Valuation ($48m)	High Valuation ($56m)	Proposed Internalisation Price ($42m)	Post-Tax Internalisation Price ($30m)
Multiple of FY16 Revenue	6.6x	7.7x	5.8x	4.2x
Percentage Of AUM	4.4%	5.2%	3.9%	2.8%
Multiple of FY16 EBIT[1]	10.7x	12.5x	9.3x	6.7x
Multiple of FY17 EBIT[2]	12.1x	14.1x	10.6x	7.6x

Source: Northington Partners' analysis.
[1] *EBIT based on actual management fees less assumed standalone management costs.*
[2] *Based on Northington Partners' estimate of FY2017 EBIT, reflecting estimated base fees plus performance fees set at 25% of the maximum.*

Figure 9 sets out a summary of the available evidence in relation to New Zealand and Australian transactions (details provided in Appendix 2), as well as the limited number of listed management companies (Appendix 1).

Figure 9: Average EV / EBIT Multiples for Comparable Transactions and Listed Companies



Source: Northington Partners.

The EBIT multiples implied by both our value range and the Internalisation Payment for PFIM are higher than most of the precedent transaction multiples for New Zealand internalisations and other comparable transactions summarised above. However, we suggest that the higher multiples for PFIM are warranted because of the following factors:

- Each of the precedent transactions took place under unique circumstances, with some occurring when the manager was under financial distress (e.g. NPT) or in the face of strong shareholder activism to have the manager removed (e.g. Argosy).
- As discussed in Section 5.2, PFIM is very well entrenched as the manager of PFI. Assuming that PFIM continues to deliver the management services required under the Management Agreement, there is virtually no scope to terminate the agreement or change the fee terms. The contract terms underlying many of the precedent New Zealand internalisations allowed for the possibility of contract termination, where the manager could typically be removed by special resolution of the shareholders of the underlying LPV. This was the case for the Argosy transaction, and the potential risk of contract termination clearly had a significant impact on the negotiated payment.
- The listed property market, and international equity markets more generally, are now enjoying a period of significantly lower costs of capital than when the other New Zealand internalisations occurred. This is evident in valuation multiples for the underlying property portfolios as illustrated in Figure 2 (page 11), which illustrates that EV/EBIT multiples for the listed property sector have increased from between 12x – 14x over the 2010 to 2012 period when most of the precedent transactions occurred, to approximately 17x currently. We would expect valuation multiples for perpetual management contracts to have also expanded over this period by a similar magnitude.
- More recent (post 2013) Australian transaction evidence of external management agreement sales or internalisations supports higher valuation multiples (see Appendix 1).
- A number of listed Australasian entities with more of a property management focus (rather than property investment) exhibit significantly higher multiples (see Appendix 2).
- In a contested sale process, we consider the PFI Management Agreement may attract wide interest and would represent significant value to a third party who could benefit from the incremental management fee income with limited incremental cost due to an established property management platform.

6.5. Value of the Management Agreement to PFI

We have determined the value of the Proposed Internalisation to PFI using the same DCF methodology outlined above to assess the market value of the Management Agreement. As previously discussed, we suggest that the value of the Proposed Internalisation to PFI essentially represents the present value of the cost savings associated with moving from external to internal management. The annual cost savings are calculated as the difference between what would be paid to PFIM under the terms of the existing Management Agreement and the estimated annual cost of the internal management team.

Compared to the market value assessment, this valuation basis requires changes to two key assumptions:

- A reduction in the assumed discount range, to 6.45% - 6.85%. As detailed in Section 6.3.2, the cashflows associated with the reduction in management costs from PFI's point of view largely have the same risk profile as the operating cashflows from the overall business. These cashflows should therefore be valued using the same weighted average cost of capital as PFI itself; and
- Under the Proposed Internalisation, the terms of the service contracts with the Senior Executives allow for potential performance bonuses being paid depending on the future performance of PFI (see Section 5.4.4). The level of potential future cost savings is therefore also dependent on the future performance bonuses for the three Senior Executives, which in turn rests on PFI's future TSR relative to the NZX Property Index.

These performance bonuses are even more difficult to predict than the performance fees under the existing Management Contract because they not only require an assessment of PFI's future share market performance, but also the performance of the wider listed property market and the term of the services contracts with the Senior Executives (which include termination provisions).

We believe that while it is reasonable to expect that PFI will on average perform in-line with the broader property index, there will be periods of relative outperformance which will lead to payments up to 100% of the maximum level of performance bonuses, and periods of underperformance for which no performance bonus would be paid. Consequently, for determining the value of the Proposed Internalisation to PFI, we have assumed that between 0% – 50% of the maximum level of potential performance bonuses will be paid over the long-run.

The mid-point of this range (25% of the maximum) is the same as the mid-point value used for the assumed annual performance fee payments under the existing Management Agreement. However, given the differing frameworks for the calculation of the performance payments, the maximum potential performance fee (under the existing Management Agreement) is much larger than the maximum performance bonus (under the Proposed Internalisation). This is shown in Table 16, based on annualised performance payments that reflect current market values.

Table 16: Maximum Performance Payments

	Basis for Calculation	Potential Maximum "Performance" Payment
Existing Management Agreement	0.50% of market capitalisation for the year	$3.68m
Proposed Internalisation	Lower of 0.09% of market capitalisation for the year, or the amount that results in total "internalisation costs" including the estimated $2.8 million in core costs equal to 0.30% of total tangible assets	$0.51m

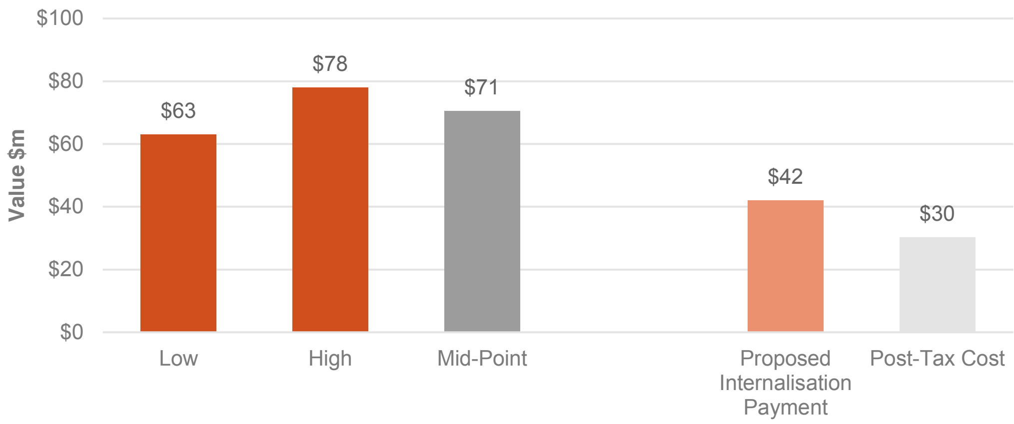
Source: Northington Partners' analysis based on PFI's market capitalisation as of 9 May 2017 and PFI's FY2016 total tangible assets.

As a result of the assumed performance bonuses following the Proposed Internalisation, the estimated total costs of internally managing PFI in the first year following internalisation (excluding PFI's directors' fees and other corporate expenses) are estimated in a range of $2.8 million (nil performance bonuses) to $3.1 million (including 50% of the maximum performance bonus). This range represents additional costs between $0 and $0.3m compared to the assumed cost base of $2.8 million used to determine the market value of the Management Agreement.

Based on the general cash flow assumptions set out in Section 6.3 and the variations to our DCF assumptions described above, we estimate the value of the Proposed Internalisation to PFI is in a range between $63 million and $78 million.

Figure 10 compares this value range to the proposed Internalisation Payment. The mid-point of our value range represents a premium of approximately 70% over the Internalisation Payment of $42 million (and a premium of 136% over the post-tax cost of $30 million).

Figure 10: Value of the Proposed Internalisation to PFI



Source: Northington Partners.

6.6. Valuation Conclusions

In our opinion:

- The fair market value of the Management Agreement is in a range between $48 million and $56 million. This assessment assumes that the rights associated with the Management Agreement are offered for sale via a competitive market process; and
- The value of the Proposed Internalisation to PFI, being the discounted present value of the forecast future cost savings to PFI, is in the range of $63 million to $78 million.

The total consideration to be paid to PFIM under the Proposed Internalisation is $42 million. Because the payment is tax deductible from PFI's point of view, the effective post-tax cost of the Internalisation Payment is $30 million (before any allowance for other transaction costs). This cost is materially lower than our assessed market value of the Management Agreement (mid-point of $52 million), and represents a net present value benefit to PFI of $33 million to $48 million (being the assessed value of the Proposed Internalisation to PFI less the post-tax purchase price of $30 million).

7.0 Other Considerations for the Proposed Internalisation

7.1. Financial Impacts on PFI

The financial benefits of the Proposed Internalisation result from the net reduction in PFI's cost of management and consequent increase in earnings and cash flow per share (earnings accretion). All else equal, this should lead to a potential improvement in the trading price of PFI shares. The estimated pro forma financial impact of the Proposed Internalisation is summarised in Table 17 based on the following assumptions:

- The Proposed Internalisation is effective from 1 January 2016 to allow comparison on a pro forma FY2016 basis.
- The analysis is based on the post-tax Internalisation Payment of $31 million (including transaction costs). In the first instance, debt will actually increase by $43m and the tax impact will be effectively recovered via a reduction in tax payable over the first two years following internalisation[5]. However, we suggest our approach more accurately reflects the on-going impacts of the Proposed Internalisation on the underlying PFI business.
- The Internalisation Payment is 100% debt funded, at PFI's average FY2016 interest cost of 5.4%.
- Nil performance bonuses being paid to the Senior Executives (although we also consider the impact assuming full performance bonuses are paid).
- The summary earnings exclude one-off transaction costs of $43 million being the $42 million purchase price and $1.0 million of estimated transaction expenses which would likely be expensed in FY2017.

Table 17: Financial Profile of PFI Pre and Post the Proposed Internalisation (with Pro Forma Adjustments)

($m)	FY16 Actual	Internalisation Adjustment	FY16 Pro Forma
Rental Income	70.7	-	70.7
Non-recoverable Property Costs	(1.6)	-	(1.6)
Net Rental Income	**69.1**	**-**	**69.1**
Management Fee Income	0.4	-	0.4
Net Revenue	**69.4**	**-**	**69.4**
External Management Fees	(7.3)	7.3	-
Internal Management Costs	-	(2.8)	(2.8)
Other Expenses	(1.2)	-	(1.2)
Total Operating Expenses	**(8.5)**	**4.5**	**(4.0)**
Net Financing Costs	(17.8)	(1.6)	(19.5)
Other Non-Operating Income	88.9	-	88.9
Total Non-Operating Items	**71.1**	**(1.6)**	**69.5**
Profit Before Tax	132.1	2.9	134.9
Tax Expense	(8.7)	(0.8)	(9.5)
Profit After Tax	**123.4**	**2.1**	**125.5**
Adjustments	(89.3)	-	(89.3)
Distributable Profit	**34.1**	**2.1**	**36.2**

[5] We note that while the large tax deductions in the tax year of the Proposed Internalisation will reduce the availability of imputation credits attached to future PFI dividends for a period of time, PFI's PIE status ameliorates this impact.

($m)	FY16 Actual	Internalisation Adjustment	FY16 Pro Forma
Distributable Profit Per Share (cents)	7.58	0.46	8.04
MER	0.81%	(0.43%)	0.38%
Total Tangible Assets	1,092.7	0.1	1,092.8
Borrowings	(332.9)	(31.3)	(364.2)
Other Liabilities	(32.7)	-	(32.7)
Net Tangible Assets	**727.1**	**(31.2)**	**695.9**
NTA Per Share	$1.61	$(0.07)	$1.54
Debt / Investment Property	30.7%	2.9%	33.6%

Source: Northington Partners.

As illustrated in Table 17, the Proposed Internalisation would have resulted in an increase in PFI's FY2016 Distributable Profit of 0.46 cents per share on a pro forma basis to 8.04 cents per share, representing an increase of 6%. Assuming full performance bonuses were paid in FY2016 (such that total internal management costs did not exceed 0.3% of total tangible assets), pro forma Distributable Profit would have increased 0.40 cents per share representing an increase of 5%.

The increased Distributable Profit results from the lower MER, offset to some degree by the interest expense on the additional debt used to fund the net purchase price. The pro forma MER more than halves from approximately 0.81% (including actual performance fees paid) to 0.38% (assuming no performance bonuses) and comprises total internalisation costs of 0.26% (increasing to 0.30% with maximum performance bonuses as detailed in Section 5.4.4) and other administration costs of 0.12%.

The termination payment would result in a decrease in NTA of approximately 7 cents on a FY2016 pro forma basis to $1.54, and increased gearing from approximately 31% to 34%. However, we consider the impact on NTA and gearing to be negligible relative to the increase in Distributable Profit.

7.2. Alternatives to Internalisation

If the Proposed Internalisation does not proceed, there are a number of potential alternative outcomes for PFI.

7.2.1. Maintenance of the Status Quo

If the Proposed Internalisation does not proceed, then it is possible that the current arrangements between PFI and PFIM will continue. That is, PFIM would continue to manage PFI under the existing Management Agreement and the benefits of the Proposed Internalisation would be forgone. The Proposed Internalisation may be a one-time opportunity and PFIM may decide to retain the Management Agreement indefinitely.

We again note that unlike the management agreements underlying other New Zealand internalisations, PFI shareholders have extremely limited rights to terminate the Management Agreement and therefore also have limited leverage to exert pressure on PFIM to reduce management fees over time. Consequently, if PFI shareholders become dissatisfied with PFIM's performance, there are limited alternatives to seek internalisation in the future without PFIM's mutual agreement.

7.2.2. Sale of Management Agreement to Unknown Third Party

If the Proposed Internalisation does not proceed, PFIM is entitled to assign the benefit of the Management Agreement[6] to a third party, and PFI shareholders would have limited control over the

[6] Alternatively, the shareholders of PFIM may transfer their shares in PFIM, resulting in the effective change in control of PFIM.

nature or identity of the new manager (although PFIM cannot assign its interest in the Management Agreement without PFI's consent, which cannot be unreasonably withheld). Under this scenario, the same management fees would continue to be payable and the new manager would have the same performance obligations as PFIM under the Management Agreement. However, the benefits of internalisation would be lost, PFI would have no certainty regarding the operational performance of the third-party owner and if the employees of PFIM did not continue employment following sale, there could be significant loss of institutional knowledge of PFI.

Under this scenario, it would be highly unlikely that PFI would have the opportunity to reconsider internalisation for the foreseeable future at a value close to the Internalisation Payment, as the new manager would have a strong financial incentive to recover the full value paid for the Management Agreement.

7.3. Implications of the Proposed Internalisation Proceeding

If the Proposed Internalisation is approved by shareholders and proceeds:

- No further management fees will be payable to PFIM. Based on our forecast assumptions, the Proposed Internalisation will result in significant net operating savings to PFI of between $3.4 million to $4.5 million per annum (depending on the level of assumed future performance fees and performance bonuses), which should enhance dividends and shareholder returns over time;
- The other benefits of internalisation summarised in Section 3.3 may be realised; and
- PFI's day-to-day strategy and ongoing operation are unlikely to change materially with an orderly transition from external management to an internally managed business expected. The Proposed Internalisation ensures a transfer of systems and records and the same employees have been offered continued employment with PFI (or contractors in the case of the Senior Executives), ensuring management continuity.

We therefore suggest that the Proposed Internalisation offers PFI shareholders with the financial and operational benefits of an internally managed company with limited transition or disruption risk.

8.0 Conclusions

In our view, the fairness of the Proposed Internalisation for the PFI shareholders not associated with PFIM should be considered by reference to four key elements.

- **Internalisation Payment:** The $42 million Internalisation Payment is significantly less than our assessed market value range of $48 million - $56 million for the Management Agreement, assuming that PFIM is offered for sale via a competitive market process. Furthermore, the estimated value of the Proposed Internalisation to PFI ($63 million - $78 million) is significantly greater than the post-tax cost of the Internalisation Payment ($30 million). This means that the Proposed Internalisation adds between $33 million and $48 million of value to PFI on an NPV basis.
- **Immediate Financial Impact on PFI:** The Proposed Internalisation results in enhanced distributable profits for PFI which should allow for increased dividends. Based on our FY16 pro-forma analysis, we estimate earnings accretion of approximately 6%, but note that future outcomes are dependent on the level of performance fees that would have accrued under the terms of the Management Agreement. This earnings increase should have a positive impact on PFI's share price to the extent that it has not already been factored in to the current share price.

  The Internalisation Payment will be debt funded and the Proposed Internalisation will therefore increase PFI's gearing level. Based on the post-tax value of the Internalisation Payment, pro-forma gearing will increase from 30.7% to 33.6%[7]. Actual gearing will initially increase to 34.4% in the short-term based on the full pre-tax payment, before the benefits of the tax deduction are factored in. While this increase in debt will potentially limit PFI's ability to pursue other opportunities in the short term, the post-transaction gearing remains at a reasonable level and generally in-line with other LPVs.
- **On-going Management of PFI:** The day-to-day management of PFI following the Proposed Internalisation will be carried out by the same people who have controlled and managed PFIM since it became Manager of the PFI portfolio. This ensures continuity of the management team and means that there will be limited disruption as a result of the transaction. While the flexibility granted to the Senior Executives to perform non-PFI related business under the new arrangements is uncommon, this allowance is similar to the current arrangements under the Management Agreement, and we believe that appropriate provisions are in place to carefully manage any conflicts of interest.
- **Potential Alternative Outcomes:** The Proposed Internalisation provides PFI with what might be a one-off opportunity to acquire control of the management rights for the Company. While there are differing views as to the benefits of internal versus external management for LPVs, we suggest that the current Management Agreement provides the Manager with an entrenched position which limits PFIs ability to terminate the contract or alter any of the existing terms.

  If the Proposed Internalisation does not proceed, the current owners of PFIM may well look to realise their investment by selling the Management Agreement to another third party (and as summarised above, we expect that a third-party sale would result in a higher-value outcome for PFIM). On that basis, PFI does not have the option of deferring the transaction until market conditions change and the potential cost of internalisation is lower – any future transaction obviously requires the Manager's co-operation and PFIM is very unlikely to reconsider a future internalisation transaction in adverse market conditions which lead to a lower price.

Based on these considerations, we therefore conclude that the consideration and terms and conditions of the Proposed Internalisation are fair to shareholders of PFI not associated with PFIM and that the Proposed Internalisation is in the best interests of PFI.

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[7] This excludes the impact of the $14.2m acquisition announced in February 2017.

Appendix 1. Comparable Company Information

Table 18 below summarises selected valuation trading multiples of Australasian listed companies with property management as their primary activity.

Table 18: Australasian Comparable Listed Property Management Companies

Entity	Country	Activities	Enterprise Value (NZ$m)	AUM (NZ$m)	EV / EBIT (Last FY)	EV / AUM
Centuria Capital Limited	Australia	Property Management	371	4,138[1]	11.8x[2]	9.0%
Folkestone Limited	Australia	Property Management, Property Development	175	1,307	12.4x	13.4%
Augusta Capital Limited	New Zealand	Property Management, Property Investment	127	1,571	12.7x	8.1%
APN Property Group Limited	Australia	Property Management	109	2,413	18.5x	4.5%
BlackWall Limited	Australia	Property Management, Property Investment	67	151	16.3x	NA[3]
Average					**14.3x**	**8.7%**
Median					**12.7x**	**8.5%**

Source: Capital IQ, publicly available company announcements, Northington Partners Analysis.
NZD / AUD Rate of 0.9337 used for currency conversion.
[1] Includes A$750m of investment bonds under management.
[2] Centuria EV / EBIT based on annualised pro forma EBIT and net debt post their transaction to purchase 360 Capital Group's real estate management platform.
[3] BlackWall's asset under management is not meaningful due to its activities in other business areas.

Table 19 provides a description of these companies.

Table 19: Detailed Listed Company Descriptions

Company	Description
Centuria Capital Limited	Centuria Capital Limited, an investment manager, markets and manages investment products in Australia. It operates through Property Funds Management, Investments Bonds, Reverse Mortgages, and Corporate segments. The Property Funds Management segment is involved in the management of listed and unlisted property funds. The Investments Bonds segment manages the benefit funds of Centuria Life Limited and the management of the Guardian Over Fifty Friendly Society Limited. The benefit funds include a range of financial products, such as single and multi-premium investments. The Reverse Mortgages segment manages reverse mortgage lending portfolio.
Folkestone Limited	Folkestone Limited operates as a real estate funds management, investment, and development company in Australia. It operates through Property Development and Funds Management segments. The company invests in the office, retail, industrial, residential, and social infrastructure sectors; and provides real estate funds management services for private clients and institutional investors.
APN Property Group Limited	APN Property Group Limited operates as a real estate investment fund manager in Australia and internationally. It operates through Real Estate Securities Funds, Industrial Real Estate Fund, Direct Real Estate Funds, and Investment Revenue segments. The company manages open ended properties securities funds, listed property trusts, fixed term Australian funds, and wholesale funds. It manages direct property and listed funds, and managed investment schemes. The company provides its products to institutional and retail investors directly, as well as through independent financial planner networks and financial institutions.
Augusta Capital Limited	Augusta Capital Limited engages in the investment of commercial and industrial properties in New Zealand. The company owns five commercial properties comprising commercial office towers, office buildings, finance centre, and business parks located in Auckland. It also provides property syndication services. The company was formerly known as Kermadec Property Fund Limited and changed its name to Augusta Capital Limited in March 2012.
BlackWall Limited	Blackwall Limited has 3 operating segments: WOTSO WorkSpace provides serviced offices and flexible workspaces, BlackWall Property Funds manages the ASX-listed BlackWall Property Trust, and its Investments segment primarily hold shares in BlackWall Property Trust in addition to other investments to support WOTSO.

Appendix 2. Comparable Transaction Evidence

Table 20 and Table 21 below summarise selected Australasian transaction evidence in relation to property management contract internalisations and sales that are broadly comparable to PFI's Proposed Internalisation. In looking at these transactions it must be noted that the management contracts underlying each transaction differ considerably in their terms, which may result in valuation metrics that are not directly comparable. PFI's management agreement is particularly unique in that it has an indefinite term with no set mechanism to remove PFIM as the manager, which means a relatively higher market value should be attributable.

Table 20: New Zealand Comparable Internalisations and Sales of Property Management Contracts

Date	Entity	Type	Sale Price (NZ$m)	AUM (NZ$m)	Price / Revenue	Price / EBIT	Price / AUM
Dec-13	Kiwi Property Group	Internalisation	72.5	2,188	2.8x	6.3x	3.3%
Feb-12	Kermadec Property Fund	Internalisation	2.0	100	2.4x	10.5x	2.0%
Jan-12	Property for Industry	Contract Sale	10.5	359	5.6x	N/A	2.9%
Oct-11	Vital Healthcare	Contract Sale	11.5	533	2.8x	N/A	2.2%
Aug-11	Argosy Property Trust	Internalisation	20.0	935	2.5x	5.3x	2.1%
Apr-11	Vital Healthcare[1]	Proposed internalisation	14.0	533	3.4x	N/A	2.6%
Oct-10	National Property Trust	Internalisation	2.5	187	1.7x	N/A	1.3%
Jul-10	DNZ	Internalisation	35.0	730	3.5x	7.1x	4.8%
Average					**3.3x**	**7.2x**	**2.9%**
Median					**2.8x**	**6.7x**	**2.6%**

Source: Capital IQ, publicly available company announcements, Northington Partners. Average and median excludes Vital Healthcare proposed internalisation and National Property Trust multiples.
[1] Vital Healthcare's proposed internalisation did not proceed.
[2] Multiples for sale of PFI management contract by AMP Capital Investors (New Zealand) Limited to PFIM based on FY2011 AUM and management fee expenses.

Table 21: Australian Comparable Internalisations and Sales of Property Management Contracts (Post November 2013)

Date	Entity	Type	Sale Price (NZ$m)	AUM (NZ$m)	Price / Revenue	Price / EBIT	Price / AUM
Jan-17	360 Capital Investment Management	Contract Sale	98.0	1,495	8.6x	10.0x	6.6%
Jun-16	Generation Health Management	Contract Sale	62.7	552	3.6x	N/A	11.3%
Dec-14	Arena REIT	Internalisation	11.5	440	3.2x	10.0x	2.6%
Mar-14	CFS Retail Property Trust (CFX)	Internalisation	492.7	14,887	2.9x	9.5x	3.3%
Nov-13	GDI Property Group	Internalisation	29.2	795	2.8x	N/A	3.7%
Average					**4.2x**	**9.8x**	**5.5%**
Median					**3.2x**	**10.0x**	**3.7%**

Source: Capital IQ, publicly available company announcements, Northington Partners.
NZD / AUD Rate of 0.9337 used for currency conversion.

Appendix 3. Sources of Information Used in this Report

Other than the information sources referenced directly in the body of the report, this assessment is also reliant on the following sources of information:

- Annual reports for PFI for 2012, 2013, 2014, 2015 and 2016.
- Audited financial statements for PFI for the period FY2012 to FY2016.
- Budget and forecast information provided by PFI for FY2017.
- Discussions with senior management personnel of PFI.
- Terms sheets for the Proposed Internalisation and Senior Executive Services Contracts.
- The Internalisation Agreement and associated MRCO Licence and service contracts with Senior Executives.
- Draft Notice of Meeting.
- Various other documents that we considered necessary for the purposes of our analysis.

Appendix 4. Declarations, Qualifications and Consents

Declarations

This report is dated 24 May 2017 and has been prepared by Northington Partners at the request of the independent directors of PFI to fulfil the requirements of the NZX in relation to the Proposed Internalisation. This report, or any part of it, should not be reproduced or used for any other purpose. Northington Partners specifically disclaims any obligation or liability to any party whatsoever in the event that this report is supplied or applied for any purpose other than that for which it is intended.

Prior drafts of this report were provided to PFI 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.

This report is provided for the benefit of all of the shareholders of PFI that are being asked to consider the Proposed Internalisation, and Northington Partners consents to the distribution of this report to those people.

Our engagement terms did not contain any term which materially restricted the scope of our work.

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) and 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.

Northington Partners has been responsible for the preparation of numerous independent reports in relation to takeovers, mergers, and a range of other transactions subject to the Takeovers Code and NZX Listing Rules.

Independence

Northington Partners has not been previously engaged on any matter by PFI or (to the best of our knowledge) by any other party to the Proposed Internalisation that could affect our independence. None of the Directors or employees of Northington Partners have any other relationship with any of the directors or substantial security holders of the parties involved in the Proposed Internalisation.

The preparation of this independent report will be Northington Partners' only involvement in relation to the Proposed Internalisation. Northington Partners will be paid a fixed fee for its services which is in no way contingent on the outcome of our analysis or the content of our report.

Northington Partners does not have any conflict of interest that could affect its ability to provide an unbiased report.

Disclaimer and Restrictions on the Scope of Our Work

In preparing this report, Northington Partners has relied on information provided by PFI. Northington Partners has not performed anything in the nature of an audit of that information, and does not express any opinion on the reliability, accuracy, or completeness of the information provided to us and upon which we have relied.

Northington Partners has used the provided information on the basis that it is true and accurate in material respects and not misleading by reason of omission or otherwise. Accordingly, neither Northington Partners nor its directors, employees or agents, accept any responsibility or liability for any such information being inaccurate, incomplete, unreliable or not soundly based or for any errors in the analysis, statements and opinions provided in this report resulting directly or indirectly from any such circumstances or from any assumptions upon which this report is based proving unjustified.

We reserve the right, but will be under no obligation, to review or amend our report if any additional information which was in existence on the date of this report was not brought to our attention, or subsequently comes to light.

Indemnity

PFI 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.

PFI 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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