



AUGUSTA
CAPITAL

FOCUS

February 2017



New Augusta Offices

*Bayleys House,
30 Gaunt Street,
Wynyard Quarter*

INSIDE

**Treasury
Management:**
A Longer Term View

Syndicate Property Sales:
*Delivering Equity Gain
to Investors*

Coming Soon:
*New Investment
Opportunity*



From the MD

Welcome to 2017. With Christmas and New Year celebrations long gone it is time to focus on a busy year ahead.

The end of 2016 saw political and social upheaval internationally and locally, however we are confident that 2017 will be a positive year for New Zealand businesses and Augusta. Although there is likely to be a rise in wholesale interest rates and the drying up of bank funding, those who are well capitalised and have strong banking relationships will encounter a period of real opportunity. Augusta's business model is evolving and we are no longer just a buyer of investment assets but now also a creator of them. We now can and will get involved in the funding and/or development of investment grade assets across all property sectors (including residential) to create high quality investment property that we can make available to our investors.

The new year has begun with the move to a new premises as a sub-tenant of Bayleys Corporation at the recently constructed Bayleys House. One of the newest, most contemporary and spacious office spaces in Auckland this six storey building incorporates sustainable design principles; high performance glazing, intelligent lighting design, low-flow water systems and engineering to meet current seismic standards. The building holds a prominent position in Wynyard Quarter, is in close proximity to commuter links and has a variety of onsite cafes, bars and amenities. Augusta is at home with other major tenants such as Bayleys and Mayne Wetherell.

While only a few minutes down the road from the old office the new office provides us with additional desk space and meeting areas that have been required in recent times. Augusta has grown significantly over the past few years with over 30 staff across the country, and with 18 of those being in Auckland we outgrew the old premises. The move took place on Friday 17th February and the team is settled in and enjoying the new space.

You may have already seen the NZX announcement and I am pleased to confirm the appointment of Guy French-Wright as the Chief Operating Officer (COO) of Augusta. The recent growth of the funds management side of the business has stimulated a small company restructure and highlighted the need for the COO role. Guy will commence mid-March and will be a key part in increasing efficiencies, implementing investment strategies and managing day to day operations to enable the growth of the company to continue.

Guy joins Augusta from Quintessential Equity, a wholesale property fund manager based in Melbourne, Australia, where he is currently General Manager – Development and was responsible for building a diversified development business. Guy was credited for leading the ASX Top 50 listed Mirvac, who were best known for being a major office owner into one of Australia's most successful property developers and creators of their own investment grade balance sheet assets. Guy has also managed significant capital wholesale partnerships with some of the world's largest pension funds and investors.

Also recently announced on the NZX is the reduction in working hours of our New Plymouth based General Manager, Phillip Hinton. The recent company restructure has allowed Phil to reduce his involvement in the company as he desired. He will be

working on a part time consultancy basis from mid-2016 and will continue to focus on investor relations and other assignments.

Another clear sign that the company is continuing to expand is the ongoing recruitment of new staff. In January we welcomed Louise Connell as Legal and Compliance Manager in the Auckland office. Louise is a litigator and has recently returned from three and a half years in London at Ashurst. Prior to that, she worked at the Financial Markets Authority and Bell Gully in New Zealand. In March we will welcome Robert Greed on board in the Auckland office as a Syndicate Finance Associate. Robert joins Augusta from PricewaterhouseCoopers where he is currently an Assurance Senior Associate. Also joining the team in late March as an Asset Manager is Ben Visser. Ben is currently working as an Asset Manager for Trust Investments which runs the property arm of the Anglican Trust Board. He has also held positions as a Valuations Analyst and Commercial Leasing Broker for Jones Lang LaSalle in the past.

The Augusta team and I wish you all the best for the remainder of the summer (fingers crossed the sun continues to stick around), and look forward to bringing you more investment opportunities and quality offers over the coming months. You may have already seen some press on our recent acquisition of the currently under development, Mercury Energy headquarters in Newmarket, Auckland. This is an exciting opportunity to be involved in the creation and ownership of one of Auckland's finest new office complexes.

Mark Francis
Managing Director

“ We are confident that 2017 will be a positive year for New Zealand businesses and Augusta. ”

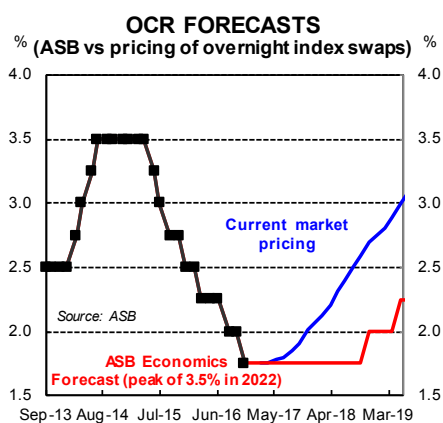


Treasury Management

A Longer Term View

An ongoing key focus for Augusta in managing investor distributions has been to apply a strategic view to the financing of each scheme.

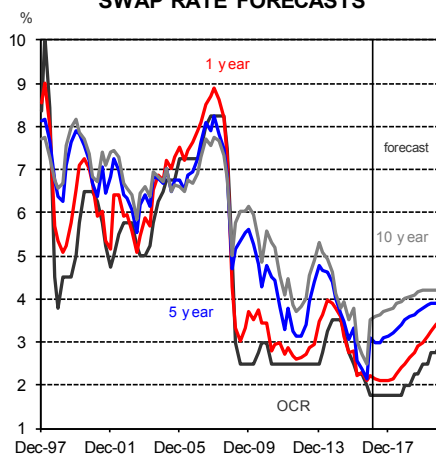
Recent inflation data has crept closer to targeted levels set by the Reserve Bank but there is still some way to go. This is a signal that we may have seen the low in the OCR (Official Cash Rate) cycle. That said the OCR is not expected to increase until 2018 and not at a rapid pace.



Source: ASB Economic Update, 1 February 2017

We have however seen a jump in longer term swap rates on the back of Trump's election. Swap rates are now back to similar levels a year ago but are still very low against historical trends.

SWAP RATE FORECASTS



Source: ASB Economic Update, 1 February 2017

Hedging (effectively fixing the underlying rate) is now back on the radar for many borrowers as a result of swap rate rises. Augusta as always considers hedging opportunities after careful consideration of market trends and future exposures to any future floating rate rises.

Credit growth (lending) is still outstripping deposit growth. As a result bank margins continue to rise on the back of competitive bank deposits rates (which are well above the OCR) being offered by banks to drive deposit growth. The cost incurred from offering competitive deposit rates is being passed back to borrowers. To also fill the gap

between deposits and lending, offshore funding has also been sought by the banks which is more expensive, again having an impact on bank margins.

Sourcing new funding has been difficult in recent times, however we are hopeful that funding capability may improve later this year. Augusta's focus has been first and foremost to secure continuing funding for existing schemes. As previously noted banking relationships are extremely important and Augusta has been successful in concluding recent loan extensions and refinanced loan packages – something that is not always available to borrowers that don't have the size and scale of an organisation like Augusta. Prudent treasury management has also assisted in the current environment.

We are now entering the strategic review process which has a longer forward looking view. This will include the critical treasury assumptions, in line with policy, around interest rate management and debt management all with the aim of sustaining distribution yield and preserving equity.

Simon Woollams
Chief Financial Officer

Chapman Tripp

Chapman Tripp are Augusta's primary external legal advisers. Chapman Tripp partners Pip England and Mark Nicholson, senior associate Heath Brunton and senior solicitor Russell Weir assist Augusta with a range of legal matters that arise in its business.

They work closely with Augusta management on the sale and purchase of syndicated properties, leasing, fund formation and preparation of Product Disclosure Statements in respect of new syndicates. They also assist Augusta with its corporate affairs matters, including compliance with its obligations under the NZX Listing Rules.

Outside of work, Pip has an interest in strange forms of art and Russell participates (badly) in ocean swim events. Heath meanwhile spends his time outside work with (and getting given the run around by) his young family. They all enjoy a glass of wine at the end of the week!



Heath Brunton, Senior Associate



Russell Weir, Senior Solicitor



Mark Nicholson, Partner



Pip England, Partner

The Success of Secondary Sales



Any Secondary Sales queries can be directed to Kerri:

Kerri Ewart

Investor Relations Assistant
and Secondary Sales

kerri@augusta.co.nz
06 759 5110

The Secondary Sales Market seems to be very topical at the moment with more investors inquiring about the liquidity of their investments and the Secondary Sales process in general. Augusta certainly appreciates the requirement to maximise liquidity for all investors and understands the importance of achieving this within a reasonable timeframe.

Augusta considers the Secondary Sales market a very important aspect of the Investor Relations Team and in support of this we have recently employed a dedicated staff member to facilitate these sales.

Kerri Ewart joined the Augusta team in August 2016 and is based in the New Plymouth office. Kerri hails from a banking background, most recently with ASB Commercial Banking in Taranaki and is enjoying the crossover into property syndication. Kerri will facilitate all Secondary Sales for Augusta and we have outlined some sales facts and the process below for your information.

The Secondary Sales market has been very active in recent months as investors opt to liquidate investments for a variety of reasons. The majority of Secondary Sales are arranged within 30 days and following completion of transfer documentation (Deed of Accession/Share Transfer) and Anti-Money Laundering and Counter Financing of Terrorism Act 2009 (AML) due diligence, will settle on the last business day of each calendar month. All settlement funds are transacted via Chapman Tripp Solicitors.

YTD Sales Data from 01/04/16:

Units/Shares sold 44 units
Total Value \$2,422,641

On an initial investment of \$50,000 this equates to an average sale price of \$55,060 (10.12% increase value)

Units currently under offer 13 units

Units just gone to market (pre offer) 12 units

Investors should note past performance is not always indicative of future performance.

The Secondary Sales Process:

Our process to facilitate secondary sales for our investors is that we will initially send out a sale of unit form for completion, at this stage the investor nominates a price they would be happy to sell their unit for. As facilitators we are unable to advise how much you should sell your unit for and we recommend you get independent advice. We can however refer you to the net asset value figure in the Annual Management Report which is the amount you would receive in hand if the property was sold as a whole at that date (note this is not including any sale costs).

On return of this sale of unit form we will firstly offer this unit to other investors within the syndicate, giving them a five day window to make an offer which we will in turn present to you for consideration. If you do not receive an acceptable price at this stage we will take the offer to our wider database. From here we need to allow 20 working days as the potential purchasers are not familiar with the properties and will need to request, receive and review the information.

All offers are presented for consideration and once an offer is accepted, Kerri will liaise with both parties, prepare the documentation and facilitate the complete process.

Upon settlement, actioned on the last working day of each month as this allows for distributions to be maintained as full monthly distributions, we will receive confirmation from the solicitor and we will then forward a transaction statement to the vendor shortly after.

A new Investment certificate will then be posted to the new owning entity.

Whilst every endeavour is made to achieve a sale of Unit/s there is no guarantee of a sale being achieved. We will however ensure that the unit/s are exposed to the maximum number of investors and provide any additional information that may be requested in a timely fashion.

Facilitation Fees will be applicable.

For the purposes of the secondary market:

1. Neither Augusta Capital Ltd nor Augusta Funds Management Ltd is providing financial advice. You should obtain independent investment advice before you make any investment decisions.
2. Augusta Funds Management Ltd will be charging an administration fee for arranging the transfer, which equates to 2% of the transaction value (payable by the seller).
3. Augusta Funds Management Ltd will not be acting as broker for any party.
4. The secondary market facility provided by Augusta Funds Management Ltd is not a registered securities exchange or authorised securities exchange, or regulated under New Zealand securities markets laws.
5. There is no binding contract to purchase a unit until a deed is signed by both the seller and the purchaser.

A word from Bryce

Capital Growth

We have seen strong capital growth over the past year or so which has been great for many of our investors.

As much as we would like to see this same acceleration in growth in the years to come, I do not see this growth being maintained during 2017. Growth in value of commercial property generally falls under two broad criteria (and sometimes a combination of both):

1. Reduction in Purchase Yields

This is a direct result of the investor being prepared to pay a higher price for the asset in the market. It is often driven by investment yields on alternative investments.

2. Increased Rentals

Value growth is also a result of rising rental income from the property.

Both of these are driven by "supply and demand" of good investment product or quality, well located buildings meeting tenant's requirements.

Going forward we see capital growth being focused more on rental increases, rather than continually falling purchase yields. This will be reflected in many of the investment opportunities we select over the next year or two.

Australian Opportunities

The market in Australia is still very much in our focus. We are currently looking at two opportunities in Brisbane and we will keep you informed on progress as these develop.

In general, the drivers that make Australian investment attractive on opportunities of well-located and leased buildings are:

- Interest rates still decreasing.
- The strength of the \$NZ.
- The annual rental growth provision in most leases.

All of these are factors that make a Brisbane Augusta syndicate an attractive option to New Zealand investors.

Bryce Barnett
Executive Director



Key Dates for 2017

New Zealand Syndicates

Annual Meeting Dates:

Meetings held in Auckland
17/18 August

Meetings held in Christchurch
21/22 August

Meetings held in New Plymouth
14/15 September

Reporting Dates:

Financial Statements plus
Tax Disclosure Information
- By 30 June

Annual Management Reports
- By 31 July

Australian Syndicates

Annual Meeting Date:

All meetings to be held in
New Plymouth 3 November

Reporting Dates:

Audited Financial Statements
- By 30 September

Non-Audited Financial Statements
plus Tax Disclosure Information
- By 20 October

Annual Management Reports
- By 20 October

FIELDAYS

14th to 17th June 2017

The Augusta team will once again be at Fieldays in 2017 and look forward to catching up with our investors visiting.

Supporting Movember

As you may be aware from correspondence in 2016, the Augusta team participated in Movember this year.

At the close of the fundraising period, the Augusta team had raised the most money of any of the New Zealand teams, with a total of \$30,333 raised. Mark Francis, Managing Director also raised the greatest amount as an individual. Augusta were proud to support the Movember Foundation in their objective of addressing men's health issues and reducing the amount of men dying too young.

As the highest fundraiser Augusta received a \$1,000 gift voucher for Pak'n'Save from the Movember foundation. This was donated to the Auckland City Mission to help those in need at what can often be a difficult and stressful time of year for many.

Thank you to all those who supported us in raising money, sending messages of support and putting up with the additional hair on our team for the month of November.



Hayden Bryant presenting the Auckland City Mission with \$1000 of Pak'n'Save vouchers.



Anti-Money Laundering and Countering Financing of Terrorism

The Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (the Act) and its regulations place certain obligations on financial institutions in New Zealand. The Act's objectives are to:

1. Detect and deter money laundering and terrorism financing;
2. Improve public confidence in New Zealand's financial system; and
3. Maintain and enhance New Zealand's international reputation as a safe place in which to do business.

In order to comply with the Act, Augusta must carry out initial and ongoing customer due diligence (CDD) on all of its customers. We have received a number of questions in relation to this process and so thought it would be helpful to provide responses to some frequently asked questions.

How does it affect Augusta's customers?

The Act requires that Augusta knows its customers by confirming their identity. Augusta's CDD process requires all customers to provide documents and information in order to verify their identity and address (e.g. passport, drivers licence, utility bill, birth certificate etc.). Where the investor is a trust or a company, Augusta must also establish the identity of any beneficial owners of the entity (i.e. the person(s) who ultimately owns or controls the entity that is seeking to invest in the scheme). We understand that this process can be frustrating, especially when you have invested with us before, however, we are required by law to do this.

What documents can Augusta accept for the purposes of CDD?

We understand that it may be inconvenient to provide original documents to us. Therefore, we can accept a copy of the document, that has been certified by a 'trusted referee'.

There is a specific list of qualifications that make someone a trusted referee including: a chartered accountant, lawyer, justice of the peace, registered medical doctor, registered teacher, member of the police, minister of religion and notary public. The copy of your document must be signed and dated by the trusted referee and posted or delivered to Augusta. Unfortunately we are unable to accept an emailed or faxed copy of the certified document.

Can I provide proof of my identity online?

Augusta is anticipating introducing an on-line electronic identity verification system in the future. We will keep you updated of any developments.

I have invested with Augusta before, do I need to provide documentation every time I wish to invest?

Augusta has an obligation to conduct ongoing CDD, which means that we must regularly review and confirm our customer's information to ensure that it is correct and current. This is especially important if your circumstances have changed or if documents that you have previously provided no longer meets current AML requirements. Our AML team are happy to explain this process to you.

What information do I need to supply about my company or trust?

The Act clearly outlines that where an investor is an entity such as a company or a trust, we must obtain information about who the 'beneficial owner/s' of the entities are. Regulations require us to conduct more stringent CDD for companies and trusts as these types of entities have been identified as posing a greater risk of money laundering. This means that we will request additional information such as a certified copy of the trust deed, documents verifying the identity of the trustees or beneficial owners and documentation to confirm the source of the trust's wealth or funds.

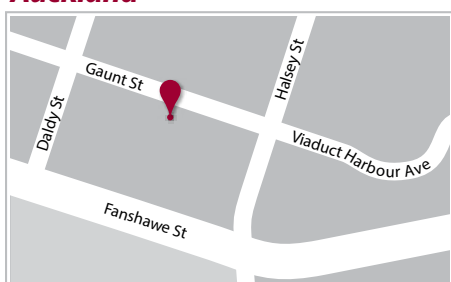
Will my information be kept private?

Absolutely. Augusta takes the protection of its customers personal information very seriously as we appreciate the highly confidential nature of the information provided. All documents and information provided are kept in accordance with our obligations under the Privacy Act 1993.

Any questions?

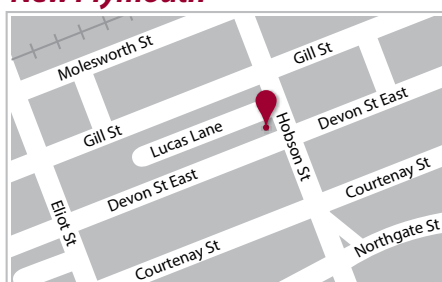
If you have other questions relating to AML or our customer due diligence process, please call a member of our AML team on 09 300 6161 or 06 759 1520.

Auckland



Level 2, Bayleys House, 30 Gaunt Street,
Wynyard Quarter, Auckland 1010
PO Box 37953, Parnell, Auckland 1151
Tel: +64 9 300 6161 Fax: +64 9 300 6162

New Plymouth



335 Devon Street East, New Plymouth
PO Box 44, New Plymouth 4310
Tel: +64 6 759 1520 Fax: +64 6 759 1521

Coming Soon Broadway, Newmarket Office Development

A six storey commercial office development, with associated ground floor retail, to be developed by Mansons Broadway Limited is the latest offer that Augusta expects to be brought to the market in April. The offer will be the first of its kind for Augusta with the syndicate acquiring the land and funding the remainder of the development. The initial return is expected to be similar to recent Augusta offerings.

Mercury Energy has been announced as the anchor tenant of the building and will occupy approximately 57% under a 12 year lease commencing once the development is practically complete (expected to be late 2018/early 2019). The remainder of the building will be leased by the vendor if vacant at practical completion. We are aware of discussions with another significant tenant and expect this will be public when the product disclosure statement is released.

Mansons have an extensive history of creating good quality buildings throughout Auckland, having completed approximately \$1.16 billion of developments since 1999.

Augusta will be seeking to raise \$83 million of equity, with the offer fully underwritten. No money is currently being sought and financial products cannot currently be applied for under the intended offer. If the offer is made, it will be made in accordance with the Financial Markets Conduct Act. Preliminary indications of interest may be made by contacting Samara Phillips from Bayleys at samara.phillips@bayleys.co.nz or **09 375 8490**. No indication of interest will involve an obligation or a commitment to acquire the financial product. Any projected return is indicative only and not guaranteed. Prospective investors are recommended to seek professional advice from an Authorised Financial Adviser which takes into account their personal circumstances before making an investment decision.



Artist Impression

Adelle McBeth Investor Relations Manager

Working for KCL and Augusta since 2004, Adelle is well known by many of our investors. She has always been there to help and assist with investors despite having health issues she has had for many years.

Adelle had a kidney transplant on the 25th January and we are pleased to report that

she is making a great recovery. While she will be on the mend for the next couple of months she will back in the office shortly and will be based out of Auckland for most of February and March.

We all wish her a speedy and successful recovery.

Syndicate Property Sales

Strong market conditions have allowed Augusta to maximise values for a number of existing smaller value property syndicates by selling the asset in recent times. A number of properties have been sold at prices delivering to investors very good equity gain.

Our view of property investment has always been to take a medium to long term position. Over that timeframe, the market will usually be able to ride out any fluctuations, thus enabling a sale to take place at strategic intervals.

For the properties sold in 2016 to date, the average Internal Rate of Return (IRR) has been 13.21%, which the Board and management of Augusta are very pleased with. The IRR represents the total annual return from the investment taking into account revenue and capital received over the time the investment was held.

These market conditions are likely to remain for smaller commercial properties through 2017, therefore Augusta will be continuing its review of all syndicates to look at the opportunity to sell or reposition the property.

An example of this is below:

OLDER SYNDICATE: \$50,000 originally invested, now worth \$70,000

	Equity	Return
	\$50,000 initial investment	@ 8.00% p.a = \$4,000 p.a
	\$20,000 equity gain	@ nil = 0
Total	\$70,000 equity	@ 5.71% = \$4,000 p.a

NEWER SYNDICATE

If that \$70,000 was invested in a new syndicate at 7.00% p.a. return, the cash distribution would be \$4,900 p.a. - an increase of \$900 p.a. to the investor.

A case by case analysis needs to be undertaken, however where the investor is better off from a cash distribution point of view, the argument for exiting the property and reinvesting into a new investment that generates increased cash flow is strengthened.

Another investment option Augusta is considering includes both unlisted and listed property funds. These could take the form of a retail fund, office fund or industrial fund and offer existing Augusta investors another option to consider. How these funds work and why they are worthy of serious consideration will be outlined in an article in the next newsletter.

Phil Hinton
Executive Director

Golf Day

The Augusta team enjoy any opportunity to meet with our investors.

After a successful golf day in Taranaki last year where our team got the opportunity to meet almost 100 of our investors, we are doing it again in Taranaki, while planning new events in Palmerston North and Tauranga.

Taranaki's Augusta Golf Day will be at the beautiful New Plymouth Golf Club on 30 March 2017.

Dates are still to be finalised for Palmerston North and Tauranga but to help us with our planning please let us know if you would be interested in joining us.

As these will be Ambrose format events, non-regular golfers are welcome to come and be part of a team or just join us later in the day for an after-work drink and a chance to catch up with the Augusta team.

If you are interested in joining us please email Adelle McBeth at adelle@augusta.co.nz



Accounting Fellowship

Bryce Barnett is among six Taranaki Chartered Accountants and 144 Chartered Accountants worldwide to be awarded a top accounting honour recognising outstanding service to their profession and communities.

Bryce has been a Chartered Accountant for 38 years and is well known for his success in business and, to no lesser extent, his willingness to contribute to the success of a number of community organisations both locally in Taranaki and on a national level.

In 2013 Bryce was recognised for his efforts when named Taranaki Daily News Person of the Year.

"A Fellowship recognises outstanding achievements and contributions of members to the accounting profession and their communities," says Kirsten Patterson, New Zealand Country Head of Chartered Accountants ANZ.

"The latest Fellows again highlight the wide-ranging pro-bono work done by members for local community organisations, often drawing on their professional knowledge and experience."

A recent survey shows Chartered Accountants average more than three hours a week volunteering or working pro bono for not-for-profit organisations.

Patterson says Fellowships are especially powerful because they are conferred by fellow Chartered Accountants ANZ members.

Fellowships are awarded annually to members of Chartered Accountants ANZ to honour outstanding achievement and contributions to accountancy either locally, nationally or internationally.

Keystone Trust Augusta Sponsorship

The Keystone New Zealand Property Education Trust was set up in 1994 to assist young people affected by financial need or adverse circumstances to take up tertiary studies that lead them into the property sector. The Trust works with a wide range of students, supporters and sponsors to open up opportunities for many young people who would not otherwise necessarily be able pursue these.

Augusta has been a sponsor of Keystone for some time and intends to continue to support this worthy organisation as it follows its vision of helping our young future property professionals.

In addition, Augusta Capital Chairman Paul Duffy, was a founding trustee of Keystone and was active on the trust for a number of years.

Augusta Amazing Race

To celebrate what was an extremely busy year, staff from both Augusta offices competed in the 'Augusta Amazing Race' held in Taupo in December.

A series of cryptic clues, masterfully prepared by race co-ordinators Alex Kendrick and Hayden Bryant, lead competitors far and wide around the Great Lake and township. While the competitive spirit shone in many, team yellow proved to be the strongest on the day taking out the win. A fantastic day was had by all!

