



Stride Property Group (NS)

NZX Announcement

5 September 2019

Stride Property Group

Establishment of New Industrial Product

Stride Property Group (Stride) is pleased to announce the establishment of Industrie Property (Industrie), its new industrial property focussed investment management product. Industrie is a joint venture with a group of international institutional investors, through a special purpose vehicle, and advised by J.P. Morgan Asset Management (together, JPMAM). Industrie will own and develop for long term income producing purposes industrial property in New Zealand, primarily located in the Auckland region. Stride Property Limited (SPL) will contribute all of its industrial properties to Industrie, which is intended to grow through the acquisition and development of industrial properties over time.

Industrie will be managed by Stride Investment Management Limited (SIML). The management agreement is consistent with those of other SIML-managed products, structured to reflect the activity-based focus of Industrie in the initial years following establishment, during which time Industrie is expected to grow in value through acquisitions and development activity. The overall economics of this management contract are broadly equivalent to the management contracts of other SIML-managed products.

Following the strategic and successfully delivered initiative to grow our portfolio of industrial property, we have created Industrie, an industrial sector focussed product. The creation of Industrie is consistent with Stride's strategy of establishing a group of property investment management products in specific sectors to provide growth in our investment management business.

Industrie will be Stride's sector-specific investment management product focussed on the industrial property sector in New Zealand, with a majority weighting to the Auckland market. The vision for Industrie is to grow a significant portfolio of high-quality New Zealand industrial properties.

Initially JPMAM will commit approximately \$70 million to the establishment of Industrie and SPL will contribute 12 industrial properties owned by it. SPL will initially have an approximately 70% shareholding in Industrie, with JPMAM holding the remainder.

JPMAM has additionally allocated a further \$115 million of capital to fund near term growth initiatives, subject to meeting certain investment return and approval thresholds, taking JPMAM's total equity committed to \$185 million. This \$115 million of JPMAM committed capital will result in Industrie having capacity to fund initial portfolio growth of over \$190 million.

Over the long term, the strategy is for JPMAM to fund further portfolio growth until the respective shareholdings in the portfolio are 75% / 25% (JPMAM / SPL).

J.P. Morgan Global Alternatives is the alternative investment arm of J.P. Morgan Asset Management (JPMAM). With more than \$148 billion in assets under management (including USD \$70 billion of real estate under management globally) and 750 professionals (as of 31 March 2019), J.P. Morgan Global Alternatives offers strategies across the alternative investment spectrum including real estate, private equity and credit, infrastructure, transportation, liquid alternatives, and hedge funds. J.P. Morgan Global Alternatives operates from 18 offices throughout the Americas, Europe and Asia Pacific. For more information see www.jpmorganassetmanagement.com

The recent growth of SPL's industrial portfolio and the establishment of Industrie are important steps in the delivery of Stride's strategy. Stride's future investment management strategy is to:

- Maintain a diversified investment portfolio through a combination of investments in our investment management products and our directly-held portfolio.
- Support and grow Stride's established investment management products through carefully considered transaction and development activity, while maintaining our cornerstone share holdings.
- Grow our directly-held portfolio of commercial office properties, with a view to establishing a sector-specific investment management office product in the future.
- Review new investment management opportunities in markets adjacent to the core commercial property sector.

After the financial close of Industrie, SPL is expected to have approximately \$181 million of headroom available from banking resources to help fund this growth.

Stride's FY20 cash dividend guidance remains unchanged at a combined 9.91cps.

The establishment of Industrie remains subject to a number of conditions, which are described in the schedule to this announcement, along with the key terms of the transaction. More information on Industrie and the Stride strategy is set out in the attached presentation.

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A Stapled Security of the Stride Property Group comprises one ordinary share in Stride Property Limited and one ordinary share in Stride Investment Management Limited. Under the terms of the constitution of each company, the shares in each can only be transferred if accompanied by a transfer of the same number of shares in the other.

Stapled Securities are quoted on the NZX Main Board under the ticker code SPG. Further information is available at www.strideproperty.co.nz or at www.nzx.com/companies/SPG.

SCHEDULE

Key terms of establishment of Industrie

Parties	SPL (through its wholly owned subsidiary, Stride Industrial Property Limited) and a special purpose vehicle advised by JP Morgan Asset Management (together JPMAM)
Properties to be transferred	On commencement of Industrie, SPL will transfer 11 of its current industrial properties
Price	The initial properties will be sold to Industrie at a purchase price of \$256.9 million, which represents a net 3.1% premium to SPL's 31 March 2019 valuations, plus capital adjustments between 30 June 2019 and the commencement of the joint venture
Equity interests	JPMAM will initially contribute approximately \$50 million equity with an SPL subsidiary holding the balance of the equity, and debt funding provided by a syndicate of banks. While the final purchase price of the properties and thus proportionate ownership interests will be determined closer to commencement of Industrie, based on current expected values of the properties, this will result in JPMAM holding an approximately 30% interest in Industrie at commencement, with SPL (through its wholly owned subsidiary Stride Industrial Property Limited) holding the remaining approximately 70% interest
Additional Property – Springs Road	<p>In addition to the existing 11 properties transferred to Industrie on commencement, Industrie will acquire the Springs Road (East Tamaki, Auckland) property that is currently under development by SPL as a head office for Waste Management. This property will be acquired shortly after practical completion of the project (with practical completion expected to occur in late December 2019), or, if later, on establishment of Industrie. The value at which the Springs Road property is sold to Industrie will be determined by a valuation at the completion of the development of this property. JPMAM will contribute \$20 million (in addition to its initial \$50 million contribution) of equity in relation to the acquisition of Springs Road.</p> <p>A long stop date for acquisition of Springs Road applies, which means if the development is not completed by the later of (1) six months after commencement of Industrie and (2) 31 December 2020, then Industrie can elect not to acquire the property. Industrie will then have a right of first refusal to acquire this property if SPL seeks to sell it within a period of time thereafter.</p>

Additional Property – 439 Rosebank	Industre will also be nominated as the purchaser for the acquisition of 439 Rosebank Road (with completion expected in June 2020).
Key Conditions	<ul style="list-style-type: none"> • Overseas Investment Office approval • Finalisation of banking arrangements (including satisfaction of conditions precedent under the banking facility) for Industre with its banking group – and to this end, funding has been committed by a syndicate of banks under a terms sheet agreed with SIPL and JPMAM. • Agreement by SPL with its banks to amendments to its current banking arrangements to provide for the establishment of Industre and transfer of properties to the joint venture. • Finalising the terms of investment by SPL in the JPMAM SPV. SPL will take a small shareholding in the SPV (approximately \$250,000) to assist in alignment of the interests of SPL with its joint venture partner. The terms of this investment are to be finalised, and this will be a condition to completion of the overall transaction and commencement of the joint venture <p>The conditions are to be satisfied within nine months, subject to an extension to 12 months in the case of the Overseas Investment Office approval condition in certain circumstances. Settlement is to occur on the last business day of the calendar month that is at least 20 business days after the last condition is satisfied, subject to certain exceptions.</p>
Investment Mandate	Invest in industrial properties that are used primarily or predominantly for the purposes of warehousing, distribution, production, manufacturing, assembly, research, fulfilment or trade-based retail (such as panel beaters or mechanics), and bare land or development properties that may be able to be developed into a property used for these purposes; targeting a long term equity IRR of 8% and an initial yield of 5%. The investment mandate specifically excludes office properties, large format retail, shopping centres and self storage facilities.
Preferred Investment Vehicle	Industre will be the investment vehicle through which the parties will invest in properties that meet the Investment Mandate subject to limited exceptions.

Key terms of Management Agreement

Parties	Industre (via a new nominee company acting for the participants) and Stride Investment Management Limited (as manager)
Term	Open-ended (no fixed maturity date), with limited termination rights
Asset Management Fee	For the first three years 0.40% per annum of Gross Asset Value of Industre ('GAV') and thereafter 0.45% per annum of GAV
Building Management Fee	All building manager's fees and property management fees payable to Industre under the service charge in respect of each property
Leasing Fee	12% of annual gross rent, where a new lease or right of renewal is arranged by the Manager for a term of at least one year
Capital Expenditure and Maintenance Fee	6% of cost
Transaction Fees	<ul style="list-style-type: none"> • Initial transaction fee of 0.5% of the gross value of all initial properties transferred to Industre, to be paid by Industre at completion. • Minimum 0.5% of purchase price and up to 1.0% of purchase price for future acquisitions • Minimum 0.5% of sale price, and up to 1.0% of sale price for disposals
Performance Fee	A performance fee, calculated on a quarterly basis, equal to 10% of the amount by which investor returns are above 10% and under 15% per annum, calculated quarterly. Any excess or deficit returns are carried forwards to the next quarter and cease to be taken into account two years after the quarter in which they are incurred