Investment and Management Philosophy

1.0 Our objective

The Company's objective is to provide investors with a reliable investment in New Zealand property, targeting superior risk-adjusted returns over time through the ownership and active management of a diversified, high-quality portfolio.

2.0 Our goal

Our investment goal is to deliver long-term total returns greater than 9% per annum, underpinned by pre-tax funds from operations growth of at least 2% per annum.

We achieve this objective by:

> investing in a high-quality diversified property portfolio throughout New Zealand, with a broad range of tenants and lease maturities

> fostering long-term tenant relationships as a means of enhancing investment performance

> adopting an active management philosophy encompassing asset and financial management, strategic investments, acquisitions and divestments and the judicious development of new and existing assets, and

> maintaining a strong balance sheet with conservative borrowing levels.

3.0 Active management

The Company seeks to optimise earnings and capital growth through strategic added-value remixes and refurbishments, negotiation of new leases and rent reviews and the application of best practice in all property management activities. This involves:

> ensuring that our tenants are satisfied with their accommodation, and working with existing and prospective tenants to create solutions that add value for both parties

> negotiating and managing leases and rent reviews with each of our tenants, and monitoring compliance with all lease obligations

> managing capital expenditure requirements for upgrades or refurbishment of each of our property assets so as to optimise overall investment returns, and

> minimising vacant space in each of our assets, and marketing space effectively if it becomes available.

4.0 Strategic acquisitions and divestments

The Company considers strategic acquisitions and divestments that have the potential to enhance returns for our investors and/or provide superior growth opportunities. Our existing portfolio of assets is continually reviewed to ensure the assets fit within our investment criteria, and are divested if necessary. With every existing asset, potential acquisition or divestment, we look at:

- maximising returns from rental income and achieving long-term capital growth
- minimising risk by investing in high-quality, strategically located assets
- the potential for superior growth and added-value opportunities
- the further diversification of our portfolio by tenant, sector and geographical location, and
- maintaining our strong income profile through long-term leases to prime tenants.

5.0 Development activity

The ongoing refurbishment and/or redevelopment of our existing assets, and the judicious development of new assets, are essential to our continued performance.

Existing shopping centre assets typically require periodic redevelopment to ensure competitiveness and the achievement of investment performance objectives. We may also develop new assets where opportunities arise to enhance long-term sustainable returns to investors, acknowledging that it is often not possible or feasible to purchase these assets directly.

There are a variety of development activities that we undertake and every project is different and has varying risk characteristics. For example, the refurbishment of an existing shopping centre will have a lower risk profile than the potential development of an asset on bare land which is not currently zoned for that activity. In some cases the refurbishment of an existing asset will have a lower risk profile than not undertaking that refurbishment and risking the deterioration of that asset.

While every project has a different risk profile, the types of risks may include securing control and ownership of the land, obtaining planning permissions and consents, construction procurement, cost escalation, resources, leasing, funding and ultimately delivery of the completed asset. Before undertaking any refurbishment, expansion or development proposal, we carefully evaluate identified risks associated with that particular project, and then plan and implement mitigation measures designed to manage those risks within acceptable levels.

The quantum of development undertaken at any one time will depend on numerous factors, including, but not limited to, the risks associated with the particular development, the rate of return on the investment, the availability of resources and funding capacity.

As a general guiding principle, we do not intend to have more than approximately 15% of the gross value of property assets under development at any point in time. We may exceed this guideline however, if a unique opportunity presents itself which fits our investment criteria and is adequately de-risked, or where to not undertake a refurbishment or expansion of an existing asset would result in its deterioration.

6.0 Active financial and capital management

Active financial and capital management is undertaken with the objective of ensuring that our income, expenses and financial position are managed so as to optimise long-term sustainable returns to investors. This includes:

- ensuring that cash flows from rentals are efficiently utilised as they become available. This may be by way of capital expenditure for refurbishment or upgrade programs, or simply by debt repayments or by ensuring that cash balances are earning competitive interest rates

- actively managing the Company's debt and exposure to interest rate volatility through a disciplined debt and hedging strategy that ensures an ongoing spread of maturities, maximises the term of renewal, and achieves an appropriate mix of fixed-rate and short-term floating-rate debt to meet the Company's cash flow requirements
- ensuring that borrowings are used prudently, minimising interest costs, while at the same time making appropriate decisions about the trade-off between the cost of borrowing and the potential return from investment opportunities, and
- careful consideration of any requirement for new equity, balancing the potential return from investment opportunities.

For definitions of all capitalised terms contained in this document, please refer to our 'Glossary of terms', which can be found on the Kiwi Property website **kp.co.nz/about-us/corporate-governance**

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