

FREQUENTLY ASKED QUESTIONS



AUGUSTA
FUNDS MANAGEMENT

BAYLEYS

WHAT IS PROPERTY SYNDICATION?

Augusta Funds Management Limited provides investors the opportunity to access premium, high yielding commercial and industrial property offerings throughout New Zealand and Australia.

It's a relatively easy and straightforward way for investors to participate in the ownership of institutional grade properties at an entry level price. Investor's funds are pooled and they become passive investment partners in good buildings, with good tenants and long leases. The property is fully managed on behalf of the investors with forecast cash returns distributed monthly.

WHO IS AUGUSTA?

Augusta Funds Management Limited is one of New Zealand's largest and leading property fund managers. They are wholly owned subsidiary of NZX listed Augusta Capital Limited with assets under management of approximately NZ\$1.7 billion.

Augusta are conservative in their approach, with a focus on sustainability of returns and maximising the value of the properties they manage for over 4,500 investors.

WHY INVEST IN AUSTRALIA?

Augusta views investment in Australian property as a good way to diversify your investment portfolio. Members of Augusta's management team have over 20 years' experience in managing and syndicating Australian properties. Currently, Augusta has 12 properties in Brisbane with a value in excess of AUD \$110 million.

In Augusta's opinion, the Queensland industrial property sector continues to experience strong levels of leasing and sales activity which has resulted in falling vacancy rates, rising rentals and yield compression. The Queensland properties Augusta currently manage are performing well, with the majority, in their opinion, showing good capital growth in recent years. Investments of this calibre are extremely difficult to find in the current market. Augusta believes the attributes of this property are a good investment and along with Augusta's impressive track record with similar offerings and knowledge of the Queensland market, this creates a unique opportunity for investors to diversify their portfolio and enjoy regular monthly returns from an Australian investment.

CAN I SELL MY INVESTMENT?

Augusta provides New Zealand investors a secondary market facility they can utilise. Over the last 5 years and 3 months, Augusta has facilitated the secondary sale of 274 units with a total sales value of \$16,190,003.

WHAT IS THE INVESTMENT STRUCTURE?

The Augusta Nudgee Road Property Trust is an unlisted fund that holds the investment in the property at 741 Nudgee Road, Northgate, Queensland, Australia for commercial rental purposes. It is a Managed Investment Trust (MIT) which is a form of Unit Trust for Australian taxation purposes.

WHY IS THIS DIFFERENT THAN THE PREVIOUS STRUCTURE AUGUSTA USED FOR AN AUSTRALIAN INVESTMENT?

The major reason for the change from an LLP (Limited Liability Partnership) structure to a MIT (Managed Investment Trust) structure is with regard to the liquidity. No stamp duty is payable on transfers under this structure which may improve the flexibility for investors if their circumstances change*.

Another reason is that it allows for investors based in Australia (including New Zealanders who have moved to Australia) to invest. In addition, any capital gains tax that is payable in Australia on the ultimate disposal of the property will be withheld in Australia at a rate of 15% of the capital gain, rather than paid at a rate of 30% in the LLP model (see **Will there be Capital Gains Tax?**).

*As long as the Trust continues to meet certain investors criteria as outlined in the PDS.

FREQUENTLY ASKED QUESTIONS

HOW WILL THE TAX WORK?

Cash Distributions will be made from Augusta Nudgee Road Property Trust to investors on a monthly basis (see **How do I Receive the Return?**). The Trust pays 15% Australian withholding tax on the net taxable income in Australia on behalf of investors i.e the distribution you receive in your NZ or Australian bank account will be post Australian withholding tax.

In the first three years of the investment due to benefits such as depreciation and other tax efficiencies, there is no forecast taxable income recorded in Australia, and as such, no Australian withholding tax payments made. When the Australian withholding tax is paid, it is available to be used as a credit against the NZ income tax liability.

The investment will be dealt with under the Foreign Investment Fund (FIF) regime. Under this regime, the income New Zealand investors receive from the Augusta Nudgee Road Property Trust is deemed to be 5% p.a. (for tax purposes only) on the opening value of their investment at the start of each income year. See below example of the “cost method”.

Investments such as those previously offered by Augusta Funds Management in Australian property under the Limited Partnership Structure are not FIFs and the FIF regime will not apply.

Basic Example of Calculation of Taxable Income Using the “Cost Method”:

For simplicity, an AUD \$100,000 investment is used.

In Year 1 (10 months) there is no taxable income as the investment was not held on the first day of the income tax year, being 1 April 2017, i.e. opening value is zero. All figures are in Australian Dollars.

In Year 2 the taxable income will be $5\% \times \$100,000 = \$5,000$

In Year 3 the taxable income will be $5\% \times (\$100,000 + \$5,000) = \$5,250$

In Year 4 the taxable income will be $5\% \times (\$100,000 + \$5,000 + \$5,250) = \$5,512.50$ etc

Note: In the fifth income year the opening value which is used to calculate the taxable income can be reset by obtaining an independent market valuation.

Basic Example of Calculation of Tax

For example, an individual investor with an AUD \$100,000 investment and using the Year 2 Forecast Pre-Tax Cash Return of 7.65%pa would receive AUD \$7,650. Under the FIF Tax Regime the assumed taxable income is \$5,000 (i.e year two in the above example). At a 33% tax rate their total tax liability in New Zealand would be \$1,650 ($\$5,000 \times 33\%$).

See attached **Nudgee Road - Investor Example to Demonstrate After Tax Return for New Zealand Investors**

DO I NEED TO FILE AN AUSTRALIAN TAX RETURN?

No, there will be no obligation for New Zealand resident investors to file an Australian tax return in relation to the distribution of income from the MIT. The non-resident withholding tax is considered to be a final tax in Australia.

WHAT WILL I BE PROVIDED AT THE END OF THE FINANCIAL YEAR?

Like other Australian property syndication's that Augusta Funds Management are the manager of, full financial statements will be provided to investors by the 30th September each financial year. Tax disclosure statements for investors will be issued before the 30th of June each year for New Zealand tax purposes. Investors can then use these to complete their tax return or provide to their accountant who completed this for them.

Augusta will also provide an example of an IR 449 disclosure form which must be completed and submitted to IRD with the investor's tax return.

WILL THERE BE CAPITAL GAINS TAX?

When the property is sold, and a capital gain arises, the distribution of the capital gain from the MIT to the New Zealand investors will be subject to the same 15% withholding tax as the net taxable income portion of the monthly distributions. There will be no further tax to pay on that income in New Zealand and because New Zealand does not tax capital gains it will not be included in an investors' New Zealand tax return. The tax credit in relation to any capital gain distributed cannot be claimed in New Zealand against other overseas income and is not refundable in either country.

FREQUENTLY ASKED QUESTIONS

IS THE INVESTMENT IN AUD AND HOW DO I PAY IN AUD?

Yes, the Augusta Nudgee Road Property Trust is an Australian Dollar (AUD) investment.

The amount of NZD required to invest will depend on the NZD/AUD exchange rate at the time of transferring your investment money from NZD to AUD. At an exchange rate of 1.05, you will need NZ\$52,500 (plus any applicable bank fees) to purchase your AUD\$50,000 unit.

Payment can be made by enclosing a cheque (in Australian currency) with your application. The cheque should be made payable to "AET Structures Finance Services Pty Ltd ACF Augusta Nudgee Road Property Trust".

Payment can also be made by direct credit. If you elect to transfer your application money by direct credit, you will be contacted and provided with the application bank account details.

HOW DO I RECEIVE THE RETURN?

Augusta will make the forecast cash distributions to investors monthly in arrears, with payments being made on the 7th day of each subsequent month, or the next working day. The first payment to investors for the Augusta Nudgee Road Property Trust is scheduled for 7 October.

Investors should also be aware that the monthly distributions will be subject to exchange rate fluctuations if you are receiving them in NZD.

Distributions can be received via three options:

1. Directly to an Australian AUD account; this transfer will not incur any transfer fees but requires an account in Australia to be set up;
2. Into a New Zealand NZD account; the transfer fees are small for this option as the Trust pays only one transfer fee. The transfer fee (currently \$25 per month) will be spread evenly across all investors choosing this option; or
3. Into a New Zealand AUD account; each investor distribution would be considered a transfer and therefore incur a fee of (currently) \$25 per investor which would be deducted from the distribution.

The amount you receive each month will fluctuate depending on the exchange rate on the day it is transferred from AUD to NZD.

DOES THE ENTITY I USE TO INVEST (I.E A COMPANY/TRUST/INDIVIDUAL) HAVE ANY IMPACT ON THE INVESTMENT?

Individual circumstances and independent professional advice will determine the appropriate legal form of investment for each investor. However Augusta notes that a company that is not a look-through company (LTC) is not likely to be a preferred option for a New Zealand investor. Any Australian tax credits associated with income distributions will not be creditable to the company's imputation credit account and on eventual distribution of such unimputed reserves for the New Zealand tax will be payable.

In relation to capital gains, a non LTC cannot distribute a capital gain free of tax unless in the course of winding up.

The above is only a summary in response to the questions listed. It does not address all relevant information in respect of an investment in the Augusta Nudgee Road Property Trust and the underlying property it will acquire. It does not set out the risks in respect of that investment. Prospective investors should read the Product Disclosure Statement for the Augusta Nudgee Road Property Trust and seek their own independent tax, legal and financial advice.

For a copy of the Product Disclosure Statement or more information including a video, please contact the below selling agents or visit the website:

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Augusta has partnered with Australian-based funds manager DDH Graham Limited to establish an Australian registered managed investment scheme which is open to both New Zealand and Australian investors. DDH Graham Limited ACN 010 639 219 AFSL 226319 is the responsible entity of, and issuer of the Product Disclosure Statement offering investment in the Augusta Nudgee Road Property Trust ARSN 619 503 472. Augusta Funds Management is the asset manager. The PDS is available in New Zealand pursuant to the trans-Tasman mutual recognition regime. The promotion of the offer in New Zealand is undertaken by Bayleys Real Estate and Augusta Funds Management Limited and DDH Graham Limited has not prepared, and is not responsible for, this advertisement. 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. The selling agents are not providing personalised advice, but will provide all prospective investors with a copy of the Product Disclosure Statement. Disclosure Statements for the selling agents are available on request and free of charge. No money should be sent other than accompanying an application form as set out in the Product Disclosure Statement. None of Augusta Funds Management, Augusta Capital, DDH Graham Limited, Bayleys Real Estate or any other person guarantees or promises the forecast pre-tax cash returns to investors or any payment of returns by the Trust. The actual returns paid could differ from the forecast returns.

NUDGE ROAD - INVESTOR EXAMPLE TO DEMONSTRATE AFTER TAX RETURN FOR NZ INVESTORS

KEY ASSUMPTIONS

- Exchange rate applied is A\$1 = NZ\$1
- Investment cost of A\$100,000
- No taxable income is derived in Australia and no Australian tax is payable by the MIT until Year 4. Figures are based on the prospective financial information as presented in the PDS.
- Nil taxable income will apply in NZ in year 1 under the Foreign Investment Fund (FIF) regime as an investor has a \$nil opening balance on the first day of the NZ income tax year.
- Cash distributions are all received by the 31 March cut off date for NZ tax purposes.

| SHARE OF NET TAXABLE INCOME IN AUSTRALIA (FOR A\$100,000 INVESTED) (This affects the overseas tax credit that will be available for a NZ resident investor - to offset against their NZ tax liability) | YR 1 (10 months) | YR 2 (12 months) | YR 3 (12 months) |
|---|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Share of forecast net cash operating income before tax adjustments per Australian Tax Accounts | 6,169 | 7,688 | 8,005 |
| Less: Share of depreciation | (5,195) | (6,157) | (5,241) |
| Less: Share of amortisation of structure and capital raising and borrowing costs | (1,824) | (1,878) | (1,878) |
| Investors' share of MIT's taxable income/(loss) for Australian tax purposes | (850) | (347) | 886 |
| Effective loss carry forward/ taxable income once losses extinguished | (850) | (1,196) | (310) |
| Withholding tax deducted at 15% | - | - | - |

| FORECAST CASH DISTRIBUTIONS PAID OUT (NET AMOUNT RECEIVED AFTER WITHHOLDING TAX DEDUCTIONS) | YR 1 (10 months) | YR 2 (12 months) | YR 3 (12 months) |
|---|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Cash distributions payable to 30 June | 6,126 | 7,650 | 8,000 |
| Withholding tax deducted* | - | - | - |
| Cash received into NZ bank account (paid monthly) | 6,126 | 7,650 | 8,000 |

*No withholding tax in years 1 to 3 as Scheme is in a tax loss position after claiming depreciation and other tax adjustments in Australia.

| TAXABLE INCOME FOR NZ TAX RETURN - APPLICATION OF THE FIF RULES Based on cost of investment, and has no correlation to the Australian taxable income. Also noting that balance dates between the Australian financial year and New Zealand tax year are not aligned.) | YR 1 (10 months) | YR 2 (12 months) | YR 3 (12 months) |
|--|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Cost base of Investment - "Opening value" | - | 100,000 | 105,000 |
| Taxable income in NZ under NZ FIF regime (Cost Method applied) at 5% | - | 5,000 | 5,250 |

| TAX PAYABLE | YR 1 (10 months) | YR 2 (12 months) | YR 3 (12 months) |
|---|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Tax payable at 33% marginal tax rate | - | 1,650 | 1,733 |
| Tax payable at 28% marginal tax rate | - | 1,400 | 1,470 |
| Tax payable at 17% marginal tax rate | - | 850 | 893 |
| Tax payable at 0% marginal tax rate | - | - | - |
| Less: Credit for Withholding tax deducted | - | - | - |

| NET AFTER TAX CASH INCOME | YR 1 (10 months) | YR 2 (12 months) | YR 3 (12 months) |
|---|---------------------|---------------------|---------------------|
| | \$ | \$ | \$ |
| Net After Tax Cash Income for 33% marginal tax rate | 6,126 | 6,000 | 6,268 |
| Net After Tax Cash Income for 28% marginal tax rate | 6,126 | 6,250 | 6,530 |
| Net After Tax Cash Income for 17% marginal tax rate | 6,126 | 6,800 | 7,108 |
| Net After Tax Cash Income for 0% marginal tax rate | 6,126 | 7,650 | 8,000 |

| POST TAX FORECAST RETURN | YR 1 (10 months) | YR 2 (12 months) | YR 3 (12 months) |
|---|---------------------|---------------------|---------------------|
| | | | |
| Post Tax Forecast Return (annualised in Y1) for 33% marginal tax rate | 7.35% | 6.00% | 6.27% |
| Post Tax Forecast Return (annualised in Y1) for 28% marginal tax rate | 7.35% | 6.25% | 6.53% |
| Post Tax Forecast Return (annualised in Y1) for 17% marginal tax rate | 7.35% | 6.80% | 7.11% |
| Post Tax Forecast Return (annualised in Y1) for 0% marginal tax rate | 7.35% | 7.65% | 8.00% |

You will be provided the actual figures to use in your NZ tax returns each year in a schedule to be prepared by the Trust's New Zealand Tax Advisors.