Northington Partners

Investore Property Limited

Independent Appraisal Report

Prepared in Relation to the Proposed Acquisition of three Large Format Retail Properties from Stride Property Limited

January 2018

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Abbreviations and Definitions

Acquisition Properties	The three large format retail properties located at 446 Te Rapa Road, Hamilton, the Corner of Tremaine Avenue and Railway Road, Palmerston North, and 26-48 Old Taupo Road, Rotorua
Appraisal Report	This report prepared by Northington Partners
Argosy	Argosy Property Limited
Augusta	Augusta Capital Limited
Bunnings	Bunnings Limited, the current tenant of the Acquisition Properties
Company	Investore Property Limited
FY	In relation to Investore, financial year ending 31 March
Goodman	Goodman Property Trust
General Distributors	General Distributors Limited, a subsidiary of Progressive Enterprises Limited and operator of Countdown supermarket
Investore	Investore Property Limited
IPO	Initial public offering
JLL	Jones Lang LaSalle Limited, the property valuer of the Acquisition Properties in relation to the Proposed Transaction
Kiwi Property Group	Kiwi Property Group Limited
LPV	Listed property vehicle
Management Agreement	The management agreement between SIML and Investore whereby SIML manages Investore in return for management fees
Manager	SIML, the manager of Investore
Northington Partners	Northington Partners Limited
Notice of Special Meeting	The notice of special meeting of Investore shareholders and accompanying material in relation to the Proposed Transaction
NPT	NPT Limited
NTA	Net tangible assets
NZX	NZX Limited
PFI	Property for Industry Limited
Precinct	Precinct Properties New Zealand Limited
Proposed Transaction	The acquisition of the Acquisition Properties as described in this Appraisal Report
SCA Properties	The 14 properties acquired by Investore from Shopping Centres Australasia in 2016
SIML	Stride Investment Management Limited
Stride	Stride Property Limited
Vital Healthcare	Vital Healthcare Property Trust
WALT	Weighted average lease term

1.0 Executive Summary

1.1. Introduction

Investore Property Limited ("**Investore**" or the "**Company**") is a large format retail property fund that is listed on the main board of the NZX. Investore is externally managed by Stride Investment Management Limited ("**SIML**"), the real estate management business of the stapled group which comprises Stride Property Limited ("**Stride**") and SIML. Investore was listed by Stride in 2016 following the demerger of Stride's large format retail properties and the acquisition of certain other large format retail properties partially funded through its $185 million initial public offering ("**IPO**"). Following the IPO, Stride retained a 19.9% shareholding in Investore.

Investore and Stride have now reached a conditional agreement whereby Investore will acquire three large format retail properties (the "**Acquisition Properties**") from Stride for total consideration of $78.5 million (the "**Proposed Transaction**"). All three properties are currently leased to Bunnings Limited ("**Bunnings**") and are operating as Bunnings Warehouse stores.

Stride is a related party of Investore for the purposes of the NZX Listing Rules and, because the Proposed Transaction constitutes a material transaction with a related party under NZX Listing Rule 9.2.1, it must be approved by an ordinary resolution of Investore's shareholders. As part of that process, Investore has appointed Northington Partners Limited ("**Northington Partners**") to prepare an Appraisal Report for the benefit of the Investore shareholders not associated with Stride. The main purpose of the report is to assist those shareholders to decide whether or not to approve the Proposed Transaction.

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

1.2. Summary of the Proposed Transaction

A summary of the proposed acquisition prices and implied passing yields for the Acquisition Properties is set out in Table 1 below, along with the property valuations provided by Jones Lang LaSalle Limited ("**JLL**") for Investore as part of the Proposed Transaction. The aggregate purchase price for the Acquisition Properties of $78.5 million represents a discount of $1.0 million relative to these valuations and an implied passing yield of 6.13%.

We note that the conditions of sale and purchase for the Proposed Transaction have largely been satisfied, with the only remaining condition being approval by Investore shareholders. Further details about the Acquisition Properties and the Proposed Transaction terms can be found in Section 5.0.

Table 1: Summary of Purchase Price and Implied Yield Relative to Acquisition Property Valuations

Property	Valuation Date	Valuation ($m)	Purchase Price ($m)	Net Contract Rent ($m)	Passing Yield at Purchase Price
446 Te Rapa Rd, Hamilton	11-Oct-17	$28.00	$27.65	$1.67	6.04%
Corner Tremaine Ave and Railway Rd, Palmerston North	3-Oct-17	$26.25	$25.92	$1.59	6.13%
26-48 Old Taupo Rd, Rotorua	11-Oct-17	$25.25	$24.93	$1.55	6.22%
Total		**$79.50**	**$78.50**	**$4.81**	**6.13%**

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

Our full assessment of the merits of the Proposed Transaction for Investore shareholders is set out in Section 6.0, and summarised below in Table 2.

Table 2: Summary of Conclusions

Item	Key Conclusions	Further Information
Payment Terms	▪ JLL has assessed an aggregate value for the Acquisition Properties of $79.5 million (as at October 2017). ▪ The proposed purchase price of $78.5 million therefore represents a modest discount (1.3%) to the independent market valuations.	Section 6.1
Financial Impact	▪ We estimate that the Proposed Transaction increases Investore's distributable profit by approximately 5.8% on a FY18 pro forma basis. Assuming a consistent dividend pay-out ratio, the improved earnings should result in enhanced dividends per share. ▪ The Proposed Transaction increases Investore's gearing from approximately 39% to 46% (measured as the ratio of debt to portfolio value). While this remains below Investore's long-term target gearing of approximately 48%, it does not leave much capacity for further acquisitions or development works. We note however that Investore has signalled the potential to divest up to three existing properties in the short term to provide future financial flexibility.	Section 6.2
Operational Impact	▪ The Proposed Transaction is consistent with Investore's existing strategy of sourcing an investment pipeline of large format retail properties through SIML's market coverage. Had appropriate lease terms with Bunnings been agreed at the time of Investore's IPO, it is likely the Acquisition Properties would already form part of Investore's portfolio. ▪ Following completion of the Proposed Transaction, rental payments from Bunnings would comprise approximately 10% of Investore's contracted rental income and Bunnings would become the second largest tenant. This significantly reduces Investore's current reliance on General Distributors (Countdown), with a reduction from 81% of gross contracted rent to 73% following the Proposed Transaction. ▪ The Acquisition Properties provide geographic diversification by increasing Investore's exposure to regional North Island locations. Total geographic exposure outside of the main centres of Auckland, Wellington and Christchurch increases from the current level of approximately 38% to 43% following the Proposed Transaction. ▪ The Acquisition Properties have an initial lease term of 12 years from 1 December 2017, consistent with Investore's WALT of 13.8 years as at 30 September 2017. Following completion of the Proposed Transaction, Investore will retain the second highest WALT in the LPV sector at 13.6 years on a pro-forma basis, as at 30 September 2017 (excluding potential disposals by Investore). ▪ At 100% occupancy with a quality tenant, a long WALT and attractive lease terms, we believe that the Acquisition Properties are a complementary fit with Investore's existing property portfolio.	Section 6.3

1.4. Conclusion Regarding the Fairness of the Proposed Transaction

Taking all of the key elements of the Proposed Transaction into account, we conclude that the consideration and terms and conditions are fair to the Investore shareholders not associated with Stride.

2.0 Scope of the Report

2.1. Regulatory Requirements

2.1.1. NZX Listing Rule Requirements

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

Based on the approach taken by NZX Market Supervision in precedent transactions, a "Material Transaction" for the purposes of the NZX Listing Rules is determined with reference to the thresholds contained in Listing Rule 9.2.2. This relates to the acquisition or disposal of assets having an aggregate net value in excess of 10% of the average market capitalisation of the Company. Under the Proposed Transaction, Investore would make a payment of $78.5 million to Stride for the Acquisition Properties, representing approximately 22% of Investore's average market capitalisation[1].

Listing Rule 9.2.5(b) requires that the notice of special 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 party. This report is therefore addressed to the independent directors of Investore for the benefit of shareholders not associated with Stride.

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 2.

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 Transaction are fair to shareholders of Investore other than those associated with Stride. 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 Transaction 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 Special 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 Transaction is approved or not approved; and
- The overall terms of the Proposed Transaction.

[1] Based on the 20-day volume weighted average price of Investore shares traded on the NZX up to 10 November 2017, being the last trading day before the announcement of the Proposed Transaction.

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

- The assessed value of the Acquisition Properties relative to the consideration being paid;
- The impact of the Proposed Transaction on Investore's financial metrics such as debt gearing levels, earnings per share and NTA per share;
- The impact of the Proposed Transaction on operational factors including the fit with Investore's stated investment strategy, as well as the geographic spread, tenant weightings and weighted average lease terms of the Investore portfolio; and
- Other considerations that may be necessary for shareholders to make an informed decision in relation to the Proposed Transaction.

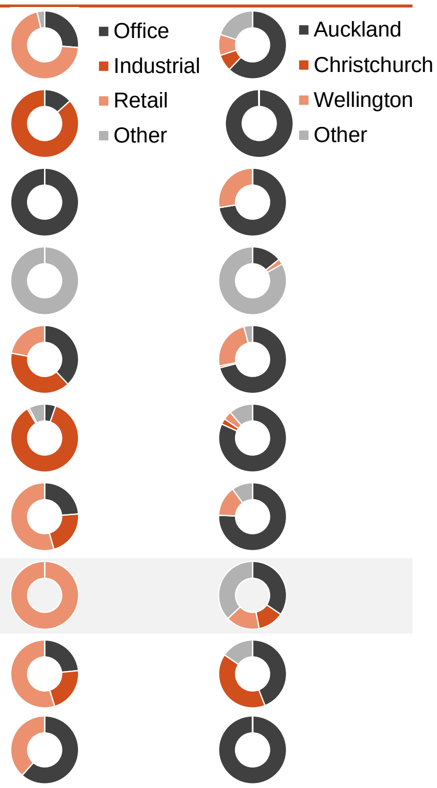
3.0 Overview of the New Zealand Listed Property Sector

3.1. Industry Overview

Table 3 summarises the entities operating in the New Zealand listed property sector by size, sector focus, and geographic focus. 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 (large format retail). The remainder are largely diversified across a combination of property types.

Table 3: Listed Property Vehicles ("LPVs") on the NZX

Entity	Entity Type	Market Capitalisation	Sector Exposure	Geographic Exposure
Kiwi Property Group	Company	$1,960m		
Goodman	Trust	$1,771m		
Precinct	Company	$1,647m		
Vital Healthcare	Trust	$967m		
Argosy	Company	$897m		
PFI	Company	$840m		
Stride	Stapled Group	$652m		
Investore	Company	$387m		
NPT	Company	$97m		
Augusta[1]	Company	$95m		



Source: Annual Reports, Company announcements and presentations of each LPV, Capital IQ. Market Capitalisation as of 8 January 2018.

[1] Augusta has contracted to progressively sell its entire investment property portfolio by April 2019.

3.2. Key Metrics for each Listed Entity

Table 4 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. All else being equal, LPVs 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. As illustrated in Table 4, Investore exhibits higher occupancy and longer lease terms than its peers and is therefore in a position to maintain a relatively higher gearing level.

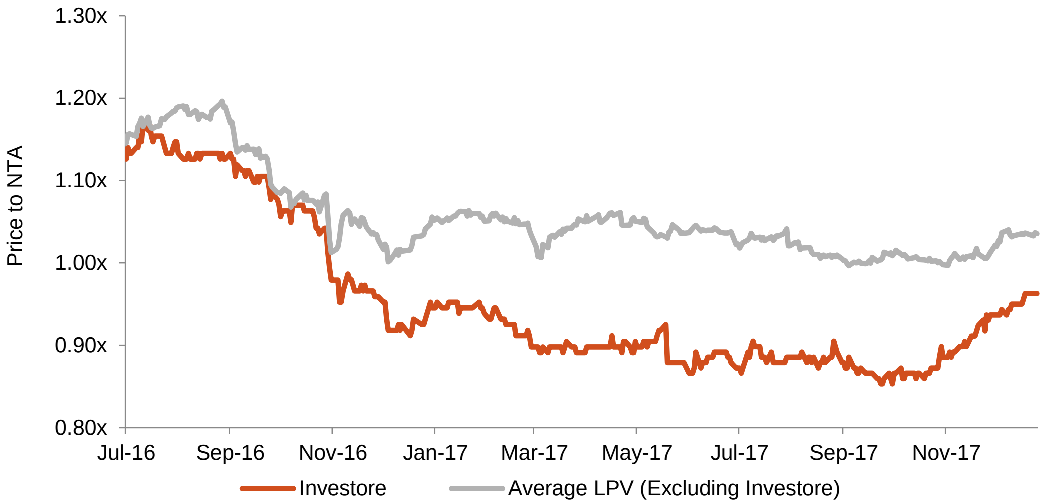
Table 4: Key Metrics for New Zealand LPVs[1]

Entity	Portfolio Value	No. of Properties	Avg. Property Value	Portfolio Cap Rate	Occupancy	WALT	Price to NTA	Gearing[2]
Kiwi Property	$2,939m	14	$210m	6.4%	99.4%	5.3	0.95x	28.4%
Goodman	$2,303m	14	$165m	6.5%	96.8%	5.8	1.05x	34.4%
Precinct	$2,045m	14	$146m	6.2%	100.0%	7.2	1.09x	22.3%
Vital Healthcare	$1,373m	37	$37m	6.0%	99.1%	17.7	1.05x	29.3%
Argosy	$1,464m	63	$23m	7.3%	98.1%	5.6	1.02x	36.8%
PFI	$1,166m	92	$13m	6.6%	99.6%	5.4	1.08x	32.0%
Stride	$919m	29	$32m	6.9%	98.2%	4.9	1.05x	38.8%
Investore	$663m	39	$17m	6.4%	99.9%	13.8	0.96x	39.4%
NPT	$174m	5	$35m	7.7%	96.5%	4.6	0.83x	35.0%
Augusta	$64m	4	$16m	6.7%	98.0%	5.3	1.11x[3]	21.1%
Average	$1,311m	31	$69m	6.7%	98.6%	7.6	1.02x	31.7%

Source: Annual Reports, Company announcements and presentations of each LPV, Capital IQ.
[1] Values for all entities have been adjusted for unconditional post-balance date acquisitions and disposals of properties (based on available information). Acquisitions are assumed to be entirely debt funded unless the entity has specified otherwise and disposal proceeds are assumed to be applied to debt reduction.
[2] 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.
[3] Augusta's NTA is adjusted to include intangibles relating to the purchase of fund management business assets.

Figure 1 sets out Investore's historical price to NTA ratio since its listing on 12 July 2016, along with the sector average ratio over the same period. This shows that Investore has traded at a discount to the broader property sector since its listing and, while the price to NTA ratio for Investore has generally followed market movements, the level of discount to the market has increased since listing. Having generally traded within a range between 0.85x and 0.95x over 2017, Investore currently trades at 0.96x compared to the sector index-weighted average of 1.04x.

Figure 1: Historical Price to NTA performance for Investore and Listed Property Sector



Source: Capital IQ, Northington Partners Analysis.

4.0 Profile of Investore

4.1. Overview of the Company

Investore is New Zealand's only listed property company with an investment strategy focussed on the large format retail property sector. Large format retail properties are generally characterised by:

- Building improvements which are typically large, free-standing, "big-box" structures built on concrete slab foundations. The building improvements are relatively modest and therefore minimise maintenance and capital expenditure requirements.
- Long-term leases to an anchor retail tenant which occupies the majority of the lettable area of the property.
- Primary uses related to grocery, bulk goods, factory outlet, DIY, general merchandise and convenience retailing.

Investore was established in October 2015 to function as Stride's investment vehicle for large format retail properties. Investore demerged from Stride on 12 July 2016, simultaneously undertaking an IPO on the NZX where it raised $185 million in new capital. Prior to the IPO, Investore held 25 properties consisting of 6 properties which had been transferred from Stride and 19 properties directly acquired from Antipodean Supermarkets Limited and Antipodean Properties Limited. As part of the transaction, the Company used the IPO proceeds to partly fund the acquisition of an additional 14 properties from ASX-listed Shopping Centres Australasia (the "**SCA Properties**") in July and September 2016.

Investore is externally managed by SIML, the real estate investment management arm of the stapled Stride Property Group. At the time of listing Investore through the demerger from Stride, Stride agreed that while SIML continued to manage Investore, Stride would (except in limited circumstances) hold its exposure in large format retail properties through its shareholding in Investore. However, Stride retained the Acquisition Properties at the time of the demerger because acceptable terms for their transfer were not able to be agreed with Bunnings at the time.

4.2. Property Portfolio

As summarised in Table 5, Investore's current portfolio comprises 39 properties with an aggregate value of $662.7 million (as at 30 September 2017). Most of these properties (accounting for 81% of contracted rent) are large format supermarkets that are leased by General Distributors, the operator of Countdown. Other tenants include Foodstuffs (operator of New World and Pak n' Save), Mitre 10 and The Warehouse. The portfolio is diversified relatively well geographically, with approximately one-third of the properties (by value) located in Auckland, one-third in Wellington and Christchurch and one-third in other regional locations.

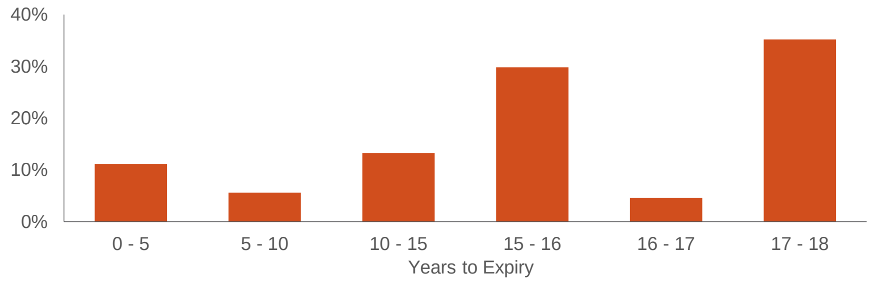
Table 5: Property Portfolio Summary by Major Tenant as at 30 September 2017

	Countdown	Foodstuffs	Mitre 10	The Warehouse	Total[1]
Number of Properties	35	2	1	2	**39**
Property Value	$582m	$42m	$29m	$30m	**$663m**
Number of Tenants	70	2	1	3	**74**
Net Lettable Area (m^2)	143,238	12,908	12,124	12,748	**174,702**
Occupancy	99.8%	100.0%	100.0%	100.0%	**99.9%**
WALT (years)	14.2	12.0	12.0	9.3	**13.8**
Share of Gross Rental[2]	81.3%	6.0%	3.6%	3.4%	**100.0%**
Contract Yield	6.63%	6.33%	5.29%	7.71%	**6.58%**
Cap Rate	6.39%	6.21%	5.25%	7.17%	**6.35%**

Source: Investore Interim Report FY18
[1] The sum of each individual figure as split by major tenant does not equal the total as Countdown and The Warehouse share one property. The entire contribution of this property is counted for in both Countdown and The Warehouse splits.
[2] 5.7% of Gross Rental comes from other tenants not included in the table.

Figure 2 shows the lease expiry profile for leases in place as at 30 September 2017. As would be expected with Investore's tenants and the large format retail focus, the profile is heavily skewed to long-dated arrangements, with the majority of leases expiring in 15 to 18 years' time. This means that Investore has the second longest weighted average lease term in the LPV sector of 13.8 years.

Figure 2: Lease Expiry Profile (by Gross Rental) as at 30 September 2017



Source: Investore.

4.3. Significant Historical Events

Key milestones in Investore's history since inception are summarised below.

Date	Event
Oct-15	Stride establishes Investore as a subsidiary to invest in large format retail property. Its initial holdings are 19 properties that made up the Antipodean Supermarkets Portfolio.
Apr-16 to Jun-16	Stride transfers six large format retail properties to Investore.
Jun-16	Stride announces the IPO of Investore, alongside the acquisition of the 14 SCA Properties.
Jul-16	Investore lists on the NZX on 12 July 2017 at $1.49 a share after raising $185 million by way of IPO. Six of the 14 SCA Properties were acquired simultaneously.
Sep-16	Investore completes the acquisition of the remaining eight SCA Properties.
Nov-17	Investore enters into a conditional agreement to acquire three of Stride's four remaining large format retail properties leased to Bunnings.

Source: Investore and Stride announcements and websites, Capital IQ.

4.4. Capital Structure and Ownership

As at 31 December 2017, Investore had 261,771,833 ordinary shares on issue. Investore's shareholder base is highly concentrated, with the top five shareholders holding 57% of shares on issue. The top five shareholders as at 31 December 2017 are set out in Table 6.

Table 6: Top 5 Shareholders

Shareholder	Shares Held	Shareholding Percentage
Stride Property Limited	52,091,786	19.90%
ANZ New Zealand Investments Limited	37,592,793	14.36%
Salt Funds Management Limited	27,250,424	10.41%
Accident Compensation Corporation	16,222,764	6.20%
Westpac Banking Corporation	15,822,903	6.04%
Top 5	**148,980,670**	**56.91%**
Other Minority Shareholders	112,791,163	43.09%
	261,771,833	**100.00%**

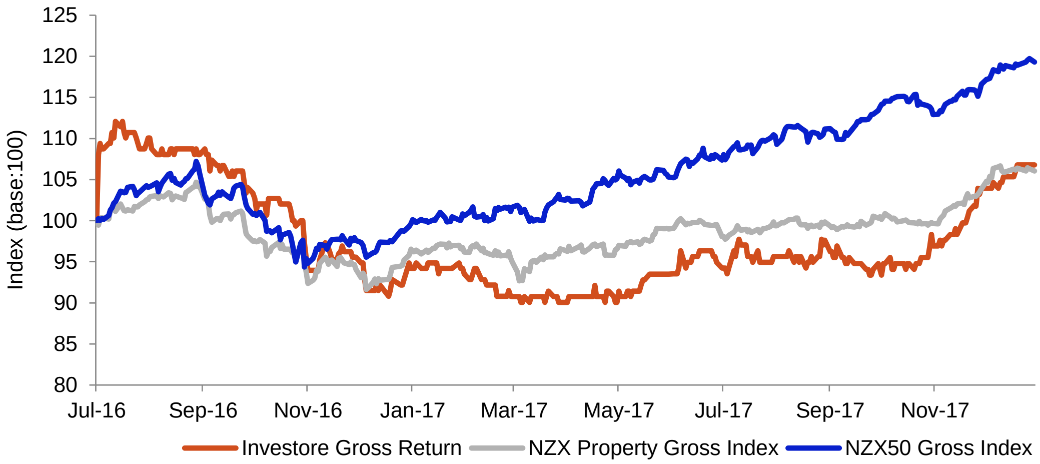
Source: IRESS, NZX Filings

Investore's largest shareholder is Stride, which retained a 19.9% shareholding following the IPO to ensure on-going alignment between Investore, Stride and SIML. The other four top shareholders are all fund managers, which collectively own 46% of the free float shares on issue. There are no other substantial security holders (those with a beneficial interest of 5% or more).

4.5. Share Price Performance

Figure 3 summarises Investore's share price performance for the period between listing (12 July 2016) and 8 January 2018, relative to the NZX Property Gross Index and NZX50 Gross Index (all inclusive of dividends). The property sector as a whole has underperformed the broader market during this period, and while Investore has underperformed the sector over most of this period, it has recently closed the gap. Investore's 8.1% value uplift on its first day of trading was not maintained, with its share price decline since IPO offsetting dividend returns. However a recent rally in Investore's share price has resulted in a 6.8% total shareholder return since listing, compared to a 6.1% total return for the NZX Property Gross Index and 19.3% for the NZX50 Gross Index over the same period.

Figure 3: Investore 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 Investore's recent financial performance is set out in Table 7 below. This covers the full year to March 2017 and the six month period to September 2017.

Table 7: Historical Financial Performance

(NZ$ millions)	FY2017	1H2018
Rental income	37.4	23.4
Direct property operating expenses	(2.4)	(1.2)
Net rental income	**35.0**	**22.2**
Management fees	(2.7)	(2.0)
Other operating expenses	(2.0)	(0.7)
Reported profit before net finance costs, fair value movements and tax	**30.4**	**19.4**
Net finance costs	(13.3)	(5.9)
Unrealised fair value movement on investment properties	13.7	1.2
Reported profit before tax	**30.8**	**14.7**

Tax Expense	(2.3)	(3.1)
Reported profit after tax	**28.5**	**11.6**
Unrealised fair value movement on investment properties	(13.7)	(1.2)
Fixed rental increases	(0.9)	(0.5)
Swap break expense	3.7	-
IPO, Demerger and Acquisition transaction costs	0.9	-
Refinancing cost amortisation	0.5	0.1
Deferred tax and other differences	(1.3)	0.4
Distributable profit after current income tax	**17.6**	**10.4**
Distributable profit per share (cents)	9.35	3.97
Earnings per share (cents)	15.12	4.44
Dividend per share (cents)	5.35	3.72

Sources: Investore Interim Report FY18 and NZX announcements. Totals may not sum due to rounding.

The main features of Investore's performance in FY17 can be summarised as follows:

- FY17 understates Investore's core underlying earnings from the existing portfolio because the Company only acquired certain properties from Stride and the SCA Properties part way through the year.
- In FY17, being a transitory year, Investore incurred a significant amount of one-off expenses that impacted its reported profit. These included IPO costs and fees for breaking out-of-the money interest rate swaps.

4.6.2. Financial Position

A summary of Investore's financial position for FY17 and 1H18 is set out in Table 8. While a balance sheet as at FY2016 is available, it reflects a different scale of operations and structure from Investore's current position, and does not therefore provide a meaningful comparison.

Table 8: Historical Financial Position

(NZ$ millions)	FY2017	1H2018
Assets		
Cash and cash equivalents	4.4	2.5
Trade and other receivables	0.4	1.2
Deferred Tax	0.5	0.7
Other assets	0.5	1.1
Investment properties	660.4	662.7
Derivative financial instruments	2.7	0.9
Total Assets	**669.0**	**669.1**
Liabilities		
Trade and other payables	2.3	2.7
Current tax liability	1.4	0.9
Bank borrowings	260.2	260.4
Total Liabilities	**263.9**	**264.0**
Equity		
Share capital	382.2	382.2
Retained Earnings and Reserves	22.8	22.8
Total Equity	**405.0**	**405.1**

Sources: Investore Annual Report FY17 and Interim Report FY18. Totals may not sum due to rounding.

We note that:

- Investore's current gearing level (bank borrowings / value of investment property) is 39%.

- This level of gearing is well below the Company's limit of 50% and the long-term target of 48% set by Investore's Board prior to its IPO. The current gearing level is also well below the financial covenant set by the Company's bank, which requires that the gearing level does not exceed 65%.
- The Company had $109 million of undrawn bank facilities as at 30 September 2017.

5.0 Overview of the Proposed Transaction

5.1. Overview of the Proposed Transaction and Acquisition Properties

The Proposed Transaction involves the purchase of the Acquisition Properties for total consideration of $78.5 million, to be funded through debt utilising Investore's existing facilities. Most of the conditions to the Proposed Transaction have been satisfied with the exception of Investore shareholder approval, which will be sought at a special meeting on 8 February 2018. A deposit of $5 million is payable by Investore to Stride if the Proposed Transaction becomes unconditional (post shareholder approval) with the remainder of the purchase price payable on the settlement date of 28 February 2018.

The Acquisition Properties comprise three large format retail properties with a total net lettable area of 40,433m^2 and contract rent of $4.8 million per annum.

Table 9: Acquisition Properties Portfolio Summary

Property	City	Tenant	Occupancy	NLA (m2)	WALT[1] (years)	Valuation ($000)	Contract Rent ($000)	Market Cap Rate	Contract Yield
446 Te Rapa Road	Hamilton	Bunnings	100%	12,763	11.75	$28,000	$1,670	5.88%	5.96%
Cnr Tremaine Avenue and Railway Road	Palmerston North	Bunnings	100%	13,730	11.75	$26,250	$1,590	5.75%	6.05%
26-48 Old Taupo Road	Rotorua	Bunnings	100%	13,940	11.75	$25,250	$1,550	6.00%	6.14%
Total / Weighted Average			**100%**	**40,433**	**11.75**	**$79,500**	**$4,810**	**5.88%**	**6.05%**

Sources: Investore, JLL valuation reports for the Acquisition Properties.
[1] *WALT as at target settlement date of 28 February 2018.*

As highlighted in Table 9, each of the Acquisition Properties has a lettable area in excess of 12,500m^2. This is larger than any of Investore's existing properties and considerably larger than Investore's current average property size of approximately 4,500m^2. Each property is purpose built and is leased to Bunnings as the single tenant. The Acquisition Properties have been inspected by Investore and its independent valuers as part of the Proposed Transaction, who note that the properties have been well maintained with no deferred maintenance requirements evident and no known environmental issues.

A brief description of the properties is provided below:

- **446 Te Rapa Road, Hamilton**: the property is located approximately 5 km from the Hamilton CBD on one of the main thoroughfares into the city in a well-established commercial and industrial area. The building site comprises an area of 2.83 hectares with plenty of on-site parking.
- **Corner of Tremaine Avenue and Railway Road, Palmerston North**: located on a main arterial route near Palmerston North Airport in one of the larger industrial areas in the city, approximately 4.5 km from the CBD. The property comprises an area of 3.08 hectares with 325 car parks.
- **26-48 Old Taupo Road**: the property is located on the main arterial route into Rotorua approximately 2.5 km to the north-west of the CBD. The land is held within 6 registry titles comprising a total area of 3.16 hectares, with plenty of on-site parking.

We note that Stride has decided to retain the remaining large format retail property which is leased to Bunnings, located at 2 Carr Road, Auckland. While this would have also represented a logical investment opportunity for Investore, Stride currently intends to bring the property to market for sale at the end of 2018 (subject to market conditions and other portfolio commitments) once some outstanding development works are completed. This is consistent with Stride's strategy to either hold any interest in large format retail properties through Investore or to divest any such property. We understand that this property will likely be sold through an open market process which may attract significant investor interest, potentially including Investore. The current capitalisation rate for this property under the existing lease structure is 5.50% (relative to 5.88% for the Acquisition Properties), illustrating the relative attractiveness of the Auckland market.

5.2. Key Lease Terms

Stride has recently renegotiated the terms of the property leases with Bunnings, with the key elements of the new leasing arrangements summarised in Table 10 below.

Table 10: Acquisition Property Key Lease Terms

Term	▪ 12 years from date of commencement
Further Terms	▪ Bunnings has the right to renew the lease for 8 further terms of 6 years each
Lease Commencement	▪ 1 December 2017
Lease Structure	▪ Net lease with Bunnings being responsible for the payment of rates, insurance premiums and other property operating expenses
Rent	▪ Starting aggregate contract rent of $4.81m ▪ Structured rental growth of 2.5% per annum over the 12 year initial term, following which market reviews will be undertaken at the commencement of the first further term and every second further term thereafter (i.e. every 12 years).
Other	▪ Bunnings retains a right of first refusal to acquire the relevant Acquisition Property if the landlord wishes to dispose of the property within the initial 12 year lease term, or within any subsequent further term. This does not apply to Stride's disposal to Investore pursuant to the Proposed Transaction. ▪ Bunnings also retains a right to acquire the relevant Acquisition Property during the sixth further term (i.e. at year 48), based on an assessed market value assuming that Bunnings has extended the lease for a further term (i.e. 6 years). ▪ Bunnings may at any time (but only once during the initial term of the lease and once during each further term) require that the landlord (at its cost) perform upgrade works at the property up to a cost limit of $6 million (increasing at CPI). Such works will increase the rent by 6.25% of the works cost up until any subsequent market rent review.

Source: Lease agreements for each of the Acquisition Properties agreed between Stride and Bunnings dated November 2017.

The remaining terms to the lease are relatively standard for lease arrangements of this nature.

6.0 Assessment of the Proposed Transaction

6.1. Value of the Acquisition Properties

Investore engaged JLL to provide an independent valuation of the Acquisition Properties in October 2017. A summary of the JLL valuation metrics is set out in Table 11 below.

Table 11: Key Valuation Metrics for Acquisition Properties

	Hamilton	Palmerston North	Rotorua	Total / Weighted Average
Date Constructed	2007	2005	2007	**2006**
Net Lettable Area (m^2)	12,763	13,730	13,940	**40,433**
Net Passing Income ($m)	$1.67	$1.59	$1.55	**$4.81**
Occupancy	100%	100%	100%	**100%**
WALT[1] (years)	11.75	11.75	11.75	**11.75**
JLL Valuation ($m)	$28.00	$26.25	$25.25	**$79.50**
Cap Rate	5.88%	5.75%	6.00%	**5.88%**
Passing Yield (at Valuation)	5.96%	6.05%	6.14%	**6.05%**
10-year IRR	7.17%	7.02%	7.25%	**7.15%**

Source: JLL Valuation Reports.
[1] WALT as at settlement date of 28 February 2018.

JLL has assessed the market values of all the Acquisition Properties on a consistent basis, using the following valuation approaches:

- Direct capitalisation of market rent with adjustments for contract rent; and
- Discounted cash flows.

JLL has applied capitalisation rates consistent with those applied to similar properties owned by Investore, after adjusting for factors such as age, occupancy, tenant quality and lease profile of the property (including the rent review mechanism). Furthermore, the capitalisation rates applied by JLL are in line with the capitalisation rates implied from recent market transactions for similar large format retail properties, including a number of property sales involving Bunnings stores.

We note that the aggregate assessed value of $79.5 million for the Acquisition Properties represents a material valuation uplift from the $51.1 million valuation reported by Stride as at 31 March 2017. The Stride valuations were completed by CBRE (Hamilton and Rotorua) and JLL (Palmerston North), and implied an average capitalisation rate of 8.36% relative to the 5.88% rate implied by the most recent JLL valuations.

The valuation increases have been driven by a number of key differences between the lease terms that applied at each valuation date. As at 31 March 2017:

- All three leases expired in June 2019, representing a WALT of 2.2 years as at 30 September 2017; and
- Bunnings retained the right to purchase each property in June 2019 at a market value reflecting vacant possession (i.e. without the benefit of the Bunnings lease).

Stride and Bunnings have subsequently agreed to new leases with a 12-year initial term and guaranteed rental growth of 2.5% per annum over the initial term. These changes clearly increase income security for the assets and substantially enhance current value. The right to acquire the properties as if vacant has been removed from the new leases. Bunnings retains the right to acquire the properties at year 48 of the lease, on the assumption that a new six-year lease term is in place. We note that Stride agreed to pay Bunnings $18 million on the termination of the old leases and commencement of the new leases. This cost is not borne by Investore but is essentially reflected in the value being paid by Investore to Stride for the Acquisition Properties.

Investore is acquiring the Acquisition Properties at a discount of $1 million to their valuation (a discount of 1.3%). Table 12 illustrates the valuation metrics for Investore's existing portfolio relative to the weighted average metrics of the Acquisition Properties at the purchase value of $78.5 million.

Table 12: Valuation Metrics of Investore Portfolio Relative to Acquisition Properties at Purchase Value

	Existing Investore Portfolio (as of 30 September 2017)	Acquisition Properties (as of October 2017)	Pro-Forma Combined Portfolio
Market Cap Rate	6.35%	5.95%	6.31%
Contract Passing Yield	6.58%	6.13%	6.53%
Valuation / Purchase Value ($m)	$662.7	$78.5	$742.2[1]

Source: Northington Partners. Market cap rate and contract passing yield for the Acquisition Properties based on purchase price.
[1] Combined portfolio value at valuation including assumed $1.0m gain on the Acquisition Properties.

Given the Proposed Transaction has been negotiated on arms-length terms between Investore and Stride and the Acquisition Properties are being purchased at a modest discount (1.3%) to their independent market valuation, we consider the proposed acquisition terms are fair to Investore shareholders not associated with Stride.

6.2. Financial Implications of the Proposed Transaction

The estimated pro-forma financial impact of the Proposed Transaction is summarised in Table 13 based on the following assumptions:

- The FY18 forecast (prior to the impact of the Proposed Transaction) is taken from the documentation prepared as part of the IPO process.
- The Proposed Transaction is effective from 1 April 2017, thereby assuming that the Acquisition Properties are part of the Investore portfolio for all of FY18.
- The full acquisition cost of $78.5 million is entirely funded by debt at an assumed weighted average cost of 4.0%, reflecting the assumed incremental cost of funding for a mixture of term and floating rate debt for Investore as of 1 April 2017. We note that Investore's current floating rate interest cost is significantly lower than this level, while Investore's overall weighted average cost of debt for the first half of FY2018 was 4.5%.
- Management fees of $0.5 million are incurred from the addition of the Acquisition Properties. This reflects an asset management fee of 0.55% of the properties' value plus a building management fee of $10,000 per property.
- The summary earnings and distributable profit exclude one-off transaction costs estimated to be approximately $240,000. However, these are assumed to be capitalised to investment property.
- After allowance for tax depreciation on the property improvements and other deferred tax adjustments, the Proposed Transaction has a negligible impact on the pro-forma tax liability in the FY18 period.
- Investore recognises a $0.8 million uplift in the value of the Acquisition Properties at 31 March 2018, in line with the October 2017 valuations of $79.5 million relative to the purchase price of $78.5 million ($78.7 million inclusive of capitalised transaction costs).

Table 13: Financial Profile of Investore Pre and Post the Proposed Transaction (with Pro Forma Adjustments)

(NZ$ millions)	FY18 Forecast	Adjustments for Proposed Transaction	Pro-Forma FY18 Forecast
Net rental income	**44.0**	**4.8**	**48.8**
Management fees	(3.9)	(0.5)	(4.4)
Other operating expenses	(1.6)	-	(1.6)
Total operating expenses	**(5.5)**	**(0.5)**	**(6.0)**
Net finance costs	(12.7)	(3.1)	(15.8)

Unrealised fair value movement on investment properties	(0.6)	0.8	0.2
Tax expense	(6.0)	(0.0)	(6.0)
Reported profit after tax	**19.2**	**1.9**	**21.1**
Adjustments[1]	1.2	(0.8)	0.5
Distributable profit after tax	**20.4**	**1.2**	**21.6**
Distributable Profit Per Share (cents)	7.80	0.45	8.25
Value of Investment Properties ($m)	662.7	79.5	742.2
Borrowings[2] ($m)	261.0	78.7	339.7
LVR	39.4%	99.0%	45.8%

Source: Northington Partners Analysis.
[1] Reflects unrealised fair value movement on investment properties, fixed rental increases and refinancing cost amortisation.
[2] Borrowings is before refinancing prepayments.

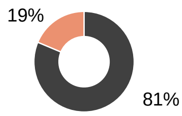
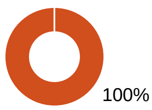
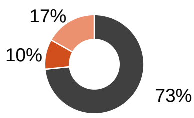
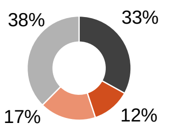
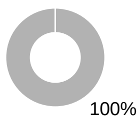
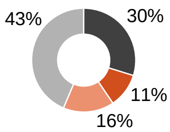
The estimated key financial impacts of the Proposed Transaction, assessed on a pro-forma FY18 basis, are as follows:

- Investore's distributable profit increases by approximately 5.8% from 7.80 cents per share to 8.25 cents per share. Assuming a consistent dividend pay-out ratio, this should result in enhanced dividends per share.
- This level of earnings accretion simply reflects the assumption that the Proposed Transaction is being funded entirely by debt at an assumed interest cost (4.0%) which is lower than the passing yield on the acquired properties (6.13%). Actual accretion will ultimately be dependent on the realised incremental funding cost and any other changes to Investore's capital structure through time. For example, a marginal interest rate range of 3.5% to 4.5% would result in increased distributable profit between approximately 7% and 4%, respectively.
- Gearing levels increase from approximately 39% to 46%. While this outcome remains within Investore's long-term target gearing level of 48%, it does not leave much capacity for further acquisition or development works. However, we note that Investore has signalled the potential to divest up to three existing properties to provide balance sheet capacity for future activities, and a potential share buy-back scheme. We would expect any material asset disposal and potential share buy-back to further enhance Investore's distributable profit per share.

6.3. Operational Implications of the Proposed Transaction

Table 14 summarises the impact of the Proposed Transaction on Investore's portfolio metrics.

Table 14: Investore Property Portfolio Metrics Pre and Post the Proposed Transaction[1]

Metric		Pre-Acquisition	Acquisition Properties	Post-Acquisition
Portfolio Asset Valuation		$662.7m	$79.5m	$742.2m
Number of Properties		39	3	42
Number of Major Tenants		4	1	5
WALT (years) [2]		13.8	11.75	13.6
Capitalisation Rate		6.35%	5.88%	6.30%
Passing Yield		6.58%	6.05%	6.52%
Occupancy		99.9%	100.0%	99.9%
Tenancy Exposure	■ Countdown ■ Bunnings ■ Other			
Geographic Exposure	■ Auckland ■ Christchurch ■ Wellington ■ Other			

[1] Metrics are as of 30 September 2017 in the case of existing Investore properties and October 2017 in the case of the Acquisition Properties unless otherwise stated.
[2] WALT is measured as at 30 September 2017 in the case of existing Investore properties and as at settlement date of 28 February 2018 in the case of the Acquisition Properties.

As illustrated in Table 14, the Proposed Transaction:

- Provides tenant diversification benefits with a significant new quality tenant. On a pro-forma basis, Investore's reliance on General Distributors (Countdown) reduces from 81% of gross contracted rent to 73% following the Proposed Transaction. Bunnings will comprise approximately 10% of Investore's contracted rental income and become the second largest tenant.
- Has negligible impact on the overall capitalisation rate and net passing yield of the Investore portfolio.
- Has negligible impact on the WALT for the overall portfolio. However, we note that Bunnings retains eight rights of renewal for a further term of six years each (i.e. a potential maximum lease term of 60 years). Under the terms of the lease, Bunnings also retains rights (but not the obligation) to purchase the relevant property at various times over the course of the lease.
- Provides an element of geographical diversification benefit by increasing Investore's exposure to Waikato and other regional North Island locations. The total geographic exposure outside of the main centres of Auckland, Wellington and Christchurch increases from approximately 38% currently to 43% following completion of the Proposed Transaction (on a pro-forma gross rental basis).

The ultimate owner of Bunnings is Wesfarmers Limited, one of Australia's largest companies which also owns Coles, K-Mart, and Target in addition to a range of other interests across Australia and New Zealand. Westfarmers had total revenue of over A$68 billion in FY17 and currently has an A- credit rating from Standard & Poors. Based on credit quality and Wesfarmers' commitment to Bunnings in New Zealand, we suggest that Bunnings represents a high-quality addition to Investore's list of tenants.

6.4. Summary of our Assessment

We conclude that the terms and conditions of the Proposed Transaction are fair to shareholders of Investore not associated with Stride. This view reflects the following key considerations.

- **Strategic Fit**: The Proposed Transaction is consistent with Investore's stated strategic objectives at the time of its IPO to continue to invest in large format retail property. If appropriate lease terms had been agreed with Bunnings prior to the IPO, we suggest that the Acquisition Properties would likely already be included in Investore's portfolio.
- **Acquisition Terms:** The $78.5 million being paid for the Acquisition Properties represents a 1.3% discount to the aggregate valuation of $79.5 million assessed by JLL. Furthermore, the agreed acquisition price results in portfolio valuation metrics that are consistent with the existing portfolio, having consideration to differences in location, tenant quality and key lease terms.
- **Immediate Financial Impact:** The Proposed Transaction should result in an immediate increase in distributable profit and potential dividends. While post-transaction gearing will increase from 39% to 46%, it remains below Investore's long-term target of 48% and is well within Investore's covenant limits of 65%. Investore has also signalled that the gearing level is likely to decrease in the short-medium term via the potential divestment of up to three existing properties. On that basis, we conclude that Investore will retain sufficient financial flexibility to effectively pursue its current strategy.
- **Operational Impact:** The Proposed Transaction introduces a new high-quality tenant to Investore's property portfolio, significantly reducing Investore's tenant exposure to Countdown. The Proposed Transaction also results in portfolio metrics (including WALT, capitalisation rates and occupancy) consistent with Investore's existing portfolio.

Appendix 1. Sources of Information Used in this Report

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

- Investore's FY2017 annual report and 30 September 2017 interim report.
- Investore's Product Disclosure Statement (dated 10 June 2016) relating to its IPO.
- Discussions with senior personnel of SIML.
- Documentation for the Proposed Transaction including the sale and purchase agreement, property valuation reports from JLL and copies of the new lease agreements for the Acquisition Properties.
- Draft Notice of Special Meeting.
- Various other documents that we considered necessary for the purposes of our analysis.

Appendix 2. Declarations, Qualifications and Consents

Declarations

This report is dated 11 January 2018 and has been prepared by Northington Partners at the request of the independent directors of Investore to fulfil the requirements of the NZX in relation to the Proposed Transaction. 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 Investore 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 Investore that are being asked to consider the Proposed Transaction, 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), 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 Investore or (to the best of our knowledge) by any other party to the Proposed Transaction 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 Transaction.

The preparation of this independent report will be Northington Partners' only involvement in relation to the Proposed Transaction. 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 Investore. 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

Investore 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.

Investore 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.

Northington
Partners