OBSIDIAN

GROUP LIMITED

STATEMENT OF INVESTMENT POLICIES AND OBJECTIVES

Contents

General

This Statement of Investment Policies and Objectives (SIPO) specifies the investment policies, objectives and parameters for the Obsidian Contributory Mortgage Scheme (the Scheme).

The current version of the SIPO for the Scheme can be obtained at www.business.govt.nz/disclose.

Nature of the Scheme

The Scheme is a Managed Investment Scheme (MIS-other) registered under the Financial Markets Conduct Act 2013 (FMCA).

Licenced Supervisor

The licenced supervisor for the Scheme is Covenant Trustee Services Limited (Supervisor). The Supervisor's duties include holding the Scheme assets and for supervising the performance by the Manager of its functions and obligations under the FMCA and the Scheme's Governing Document.

Licenced Manager

The licenced manager for the Scheme is Obsidian Group Limited (Manager). The Manager is, among other things, responsible for managing the Scheme's property and investments and must ensure that the scheme has a SIPO that provides adequately for the following matters:

- The nature or type of investments that may be made, and any limits on those;
- Any limits on the proportion of each type of asset invested in; and
- The methodology used for developing and amending the investment strategy and for measuring performance against the SIPO.

Investment Objectives

Investment objective

The investment objective of the Scheme is to give members of the Scheme (Members) the opportunity to earn a pre-tax return (but after fees and expenses) of at least 1% per annum higher than the weighted average six month term deposit rate as published by the Reserve Bank through a Member's loan portfolio.

Investment policy

The policy of the Manager is to source mortgages through Obsidian Group Limited's professional networks. Members are investing into a specific mortgage rather than a pool of mortgages. Each specific mortgage may have one or more Members. Each specific mortgage investment pays a defined income to its Members.

For each mortgage investment, a Loan Disclosure Document will be prepared that contains the details on the mortgage such as length, interest rate, security, payment terms, the property description, and borrower details.

The Manager will only invest into New Zealand mortgages. The policy is to establish and maintain a range of mortgage investments with a mixture of types of property, interest rates, maturity dates and physical locations. The scheme is to be invested in three categories of mortgage- commercial or industrial mortgages, residential mortgages and rural mortgages. There is no specific allocation rules for each sector. The Manager's policy is to retain flexibility and manage the risk of sector exposure through prudent judgement, utilising the experience of the directors.

Proposed Borrowers complete an application form that is presented to the Manager. The Manager assesses both security type and value, and the ability of the proposed Borrower to service the loan. The Manager may recommend a loan where servicing ability is not as strong if a Borrower proposes a greater security value. The Manager will reject unsuitable proposals.

For those loans that are recommended, information is collated and presented to the Board with the Chief Executive's recommendation. The Board may request further information before approving a loan. If approved, the Manager then sources Members to place in the loan.

The scheme will be invested predominantly via first mortgage into commercial property with smaller investment in residential, rural, property development and subdivisions.

Each mortgage investment is created to meet the investment criteria of the Member. Each mortgage will operate independently and separately from any other mortgage security.

If a Member sustains a loss on one mortgage security, they cannot seek indemnity or offset their loss from any other mortgage security held by other Members.

Members may manage their risk exposure by a spread of mortgages with different security categories and risk exposure.

Money awaiting a suitable mortgage will be held in the Member's member account as cash and will be held in an interest bearing trust account of the Nominee to achieve cash interest rates in line with those of registered banks.

The Manager's preference is to manage liquidity by placing restrictions on redemptions. A Member cannot demand payment prior to the end of the term of the mortgage. Any early repayment will be contingent upon a replacement Member being available or until the mortgage is repaid.

Investment strategy

Restriction on investments

There are restrictions on the type of investments the scheme can make. These are:

- Cash and deposits with a registered bank (as defined in the Reserve Bank of New Zealand Act 1989);
- Mortgages over land registered under the Land Transfer Act 1952 including contributory to any contributory mortgage or pursuant to any other security sharing arrangements.
- Additional security may be obtained through the registration of a General Security Agreement registered against an individual's or company assets.

Specific policy guidelines

Lending limits

The investment policy of the Scheme restricts the type of mortgage loan that can be held by the Scheme as follows:

- For first mortgages: At the time of approval, the loan must be within 66% of the value of the mortgaged property.
- For second mortgages: At the time of approval, the loan together with the prior first mortgage must be within 80% of the value of the mortgaged property. (being the amount of a typical first mortgage ie: 66% plus an additional 14% by way of second mortgage)
- As each investment is individually assessed, there are no restrictions on the maximum amount of any loan in proportion to the total value of loans in the Scheme. No restrictions are placed on funds being advanced to individual borrowers.
- Any loans to 'Related Parties' must be in accordance with the conflicts of interest policy.

Categories of mortgages

Mortgages may be represented in any category of residential, commercial (including industrial), rural and mixed-use. Generally, the scheme will be focused on commercial and residential mortgages, but there is no restriction on the level of investment in each category.

Loan terms

Loan terms are generally for 36 months. By exception, terms can be amended by the Manager to meet the needs of the borrower. A borrower may repay the principal sum and interest in the specific mortgage during the term of the investment and interest will be paid to the date of repayment. The Manager in its sole discretion may choose to charge an amount of penalty interest for early repayment.

Interest payments

Each mortgage is structured to meet the needs of the borrower and the Member. Interest payments are currently paid on a quarterly basis. The Manager reserves the right to charge interest on a monthly basis. The majority of loans are advanced on an interest only basis without principal being repaid unless by prior agreement with the Manager.

Development loans

The SIPO does not restrict the purpose for which loans are made.

Subdivision loans: The Manager may advance funds secured on Bare Land (subject to the Manager's lending criteria being met). On the sale of Lots contained within a subdivision The Manager at its discretion shall allocate repayments to Members ensuring at all times that the remaining security meets the Manager's lending requirements.

Development loans: The Manager may grant loans for development purposes. For a loan application of this nature, the Manager will exercise a high degree of caution. For a development loan, the Manager usually requires that the building works be very specifically defined and comprise an extension to an existing building. A loan for a whole new development would only be provided in very limited circumstances. The Scheme does not take on the risk of development, only the underlying land asset. Any improvements on the land that are being changed or built are not considered in the security value. At any stage of a development, the underlying land security must meet standard lending criteria and be readily saleable sufficient to repay in full the loan principal, interest and any costs.

For any development loan, the Manager must be satisfied of the Borrower's ability to refinance or otherwise repay the loan on expiry. The Manager must also be satisfied that the Borrower has a proven track record in the development sector.

Loan rollovers

The Manager may from time to time agree to extend the maturity date of the loan. The Manager will only do so if the Borrower continues to meet the Scheme's criteria for a new loan (as set out under the heading "Specific policy guidelines") at the time of the extension.

The Manager considers that risk of rollover loans lessens slightly as the interest payment record is then known.

Valuations

Valuations are provided by a registered valuer, who is independent of the Borrower. Each valuation must be addressed to the Manager, be completed by a registered valuer approved by the Manager, and dated no earlier than 6 months prior to the date of approval of the loan, or be confirmed by a certificate from the valuer if the valuation date is prior to this time.

Benchmark Asset Allocation

There are no benchmark asset allocation ranges for mortgages (or cash). Nor are there any asset allocation ranges for first mortgage lending, second mortgage lending, or lending between the residential, commercial, rural and mixed use sectors.

Hedging policy

There is no specific hedging policy for the Scheme. The Manager does not believe such a policy is necessary given that the Scheme currently invests only in New Zealand mortgages. In addition, the mismatch between maturities of assets and liabilities for the Scheme is limited.

Conflict of interest policy

The Manager is permitted to lend to related parties. This must be undertaken in accordance with the FMCA and the Manager's Conflicts of Interest policy. As a licensed managed investment scheme manager, the Manager is required to act in the best interests of Members and not let its interests conflict with those of Members.

Liquidity and cash flow management policy

Restrictions are placed on withdrawals to assist with liquidity management. The cash portion of a Member's account may be withdrawn. Any withdrawal from the mortgage is usually made at the expiry of the loan term. However, the Manager reserves the right to grant early Member withdrawal but only if a suitable replacement Member is available or the mortgage is repaid. Costs associated with an early withdrawal will be borne by the Member and this may act as a disincentive for early withdrawal. The fees charged will depend on what actions are required to be taken as a result of early withdrawal ie: new valuation, independent solicitors fees etc. A key part of the mortgage investment selection is matching the right Member with the right mortgage investment to minimise the risk of a Member wanting to withdraw prior to the expiry of the loan term.

Taxation Policy

Members will need to advise OGL of the rate of resident withholding tax they want deducted from their interest payments. The scheme is not a PIE scheme.

Borrowing

The Scheme will not borrow money.

Investment performance monitoring

The Manager monitors and reports on each mortgage investment to the board. The report is considered and reviewed by the Board. If the Board considers that further action needs to be taken, the CEO will implement the action approved by the Board.

The Manager provides monthly and quarterly reports to the Supervisor on the performance of the Scheme. The reports include confirmation that or advice as to whether:

- The amounts payable by Members will only be invested in authorised investments;
- The Manager has duly observed and performed all covenants, conditions, agreements and provisions binding upon it under the Governing Document and this SIPO;
- There has been any deviation in the accounting method or method of valuation of investments or liabilities of the Scheme not already disclosed in the financial statements;
- Full and adequate provision for taxation liabilities to be paid or reclaimed (including deferred taxation) has been made;
- The composition, nature or type of investments permitted to be made under the Governing Document (limit breaks) have been adhered to.

In accordance with the requirements of the FMCA and the Financial Markets Conduct Regulations 2014 (Regulations), the Manager will report to the Supervisor:

- as soon as is practicable, any limit breaks that have not been corrected to conform with the Governing Document and this SIPO, within five working days after the date that the Manager becomes aware of the limit break;
- quarterly, the report required under regulation 95 of the regulations.

The Manager benchmark's the Scheme's quarterly returns with information published by RBNZ (www.rbnz.govt.nz/statistics/tables/b3).

Investment strategy review and amendment

The SIPO is formally reviewed by the directors of the Manager annually and may also be reviewed at any other time if the Manager considers such a review is desirable as a result of a change in market conditions.

In the course of the review, the Manager's staff will consider whether the Scheme's liquidity policy and decision to invest in both first and second mortgages remains appropriate given prevailing market and economic conditions. Staff will make the recommendations to the Manager's directors, who will then consider such recommendations. They will then decide whether or not to change the SIPO.

If such recommendations are adopted, the Manager, with the agreement of the Supervisor, may change the SIPO from time to time provided the Manager gives Members at least 1 month notice before implementing any change (unless the Manager and the Supervisor agree the change is not material). The manager must notify the Supervisor (in writing) not less than 10 Business Days before notice to Members is given. If the change is of a material nature (i.e. investment in asset classes other than first or second mortgages), the Manager will reduce the notice period of redemption to 1 month, so that Members who do not wish to invest in that asset class may exit the Scheme.

Glossary of terms

Asset class	means a category of similar financial assets (for example residential property).
Benchmark	means an index used to evaluate the performance of the Scheme.
Business Day	means a day other than a Saturday or Sunday on which banks are open for general banking business in Auckland, New Zealand.
Cash	means cash in the likes on cheque and savings accounts.
FMCA	means the Financial Markets Conduct Act 2013.
FMC Regulations	means the Financial Markets Conduct Regulations 2014.
Governing Document	means the deed establishing and constituting the Scheme.
Hedge or Hedging	means an investment which is made in order to reduce the risk of adverse price movements. Hedging is not used in the Scheme.
Manager	means the licenced entity responsible for managing the Scheme, currently Obsidian Group Limited.
PIE or PIEs	means a portfolio investment entity, which is an entity that has elected into a special tax regime and which pays tax on behalf of Members. The Scheme is not a PIE.
Related party	bears the meaning ascribed to the term in the FMCA.
Scheme	means the Obsidian Contributory Mortgage Scheme.
SIPO	means this Statement of Investment Policy and Objectives.
Supervisor	means the licenced supervisor for the Scheme being Covenant Trustee Services Limited.

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