CFML Conrad Funds Management Limited
NEW ZEALAND PROPERTY FUND MANAGERS

OFFER OF UNITS IN THE CFML MORTGAGE FUND

OTHER MATERIAL INFORMATION

Issuer: Conrad Funds Management Limited

Manager: Conrad Funds Management Limited
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CONTENTS

SECTION 1: BACKGROUND	1
SECTION 2: NATURE OF THE SCHEME	1
SECTION 3: WHO IS INVOLVED?	6
SECTION 4: CONFLICTS OF INTEREST AND RELATED PARTY DISCLOSURE	8
SECTION 5: RISKS	9
SECTION 6: TAXATION	12
SECTION 7: RETURN OBJECTIVE	14
SECTION 8: BASIS FOR ESTIMATE OFMORTGAGE ADMINISTRATION FEE	14
APPENDIX 1	15

SECTION 1: BACKGROUND

This is an important document in relation to your investment in the CFML Mortgage Fund (the **Fund**). It should be read together with the Product Disclosure Statement **(PDS)**, the Statement of Investment Policy and Objectives **(SIPO)** and any documents held on the Fund's Disclose Register entry at disclose-register.companiesoffice.govt.nz.

In this document:

- the words "you" and "your" refer to you and other persons who are investors in the Fund.
- the words "we", "us", "our" and "the Manager" refer to Conrad Funds Management Limited who is the manager of the Fund.
- Defined terms have the same meanings as those in the PDS.

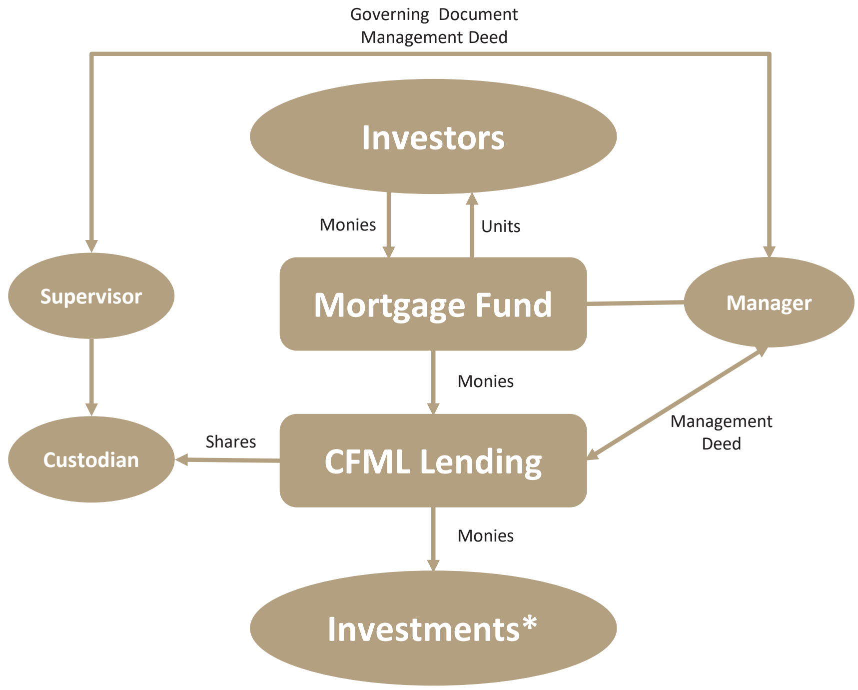
This document has been prepared to meet the requirements of clause 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 (**FMCA)** and to meet certain of the disclosure requirements applying to the Fund under clause 52 of Schedule 4 to the Financial Markets Conduct Regulations 2014.

SECTION 2: NATURE OF THE SCHEME

Summary of the investment process

- Investors invest into the Fund
- The Fund purchases shares in CFML Lending Limited (CFML Lending), which are held on trust for the Fund by Conrad Investment Trust Limited (Custodian), a wholly owned subsidiary of the Supervisor. The shares are ordinary shares which are redeemable solely to allow the Manager and CFML Lending to manage the issue and redemption of units from the Fund. The shares have no special right to dividends and no other preferential rights or special voting rights attached to them. There is only one class of shares.

- CFML Lending makes investments into loans secured by Mortgages, and in on-call and short-term deposits at a New Zealand registered bank
- The Manager is a party to a Management Deed with CFML Lending which provides for CFML Lending's investments and the services the Manager will provide to CFML Lending
- The Manager manages the investment for CFML Lending
- The Manager receives all of its fees from the Fund as the Manager
- The Manager receives no fees from CFML Lending
- The Manager provides investment strategy via its Investment & Product Committee
- The Manager has appointed Funding Partners Administration Limited to administer the day to day management of the Mortgage administration
- The Manager makes all credit decisions on investments into loans secured by Mortgages



* Loans secured by Mortgages and cash and bank deposits

What will your money be invested in?

The Fund's investment in loans secured by Mortgages (made through holding shares in CFML Lending) may be made alone or as part of a syndicate with registered bank(s), fund managers or external fund providers (**the Co-investors**). It is proposed that the syndication arrangements will allow us to increase or reduce our proportion of the syndicate to provide liquidity for the Fund. If such syndicated loan arrangements are established, CFML Lending's targets and target ranges of loans secured by Mortgages would be increased, as set out in the table below.

1. As at the date of this document, the Manager is considering appointing an additional mortgage administrator.

CFML Mortgage Fund			
Asset Class	Target asset allocation	Target asset allocation range	Limits
Shares in CFML Lending	100%	N/A	80-100%
CFML Lending			
Asset Class	Target asset allocation	Target asset allocation range	Limits
Co-investor syndication arrangements not in place			
CFML Mortgage Fund			
Asset Class	Target asset allocation	Target asset allocation range	Limits
Loans secured by Mortgages	85%	80-90%	60-95%
New Zealand registered bank on-call and/or short term deposits	15%	10-20%	5-40%
Co-investor syndication arrangements not in place			
Loans secured by Mortgages	90%	80-95%	60-95%
New Zealand registered bank on-call and/or short term deposits	10%	5-20%	5-40%

Borrower fees

We will receive, for arranging loans secured by Mortgages, an application fee from each borrower in relation to loans secured by Mortgages which CFML Lending makes up to 3% of the loan amount. We may also receive variation and renewal fees from borrowers in respect of such loans secured by Mortgages.

The Mortgage Administrator is entitled to receive from us a proportion of each borrower application, variation and renewal fee (as is agreed with us from time to time).

Borrower application variation and renewal fees are not payable by investors.

Credit Policy

CFML Lending will lend only to borrowers with loan to value ratios **(LVRs)** of up to the limits set out in the following table. All loans are secured by Mortgages documented subject to a fixed or floating interest rate, and each Mortgage is registered over the residential freehold property title by CFML Lending.

Borrower Type	Apartments	Houses	Bare Land
NZ Residents	70% LVR*	80% LVR*	50% LVR*
Foreign Residents	65% LVR*	75% LVR*	50% LVR*

* *Loan applications will be assessed on a case by case basis in accordance with the Manager's current credit policy and credit criteria. The Credit Committee reports to the Manager's Audit, Risk and Compliance Committee and board of directors. Each assessment takes into consideration the borrower, the loan amount, and the nature and scope of the borrowing. CFML Lending agrees to follow the Manager's credit policy and credit criteria.*

The credit policy is the overarching policy governing lending processes and procedures in accordance with which the credit criteria are developed. As at the date of the PDS for the Fund, the credit criteria currently applies a target LVR of 50% to residential freehold apartments purchased by foreign resident borrowers, that threshold to be exceeded only at our sole discretion, when there are other circumstances which warrant a higher threshold.

The credit policy and credit criteria will be monitored by the Credit Committee and may be subject to change depending on external market conditions.

The credit criteria are set by the Credit Committee and will change in response to market conditions. The Credit Committee will notify any changes to our Audit, Risk and Compliance Committee and Board. Any changes to the credit criteria will be within the parameters of the Credit Policy.

Property Valuations

The LVR will be determined at the start of each borrower's loan application, and is based on the lower of the purchase price for, or the valuation of, the residential freehold properties being purchased, or refinanced, by the borrowers.

Valuations of the properties to be used as security for loans secured by Mortgages advanced by CFML Lending will be conducted by a panel of valuers selected by us following due diligence. The valuers must be registered in New Zealand and independent from the relevant borrower and any Conrad Properties Group entity (**the Valuation Panel**). We, on behalf of CFML Lending, will endeavour to ensure that no one valuer conducts more than one third of the valuation work within a particular development, or in relation to the CFML Lending's loan book as a whole. All valuations will be carried out at the borrower's cost (unless we, at our sole discretion, waive this requirement).

Initially, the loans secured by Mortgages made by CFML Lending (in which the Fund ultimately invests) may be concentrated in apartment buildings developed by the Conrad Properties Group (of which the Manager is part), but CFML Lending intends to diversify both geographically, by property type and by apartment building as the Fund grows and further equity is available to CFML Lending to make loans secured by Mortgages. See Section 4 "Conflicts of Interest and Related Party Disclosure" below further information in relation to how we manage conflicts.

Mortgage Administration

The day-to-day administration of the loans secured by Mortgages has been outsourced to Funding Partners Administration Limited (**Mortgage Administrator**)[2], who performs the following services:

- Initial borrower assessments;
- Preparing loan applications for credit approval (the Credit Committee supervises the approval of all loans);
- Preparing loan documentation;
- Monitoring and reporting arrears; and
- On-going administration of the loans secured by Mortgages, including handling borrower enquiries.

Asset valuation

Units in the Fund are issued to you at $1.00 per unit.

Any income earned on the investments of the Fund is kept separate in the Fund's Revenue Account and is not valued. Distributions are allocated to you daily on the basis of the duration of your investments in the Fund in the relevant calendar quarter prior to the distribution date, when all income of the Fund (after expenses) is distributed.

We value the units in the Fund in accordance with the Governing Document each time units are issued to, or redeemed by, an investor, on the last Business Day of each calendar quarter, or at such other times and dates as we may determine at our sole discretion.

Shares in CFML Lending are valued by reference to the value of its underlying net assets as follows:

Loans secured by the Mortgages which CFML Lending makes will be valued at the lesser of:

- the principal amounts outstanding under the loan, and (except to the extent they would be allocated to a Revenue Account in accordance with the Governing Document if received by the Fund) the unpaid amount of all finance charges, interest payments and other amounts accrued on or currently payable under or in connection with that loan; or
- the amount we reasonably determine to be the principal amount recoverable under the loan.

New Zealand registered bank deposits which CFML Lending invests in will be valued at face value, plus any accrued interest, other than the interest which would be allocated to the Revenue Account if received by the Fund.

The value and price of the units could go down if CFML Lending's loan book has a bad debt provisioning larger than the Bad Debt Reserve Account. Any proposed unit price alteration will be completed by us only following prior discussion with, and the approval of, the Supervisor.

Ultimate investments in loans secured by Mortgages in default, may be "side-pocketed" under the Governing Document if we and the Supervisor consider it is in the interest of investors generally to do so. "Side-pocketing" is the process of segregating underlying impaired assets (ultimate investments in loans secured by Mortgages in default) from other assets of the Fund. Ultimate investments in loans secured by Mortgages which are "side-pocketed" will be managed separately from the assets of the Fund, will not be available to new investors, and may be subject to certain restrictions on withdrawals.

For example, you may not be able to withdraw that part of your investment in the Fund which is referable to the "side-pocketed" assets until the investment becomes liquid or we and the Supervisor believe a reasonable value can be obtained. This process may take several years. In the worst case scenario, the value of the "side-pocketed" assets may be written off.

If assets are "side-pocketed" by us (with the agreement of the Supervisor) only the current investors in the Fund at the point in time at which the assets are "side-pocketed" will be affected on a pro rata basis. No consultation is required by us or the Supervisor with you prior to any ultimate investments in loans secured by Mortgages being "side-pocketed".

2. As at the date of this document, the Manager is considering appointing an additional mortgage administrator.

SECTION 3: WHO IS INVOLVED?

Manager

We are:

- registered on the New Zealand Companies Office register with company number 5691248. Further information can be found at companiesoffice.govt.nz;
- registered on the Financial Service Providers register with registration number FSP441126. Further information can be found at: fsp-register.companiesoffice.govt.nz; and
- licensed by the FMA under the FMCA to act as a manager of registered managed investment schemes.

Contact details for the Manager can be found in Section 7 “Who is involved?” of the PDS.

Manager - Directors

Frank Chan – Chairman and Non-Executive Director

Key responsibilities: Chair of the Investment Product Committee (IPC)

Frank is a commercial lawyer with over 25 years of experience specialising in financial markets law, including listed issuer regulation, corporate governance, securities law, capital and financial markets, financial services and mergers and acquisitions for New Zealand and offshore investors. He was a Partner and Board member at Hesketh Henry and previously worked at Chapman Tripp and the Securities Commission (now the FMA).

He now has his own private practice FC Law Partners. Frank is a past Convenor of the Auckland District Law Society Commercial Law Committee. He is a contributing author for Morison’s Company & Securities Law and the author of the Financial Advisers Handbook (LexisNexis). Frank has a Bachelor of Laws and Bachelor of Commerce and Administration from Victoria University, New Zealand. He resides in Auckland, New Zealand.

Susan Hansen – Non- Executive Director

Key responsibilities: Chair of Audit, Risk and Compliance Committee (ARCC).

Susan Hansen is a Chartered Accountant and has over 30 years of experience in the financial sector. She has held a number of Board positions both in New Zealand and overseas. She is currently a Non-Executive Director of a company listed on the London Stock Exchange. She is also the principal of a financial training organisation. Susan has an MBA in Finance from University of Cape Town, South Africa. She resides in Auckland, New Zealand.

Manager - Executive Management Team

Patrick Middleton - CEO

Key Responsibilities: To lead and implement short and long term strategic plans for the Manager which match investor expectations, Investment & Product Committee (IPC) member, Audit, Risk & Compliance Committee (ARCC) member.

Patrick has over 25 years of experience in the Funds Management industry. Over his time in financial services he has held a number of executive management positions including CEO at Perpetual (NZ), CEO at Spicers Portfolio Management Ltd (NZ) and Head of Wealth Management at Westpac Bank (NZ). He has a wealth of knowledge in New Zealand Funds Management businesses covering investment management, wealth management and portfolio management. Patrick also attained an MBA at Henley (UK). He resides in Auckland, New Zealand.

Johny Kale – COO

Key Responsibilities: Fund Operations Manager, HR Manager, Records Manager, Outsource & Vendor Manager, Audit, Risk & Compliance Committee member, Insurance Policy Manager.

Johny comes to the Manager with over 15 years of experience in the Funds Management industry working across many jurisdictions, the UK, Cayman Islands and Ireland to name a few. Over this time he has held senior management roles at Northern Trust and most recently at North Asset Management LLP as the Operations & Treasury Manager, a position he held for 6 years. He has a wealth of knowledge in the Funds Management business covering operations, treasury, hedge fund, legal and compliance functions. Johny also attained a Bachelor of Business Studies (Finance & Property) at Massey University, New Zealand. He was also an Approved Person (FCA) for North Asset Management LLP during his time in the UK. Johny resides in Auckland, New Zealand.

Elizabeth Ginever – Risk & Compliance Manager

Key Responsibilities: Compliance Reporting Manager, AML Officer, Risk Management Officer, Compliance Training Manager, Audit, Risk & Compliance Committee member.

Elizabeth has over 20 years of experience in the risk & compliance sector in Australia, UK and New Zealand. She has held various senior compliance roles before starting her own compliance and risk consulting company which she has been running for the last 15 years. She holds a Diploma in Financial Markets and has been an Associate member of the Financial Services Institute of Australasia. She resides in Auckland, New Zealand

Other parties

Supervisor

The Supervisor is Covenant Trustee Services Limited, licensed by the FMA under the Financial Markets Supervisors Act 2011, to act as a supervisor of registered managed investment schemes. The Supervisor's role in relation to the Fund includes supervising the Manager in relation to the performance of its functions, ensuring the Scheme property is held in accordance with the Governing Document, acting on behalf of investors in the Fund, and performing any other functions, powers or duties imposed on the Supervisor by the Governing Document. Contact details for the Supervisor can be found in Section 7 "Who is involved?" of the PDS.

Custodian

The Custodian is Conrad Investment Trust Limited, a wholly-owned subsidiary of the Supervisor. The Custodian holds the investments of the Fund.

Mortgage Administrator

The Mortgage Administrator for the Fund is Funding Partners Administration Limited.[3]

3. As at the date of this document, the Manager is considering appointing an additional mortgage administrator.

SECTION 4: CONFLICTS OF INTEREST AND RELATED PARTY DISCLOSURE

We are an associated person of CFML Lending and therefore a related party of this company. We and CFML Lending are also a related parties of Conrad Properties Limited (**CPL**) and Conrad Properties Group Limited **(CPG).**

CPL (or another entity in the Conrad Properties Group) may invest in the Fund from time to time on the terms and conditions set out in the PDS for the Fund.

CFML Lending makes loans secured by Mortgages over freehold apartments (or other freehold properties) that are developed by Conrad Properties Group companies, which are related to the Manager.

Initially, CFML Lending may predominantly make loans of this type. As at the date of the PDS for the Fund, it is expected that 50% of the loans secured by Mortgages which CFML Lending makes may be sourced from Conrad Properties Group clients in the 12 months from the date of the PDS for the Fund.

CFML Lending may make loans secured by Mortgages with fixed interest rates that are lower than the fixed interest rates that would ordinarily be determined by CFML Lending under the CFML Credit Policy and Credit Criteria **(Lower Interest Rate Loans).**

CFML Lending will make a Lower Interest Rate Loan only:

- to a purchaser of freehold apartments (or other freehold properties) that are developed by Conrad Properties Group companies **(CPG Purchaser);**
- if the CPG Purchaser (who will be the borrower under the Lower Interest Rate Loan) meets the CFML Credit Criteria;
- if CFML Lending determines it has sufficient funds available to make the Lower Interest Rate Loan; and
- if an interest rate contribution is made by CPG to CFML Lending in advance in respect of the Lower Interest Rate Loan **(Interest Rate Contribution)**, with the amount of the Interest Rate Contribution being equal to the difference between:
    - the total interest payable on the Lower Interest Rate Loan; and
    - the total interest that CFML Lending determines would have been charged on the Lower Interest Rate Loan over its term, if the Lower Interest Rate Loan was made at a fixed interest rate ordinarily determined by CFML Lending under the CFML Credit Policy and Credit Criteria.

An example of how the Interest Rate Contribution for a Lower Interest Rate Loan is calculated is included in Appendix 1.

Accordingly, it is possible for conflicts of interest to arise. We manage all conflicts fairly and efficiently, to enter into any transactions on an arm's length basis, and in accordance with our Conflicts of Interest and Related Party Transactions Policy. See the SIPO for further information on this policy. The Supervisor is not responsible for overseeing conflict issues of this kind.

In addition, our governance structure has been developed to mitigate the risk of any conflicts of interest. We have an independent board of directors, which oversees the Credit Committee. The Credit Committee is responsible for overseeing the credit policy and credit criteria, product policy, mortgage servicing, outsourcing and all loan approvals conducted by CFML Lending. As discussed above, all loan valuations are conducted by a member of the Valuation Panel.

SECTION 5: RISKS

It is important to understand the risks associated with investing in the Fund.

The return on investment in the Fund can vary, and returns are not guaranteed by us, the Supervisor or CFML Lending, any of their directors, officers or employees, or any other party. Your returns may rise and fall depending on the level of floating interest rates and the level of loan defaults, amongst other things.
In the event that any of the risks described in this document or the PDS for the Fund eventuate, they may impact on the value of the Fund's assets, and therefore the unit price, and the extent to which the Fund can make distributions to you and permit withdrawals by you.

The steps we take to mitigate these risks (where possible) are described below. It is important to note that despite taking such steps, we cannot mitigate the risks completely.

We consider that the most significant risks that could affect the value of the Fund are (please note that the likelihood scale is measured 1-10, where 1 is least likely, and 10 is most likely):

- **Default risk** – The value of the units in the Fund is ultimately determined by the value of the loans secured by the Mortgages which CFML Lending makes. Changes in the perceived or actual creditworthiness of borrowers, or borrowers' failure to continue to meet their on-going capital and interest payments, may result in a reduction to your returns and/or you not recovering the full amount of your investment in the Fund.

  This risk is mitigated by CFML Lending lending only at conservative LVR thresholds (including, as at the date of the PDS for the Fund, a target LVR level of 50% for apartment lending to foreign residents under the credit criteria (which is developed in accordance with the credit policy), with the maximum LVR limits set out at page 4 being exceeded only when there are other circumstances which warrant a higher threshold), with all loans secured by first ranking Mortgages. CFML Lending will not typically lend to any borrower who does not have a clear credit history (unless a satisfactory and verifiable explanation is provided). All borrowers are subject to credit checks in their home jurisdiction, must meet the current credit criteria adopted by us in the credit policy, and must personally guarantee their loans. In addition, we, on behalf of CFML Lending, will perform an Income/Repayment capability test in relation to each loan in accordance with the Credit Policy. New borrowers resident outside New Zealand may be charged a premium interest rate and may be required to deposit on trust (or subject to another appropriate structure) an amount equal to 3 to 6 months' worth of interest payments, which can be drawn down by CFML Lending in the event the borrower defaults. Any arrears will be managed in accordance with the Arrears Management Policy, and the Governing Document.

  Likelihood (on a scale of 1-10): 2

  Impact: Depends on the size of the loan relative to the total loan book and the extent of the Bad Debt Reserve Account.

- **Liquidity risk** – Low liquidity may mean that the Fund is unable to realise its assets, which would affect the ability of the Fund to meet its obligations to make payments when due (for example, withdrawal requests). We cannot provide any guarantees in relation to the liquidity of the Fund's assets or of an ability to make a withdrawal from the Fund when requested.

  This risk is mitigated by actively managing the Fund and CFML Lending, and through the continuity of investment provided by the lock in periods. We will endeavour to ensure that a minimum of 10%, and a maximum of 20%, of CFML Lending's assets are held in on-call and short-term deposits at a New Zealand registered banks, with a target cash allocation of 15%, to enable us to manage withdrawals from the Fund. If implemented, we will also use the Co-investor syndication arrangements, together with the on-call and short-term deposit assets of CFML Lending, to manage the rise and fall of borrowers and investors in the Fund, with a view to mitigating the Fund's liquidity risk.

Likelihood (on a scale of 1-10): 5

Impact: Inability for you to make a withdrawal when requested.

- **Investment availability/duration risk –** The amount of your returns depends on the availability of suitable loans secured by Mortgages which CFML Lending can make when the Fund has funds available for investment through CFML Lending. Any insufficiency in such loans would mean CFML Lending's assets would be invested in on-call and short-term deposits at a New Zealand registered bank which would be invested at lower interest rates. Returns from the Fund would be affected if this were to occur.

  This risk is mitigated by our ability to refuse applications for units when suitable corresponding loan applications are not available to CFML Lending, our active investigation for further loan opportunities and, if implemented, the ability under the Co-investor syndication arrangements to utilise loans held by the Co-investors.

  We may redeem investments from the Fund (at our discretion) on notice to you if cash levels are at the higher end of the target asset allocation range for the Fund.
  Likelihood (on a scale of 1-10): 3

  Impact: Your returns may be lower than the target return or you may receive returns for a shorter period than expected.

- **Concentration risk –** This is the risk that the value of the Fund may change due to it having high exposure to loans secured by Mortgages over certain residential apartment blocks, certain types or locations of residential developments and/or granted to certain types of borrowers.

  As at the date of the PDS for the Fund, CFML Lending intends to over time diversify the loans secured by Mortgages which it makes both geographically, by property type and by apartment building, with a view to the diversification of its loan book increasing over time. However, initially, the loans secured by Mortgages may be concentrated in apartment buildings developed by Conrad Properties Group.

  Likelihood (on a scale of 1-10): 6

  Impact: If a residential apartment block, location or borrower type in which the Fund's loans are concentrated has increased risks, these risks would have an increased impact on the Fund if they eventuate, compared to the effect of these risks if the investments were more diversified.

- **Interest rate risk –** This is the risk that changes in interest rates have an unfavourable impact of the Fund's investment returns, either by affecting the amount of income received by the Fund and/or the market value of the Fund's investments. For example, if market interest rates fall, the return on floating rate loans secured by Mortgages made by CFML Lending will decrease, resulting in lower returns on units in the Fund. If market interest rates rise, the return of floating rate loans secured by Mortgages made by CFML Lending will increase, resulting in higher returns on units in the Fund.

  Likelihood (on a scale of 1-10): 4

  Impact: Your returns may be lower than the target return for the Fund.

- **Market risk –** The value of the Fund may be affected by a range of factors that affect a particular financial market, including changes in economic conditions, freehold property prices, inflation, policy from central banks, taxation, regulation, local and geo-political events, and investor sentiment.

  Market risk (as with default risk) is mitigated by CFML Lending only lending at conservative LVR levels (the credit criteria (which is developed in accordance with the credit policy) as at the date of the PDS for the Fund currently applies a target LVR of 50% to freehold apartments with foreign resident borrowers, with that threshold to be exceeded only when there are other circumstances which warrant a higher threshold), with all loans secured by first ranking Mortgages. We also have recourse to a Bad Debt Reserve Account, and the Governing Document allows for the "side pocketing" of impaired assets to be managed separately from the other assets of the Fund.

Likelihood (on a scale of 1-10): 6

Impact: Your returns may be lower than the target return for the Fund.

- **Counterparty risk –** The Manager is an associated person of CFML Lending, and therefore is a related party of this company. The Manager and CFML Lending are also a related parties of CPL and CPG.

  The Fund's investments may be made under syndication arrangements with Co investors which allow us to increase or reduce the Fund's exposure to loans secured by the Mortgages made by CFML Lending. It is possible that we may not be able to access these arrangements. In addition, to the extent these Co-investor syndication arrangements are established by us, changes to market conditions (including for those reasons discussed in relation to 'Market risk' above) may affect our ability to continue to access these arrangements, but this risk is mitigated as described in relation to 'Market risk' above.

  In addition, a counter-party to an agreement may fail to meet its obligations under the agreement, causing loss to the Fund. This risk is mitigated by us conducting due diligence on counter-parties, and monitoring their performance.

  Likelihood (on a scale of 1-10): 2

  Impact: Depends on the degree of reliance on the counterpart. The Fund does not rely on Co-Investors.

- **Taxation risk –** The Fund may not achieve, or may lose, its PIE status if the requirements for the Fund to become a PIE are not met, or there is a breach of PIE requirements, and we do not correct the breach within the prescribed time frame. This would have an impact on your net returns.

  If PIE status is not achieved or is lost, the after-tax return received by you is likely to be materially impacted. See Section 5 "Taxation" on **page 12** for more information.

  We actively monitor the requirements for the Fund's PIE status and have processes in place to minimise potential breaches of PIE eligibility criteria. However, maintenance of the Fund's PIE status depends on numerous factors, including the number of investors and their respective interests in the Fund, so this risk cannot be mitigated entirely.

  Likelihood (on a scale of 1-10): 2

  Impact: If the Fund does not qualify for PIE status, your returns may be reduced by an increased incidence of tax, including non-resident withholding tax for foreign investors.

- **Personnel risk –** The key people who are significant to the management of the Fund may become unable or unavailable to perform their roles. The Manager's team may change, which may affect the Fund's future performance. To minimise this risk, we support a culture which attracts and retains key personnel.

  Likelihood (on a scale of 1-10): 3

  Impact: Relatively low impact.

- **Outsourcing risk –** As at the date of the PDS for the Fund, the mortgage administration of the Fund is outsourced to the Mortgage Administrator. The Mortgage Administrator may fail to, or be unable to, perform its obligations, causing loss to the Fund. This risk is mitigated by:

  - us and the Mortgage Administrator having entered into an agreement (which contains a Service Level Agreement) against which the performance of the Mortgage Administrator will be monitored by us on regular basis, and which allows us to take-over the mortgage administration of the Fund or to appoint a new mortgage administrator; and

  - the Mortgage Administrator having risk management policies and procedures in place (such as a business continuity plan) to minimise and mitigate operation risks.

  Likelihood (on a scale of 1-10): 3

  Impact: Relatively low impact as we could ourselves perform the administration duties currently outsourced.

SECTION 6: TAXATION

Tax can have significant consequences for your investment. The effect of taxation will vary according to your personal circumstances. You should obtain specific taxation advice applicable to your own circumstances prior to making any investment decision.

PIE tax

The Fund is a PIE. The Fund qualifies to be a foreign investment variable-rate PIE, which can affect the tax payable on investments attributed to non-residents. The Fund has elected to be foreign investment variable rate PIE by advising the Commissioner.

The amount of tax you pay in respect of a PIE is based on your PIR. To determine your PIR, go to www.ird.govt/toii/pir or refer to the information below. If you are unsure of your PIR, we recommend you seek professional advice or contact Inland Revenue.

Prescribed Investor Rate (PIR)

Your PIR is the tax rate that the Fund will use to calculate the tax payable on the income the Fund allocates to you. The PIR is based on your taxable income. If you are investing jointly with another investor, the highest PIR of the joining investors will be used to calculate the tax liability that arises in respect of income allocated to you.

There are four Prescribed Investor Rates available to resident investors – 28%, 17.5%, 10.5% or 0%.
As the Fund has registered to be a foreign investment variable-rate PIE, different PIRs are applicable to non-resident investors who have notified us they wish to be treated as a non-resident foreign investor. Under these circumstances, a PIR of 1.44% is applied to New Zealand sourced interest income attributed to the non-resident investor.

It is your responsibility to determine which PIR is appropriate for you and to tell us your PIR when you invest or if your PIR changes. If you do not tell us, a default rate may be applied. If the advised PIR is lower than the correct PIR, you will need to complete a personal tax return and pay any tax shortfall, interest, and penalties. If the default rate or the advised PIR is higher than the correct PIR, you will not get a refund of any overpaid tax. Joint investors, companies and trusts may be taxed differently to individuals.

Distributions

As the Fund intends to be a PIE, distributions from the Fund should not be subject to tax. Further, there should be no withholding tax on distributions to non-resident investors. However, for those non-resident investors who have notified us that they wish to be treated as a non-resident foreign investor, 1.44% tax will be paid by the Fund on behalf of non-resident investors on New Zealand sourced interest income if the Fund is able to do so. If the Fund is not able to do so, these non-resident investors will be required to pay this tax as part of their personal tax return.

If the Fund ceases to be a PIE, interest income earned by the Fund would be subject to tax at the rate of 28% and any distributions paid will be taxable to investors. Any imputation credits attached to a distribution can be used to reduce or offset your tax liability if the Fund is no longer a PIE.

Withdrawals

While the Fund is a PIE, a withdrawal from the Fund will be treated as excluded income for New Zealand tax purposes. Accordingly, there should be no tax liability arising from the redemption of units in the Fund. If the Fund is not a PIE, withdrawals may be treated as taxable dividends and be subject to withholding tax.

Transfers

A transfer of units in the Fund to another investor will constitute a disposal of investor interest. Any gain or loss on disposal may be taxable or deductible in New Zealand subject to the classification of your interest (i.e. if the investment is held on capital or revenue account). If you hold units in the Fund on revenue account, then disposal of those units may trigger either a New Zealand tax liability or be deductible expenditure.

In brief summary, investments are held on revenue account if:

- You are considered in the business of investing;
- You entered into the Fund for the purpose of making a profit;
- The units in the Fund were acquired for the purpose of disposal; or
- You are in the business of dealing with property (i.e. units in the Fund) of that kind.

The determination of whether an investment is held on capital or revenue account is complex and fact specific. We recommend seeking tax advice on this prior to investing.

Maintaining PIE status

To maintain PIE status, we must ensure that (amongst other things):

- the Fund has a minimum of 20 non-associated investors (provided that this can be less if an investor in the Fund is either a PIE or another specific type of investor); and
- no investor (treating associated investors as a single investor) holds more than 20% of the total investor interests (units in the Fund).

The Fund's status as a PIE may change and cannot be relied upon in the future.

As at the date of the PDS for the Fund, it is anticipated that PIE status will be maintained for the Fund as there are expected to be more than 20 investors. If there are less than 20 investors in the Fund, PIE status may not be able to be maintained.

CFML Lending

It is intended that CFML Lending will elect to be a PIE for New Zealand income tax purposes. On the basis that the Fund holds 100% of CFML Lending, and provided that the Fund maintains PIE status itself, it is expected that CFML Lending should qualify for and maintain PIE status also.

While CFML Lending is a PIE, it may be treated as a look-through entity for New Zealand tax purposes. Accordingly, if CFML Lending is treated as a look-through entity, income or expenditure derived or incurred by CFML Lending should be treated as if it is derived or incurred by the Fund (and attributed to investors as discussed above). Distributions to the Fund from CFML Lending would be disregarded for tax purposes. New Zealand interest income derived by CFML Lending and attributed to notified foreign investors in the Fund will continue to be subject to a PIR of 1.44%.

For completeness, if the Fund loses PIE status, CFML Lending will also lose PIE status and the look-through rule discussed above will not be applicable.

SECTION 7: RETURN OBJECTIVE

There is no appropriate market index or suitable peer group index for the Fund. This is because bank bill rates published by the Reserve Bank of New Zealand are not “market index returns” for the purposes of the Financial Market Conduct Regulations 2014 and there is no suitable index that is based on the performance of a group of funds that invest in first ranking mortgages, that is widely recognised and widely used in the financial markets, and that is likely to be useful to investors when assessing the performance of the Fund.

The Fund aims to provide you with investment returns over the medium term (i.e. 3 to 5 years) equal to the 90 Day Bank Bill Rate, plus 2.5% (after fees, charges and expenses, but before tax). More information on the 90 Day Bank Bill Rate can be found at rbnz.govt.nz/statistics/b2.

The return objective may be updated or amended at any time. The webpage disclosed may change, or may be renamed or replaced from time to time without prior notice to you.

SECTION 8: BASIS FOR ESTIMATE OF MORTGAGE ADMINISTRATION FEE

The annual fund charge for the Fund includes an estimate of the Mortgage Administration fee charged by the Mortgage Administrator to the Fund for administration services in relation to the loans secured by Mortgages which CFML Lending makes.

The Mortgage Administration fee is calculated on the basis of the aggregate principal amount of Mortgages sourced by the Mortgage Administrator in which the Fund invests (through the Fund’s investment in shares in CFML Lending), excluding any loans secured by Mortgages which are in arrears for 30 days or more. The calculation of the Mortgage Administration fee is not fixed as a percentage per annum of the net asset value of the Fund, because the calculation excludes the amount of any New Zealand registered bank on-call and/or short term deposits, and those loans secured by Mortgages which are in arrears for 30 days or more in which the Fund invests (through the Fund’s investment in shares in CFML Lending).

The estimate of the Mortgage Administration fee is based on the Fund having an asset allocation (through the Fund’s investment in shares in CFML Lending) of 95% loans secured by Mortgages (with none of the loans secured by Mortgages being in arrears) and 5% New Zealand registered bank on-call and/or short term deposits.

The actual amount of the Mortgage Administration fee may vary, and the total annual fund charges incurred in each financial year will be disclosed in the Fund Update for the Fund available at disclose-register.companiesoffice.govt.nz.

APPENDIX 1

EXAMPLE INTEREST RATE CONTRIBUTION CALCULATION

Fixed interest rate for loans secured by Mortgages ordinarily offered to borrowers by CFML Lending (The interest rate is determined by CFML Lending in accordance with the CFML Credit Policy and Credit Criteria)	6.50% p.a.
Fixed interest rate for a Lower Interest Rate Loan	5.00% p.a.
Difference between interest rates *(6.50% p.a. - 5.00% p.a.)*	1.50% p.a.
The principal amount of the Lower Interest Rate Loan	$2 million
The term of the Lower Interest Rate Loan	2 years
Amount of Interest Rate Contribution to be paid by CPG to CFML Lending in respect of the Lower Interest Rate Loan *(1.5% x $2 million x 2 years)*	$60,000

CFML
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