



# Statement of Investment Policy and Objectives

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## Conrad Investment Scheme

Manager: Conrad Funds Management Limited  
Effective Date: October 2023



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# 1. SCHEME DESCRIPTION

The Conrad Investment Scheme (**Scheme**) is a managed investment scheme for the purposes of the Financial Markets Conduct Act (**FMCA**).

Conrad Funds Management Limited (the **Manager**) is the manager of the Scheme, and also provides management services under the Management Deed (**Management Deed**) for CFML Lending Limited (**CFML Lending**).<sup>1</sup> The Manager is an associated person<sup>2</sup> of CFML Lending, and therefore a related party of this company. The Manager and CFML Lending are also related parties of Conrad Properties Limited (**CPL**) and Conrad Properties Group Limited (**CPG**).

## Fund

The Scheme consists of the CFML Mortgage Fund (the **CFML Mortgage Fund** or the **Fund**), established by the governing document (the **Governing Document**) entered into between the Manager and Covenant Trustee Services Limited (the **Supervisor**).

## Investment

### CFML Mortgage Fund

The CFML Mortgage Fund invests solely in shares in CFML Lending, CFML Lending then enters into loans secured by Mortgages.<sup>3</sup> The investment will be made by the CFML Mortgage Fund acquiring shares in CFML Lending, which makes the underlying investments.<sup>4</sup> The Custodian will hold the shares in CFML Lending on trust for the CFML Mortgage Fund. Any surplus capital will be invested by CFML Lending in on-call and short-term deposits at a New Zealand registered bank.

## In Summary

- Investors invest into the CFML Mortgage Fund
- The CFML Mortgage Fund purchases shares in CFML Lending
- CFML Lending makes investments into loans secured by Mortgages, on-call and short-term deposits at a New Zealand registered bank
- The Manager is a party to a Management Deed with CFML Lending

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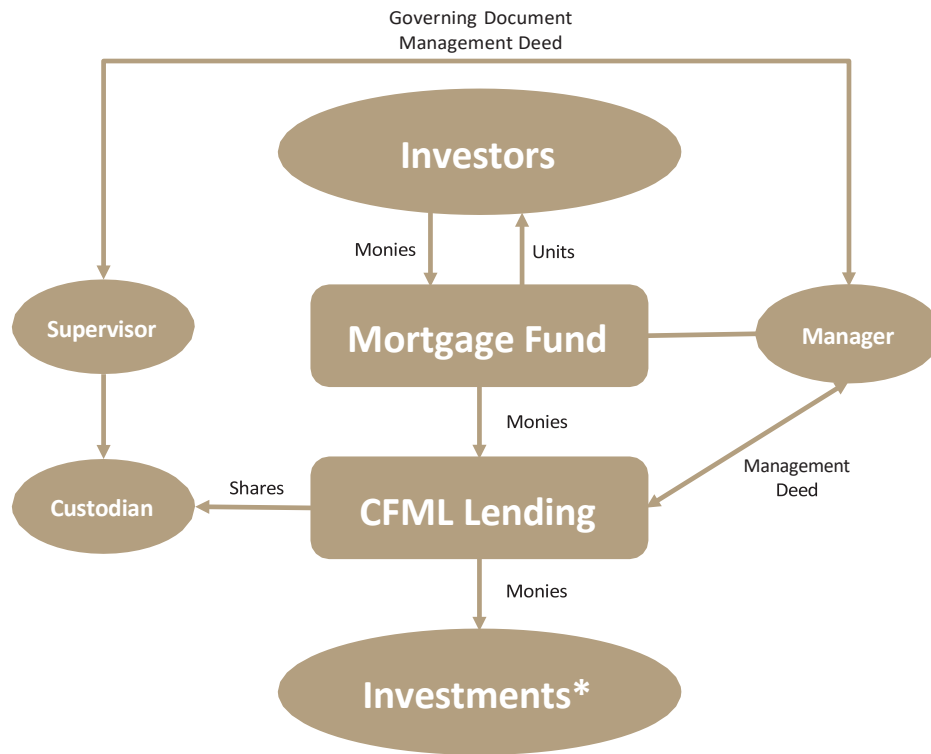
1. The management services are set out in the Management Deed, which is described under the heading "Scheme Description".

2. "Associated person" has the meaning given in section 12(1)(a) of the Financial Markets Conduct Act 2013.

3. While the Manager's current intention is to invest (through CFML Lending) only in first ranking mortgages, the Manager may, from time to time in exceptional circumstances, invest ultimately in loans secured by both first and second ranking mortgages (such as where CFML Lending registers a first ranking mortgage over a residential property acquired by a borrower, but the borrower also has existing property in New Zealand, and in addition to the existing first ranking mortgage registered over that property by another lender, a second ranking mortgage is also registered over that property by CFML Lending as security for the loan CFML Lending is making to the borrower).

4. The Manager and CFML Lending have entered into a Management Deed which provides for CFML Lending's investments and the services the Manager will provide to CFML Lending.

- The Manager receives all of its fees from the CFML Mortgage 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<sup>5</sup>
- The Manager makes all credit decisions on investments into loans secured by Mortgages



\* Loans secured by Mortgages and cash and bank deposits

## Governance

The Scheme is governed in accordance with the Governing Document under which the Manager and the Supervisor are appointed. By virtue of the Management Deed, the governance requirements of the Governing Document apply to the Manager's services provided to CFML Lending under the Management Deed.

The assets of the CFML Mortgage Fund are held by the Custodian solely for investors in that Fund and are not available to meet the liabilities of any other Fund.

## Management and Supervision

The Scheme is managed by the Manager, a manager licensed under the FMCA, and is supervised by the Supervisor, a supervisor licensed under the Financial Markets Supervisors Act 2011. The Supervisor has certain rights under, and the benefit of the Management Deed, which enables the Supervisor to monitor the activities of CFML Lending, and the Manager acting on its behalf.

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

## Manager's Role

The Manager is responsible for the investment of the Scheme's assets. The Manager's responsibilities include:

- managing the property and investments of the Scheme, and CFML Lending under the Management Deed;
- maintaining the investment governance framework, including effective investment policies and processes;
- developing, determining, implementing and amending the investment objectives, philosophies and strategies of the Scheme;
- selecting suitable investments for the Scheme and CFML Lending, and managing the Scheme's investment risks;
- measuring and monitoring the Scheme's performance against the objectives;
- approving changes to this Statement of Investment Policy and Objectives (**SIPO**) and ensuring that it is adhered to; and
- administering the Scheme in accordance with the Governing Document.

## Investment & Product Committee

The Manager has established an Investment & Product Committee to assess potential direct investments and underlying investments (to be made by CFML Lending) in accordance with the investment objectives and policies set out in this SIPO, before final approval by the Manager's Board.

# 2. INVESTMENT OBJECTIVES

The Manager aims to provide investors with distributions for the CFML Mortgage Fund over the medium term (i.e. 3 to 5 years) equal to the CFML Mortgage Fund's return objective. The return objective for the CFML Mortgage Fund is the 90 day Bank Bill rate plus 2.5% per annum (after fees, charges and expenses, but before tax). The CFML Mortgage Fund is designed with a low to moderate risk/return objective.

Distributions for the Fund are to be made quarterly.

# 3. INVESTMENT PHILOSOPHY

The Manager believes a low to moderate risk/reward objective can be achieved by investing ultimately in loans secured by Mortgages (by the CFML Mortgage Fund acquiring shares in CFML Lending, which makes the underlying investments), provided the Manager, on behalf of CFML Lending, actively manages the portfolio of loans secured by Mortgages made by CFML Lending, with fixed or floating interest rates and LVRs actively managed by the Manager, on behalf of CFML Lending.<sup>6</sup>

6. See **pages 6 and 7** of this SIPO for more information. All mortgage applications will be assessed on a case by case basis in accordance with the Manager's credit policy and credit criteria, which is adopted by CFML Lending.

# 4. INVESTMENT STRATEGY

## INVESTMENT STRATEGY OF THE SCHEME

The Manager determines the investment strategy for the Scheme by:

- taking into account the investment objectives for the Fund and the investment philosophies set out in this SIPO;
- monitoring interest rates offered by New Zealand registered banks for cash investments, on-call and short-term deposits and ensuring a balanced portfolio of these investments (as applicable); and
- monitoring the performance of the CFML Mortgage Fund against its investment objectives.

The Manager will select investments in proportion to the target investment mix of the Fund.

The Manager will, in approving the Fund's direct and underlying investments, approve those investments that it considers appropriately reflect the risk profile and investment strategy of the Fund, and that it considers are consistent with the Manager's investment philosophy.

The Fund may invest in other investments, which are not explicitly stated here but the Manager considers are within the above parameters of permitted investments, and that appropriately reflect the risk profile and the performance objectives of the Fund. For example, while the Manager's current intention is to invest ultimately (through purchasing shares in CFML Lending) only in first ranking mortgages, the Manager may, from time to time in exceptional circumstances, invest ultimately in loans secured by both first and second ranking mortgages (such as where CFML Lending registers a first ranking mortgage over a residential property acquired by a borrower, but the borrower also has an existing property in New Zealand, and in addition to the existing first ranking mortgage registered over that property by another lender, a second ranking mortgage is also registered over that property by CFML Lending as security for the loan CFML Lending is making to the borrower).

## CFML MORTGAGE FUND

### Investment strategy

The CFML Mortgage Fund's investment strategy is to provide an exposure to a portfolio of loans secured by Mortgages,<sup>7</sup> by:

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7. While the Manager's current intention is to invest ultimately (through purchasing shares in CFML Lending) only in first ranking mortgages, the Manager may, from time to time in exceptional circumstances, invest ultimately in loans secured by both first and second ranking mortgages (such as where CFML Lending registers a first ranking mortgage over a residential property acquired by a borrower, but the borrower also has an existing property in New Zealand, and in addition to the existing first ranking mortgage registered over that property by another lender, a second ranking mortgage is registered over that property by CFML Lending as security for the loan CFML Lending is making to the borrower).



- investing solely in shares in CFML Lending, CFML Lending then enters into loans secured by Mortgages that meet the Manager’s credit criteria, which are adopted by CFML Lending; and
- CFML Lending investing any surplus capital in on-call and short-term deposits at a New Zealand registered bank.

The Manager maintains a clear understanding of the New Zealand mortgage market and its developments (including current bank loan rates and the level of borrower demand for non-bank loans secured by Mortgages), and ensures the portfolio of loans secured by Mortgages made by CFML Lending provides a return (by way of distributions paid to the CFML Mortgage Fund) in line with the CFML Mortgage Fund’s return objective.

The loans secured by Mortgages made by CFML Lending (in which the CFML Mortgage Fund ultimately invests) may be concentrated in apartment buildings developed by the Conrad Properties Group (of which the Manager is a part), but CFML Lending intends to over time diversify both geographically, by property type and by apartment building, as the CFML Mortgage Fund grows and further equity is available to CFML Lending to make further loans secured by Mortgages. See under “Conflicts of Interest and Related Party Transactions Policy” on **page 10** for further information in relation to how the Manager manages conflicts.

CFML Lending may be able to manage liquidity by transferring loans secured by Mortgages to the CFML Warehouse Trust (**Warehouse Trust**) if to do so would be in the best interests of investors in the Fund, and the loans secured by Mortgages meet the Warehouse Trust’s transfer criteria. For so long as any warehouse/ securitisation arrangements are available, CFML Lending’s target asset allocations and target ranges of loans secured by Mortgages would be increased in accordance with the table below.

## Investment objective

The CFML Mortgage Fund seeks to provide investors with distributions over the medium term (i.e. 3 to 5 years) equal to the CFML Mortgage Fund’s return objective, which is the 90 Day Bank Bill Rate<sup>8</sup> plus 2.5% per annum (after fees, charges and expenses, but before tax).<sup>9</sup>

## Target Asset Allocations and Investment Limits

CFML Mortgage Fund			
Asset Class	Target asset allocation	Target asset allocation range	Limits
Shares in CFML Lending	100%	N/A	80-100%

8. <http://www.rbnz.govt.nz/statistics/b2>.

9. This is a return objective and is not guaranteed by the Manager or any other person. Investor returns will go up and down depending on a range of factors, and are subject to a number of risks and uncertainties. Returns could differ materially from the return objective.

CFML Lending			
Asset Class	Target asset allocation	Target asset allocation range	Limits
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%

## Authorised investments

The CFML Mortgage Fund will invest in shares in CFML Lending which invests in any of the asset classes listed in the table above. CFML Lending will predominantly invest in Mortgages with floating interest rates, but may also invest in Mortgages with fixed interest rates.

CFML Lending will lend only to borrowers with LVRs of up to the credit policy limits which are set out in the following table, with the loans secured by Mortgages (subject to a fixed or floating interest rate).

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.*



## Credit Policy

See page 9 of this SIPO.

## PROPERTY VALUATIONS

The LVRs will be determined using each borrower's application information, and are based on the lower of the purchase price for, or valuation of, the residential freehold properties being purchased, or refinanced, by the borrowers.

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). The Manager, on behalf of CFML Lending, assesses each borrower's borrowing history, evidenced by reputable credit reporting agencies in the borrower's home jurisdiction. In addition, the Manager, on behalf of CFML Lending, will perform an Income/Repayment Capacity test in relation to each loan in accordance with the credit policy, and borrowers must meet the current credit criteria adopted by the Manager in the credit policy and personally guarantee their loan.

CFML Lending can also invest in cash investments or on-call and short-term deposits with (and debt securities issued or guaranteed by) the New Zealand Government, New Zealand registered banks with a credit rating of at least A1 (short term) and New Zealand local authorities with a credit rating of at least A. Investments are to have a maximum maturity of 365 days.

## REVIEW OF THE INVESTMENT STRATEGY

The investment strategy for the Scheme (or the Fund, should the Fund require a different strategy), including the target asset allocations, will be reviewed by the Manager at least every two years (and more frequently if appropriate).

The purpose of the review is to ensure that the Scheme continues to invest ultimately in loans secured by Mortgages that maintain capital investment value and attract strong returns derived from interest paid on the Mortgages by the borrowers. The investment strategy review will include considerations such as the general investment environment and long-term market developments, as well as the reliability of the property selection process. A report of the review by the Investment & Product Committee, together with the recommendations, if any, will be tabled at the next meeting of the Manager's Board held after the report is completed.

The Manager may change the investment strategy only after consulting with the Supervisor.

# 5. INVESTMENT POLICIES AND PROCESSES

The Manager maintains a number of policies relevant to the Scheme, which are summarised below.

CFML Lending has agreed to comply with the requirements of the policies.

## Credit Policy

The credit policy is the overarching policy governing lending processes and procedures in accordance with which the credit criteria is developed. As at the date of this SIPO, the credit criteria applies a target LVR of 50% to residential freehold apartments purchased by foreign resident borrowers, that threshold to be exceeded only when there are other circumstances which warrant a higher threshold, provided that the credit limit of 65% cannot be exceeded.

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 the Manager's Audit, Risk and Compliance Committee and Board. Any changes to the credit criteria will be within the parameters of the credit policy.

All borrowers are subject to credit checks and must meet the current credit criteria adopted by the Manager (which is developed in accordance with the credit policy), and must personally guarantee their loans. In addition, new borrowers resident outside New Zealand 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 upon by CFML Lending in the event the borrower defaults.

The Credit Committee meets on a regular basis (at least monthly) to discuss market conditions (including Reserve Bank commentary, mortgage market conditions and domestic and global macro-events). Decisions on whether the credit criteria needs to be amended to respond to market conditions are made by the Credit Committee, which notifies the Manager's Audit, Risk and Compliance Committee and Board.

CFML Lending has agreed to comply with the credit policy and the credit criteria.

## Arrears Management Policy

Any arrears will be managed by the Manager, on behalf of CFML Lending, in accordance with the Arrears Management Policy, and the Governing Document. The Manager, on behalf of CFML Lending, will closely review the loans once made in accordance with the credit policy to ensure that borrowers pay interest and principal as scheduled.

If underlying loans are in arrears or payments are not made, the Manager, on behalf of CFML Lending, will ensure that credit control procedures are implemented in accordance with the credit policy.

The Manager, on behalf of CFML Lending, will obtain further valuation by registered valuers for security purposes where it considers CFML Lending has or is likely to suffer a loss on realisation of secured properties, to ascertain whether valuations have been prepared in accordance with industry guidelines.

The Manager will make appropriate collective provisions for loss on the mortgage portfolios in which the CFML Mortgage Fund ultimately invests (through purchasing shares in CFML Lending) and these provisions will be reviewed by the Scheme's auditor.

The Manager will, in accordance with the Governing Document, establish a bad debt reserve account for the CFML Mortgage Fund into which amounts may be credited by the Manager from the distributions accrued to the CFML Mortgage Fund, or from the assets of the CFML Mortgage Fund, as a reserve for bad debts incurred by CFML Lending, and from which amounts may be taken by the Manager to cover losses resulting from bad debts incurred by CFML Lending (the **Bad Debt Reserve Account**).

The Governing Document also allows for the "side pocketing" of impaired assets (ultimate investments of loans secured by Mortgages in default) to be managed separately from the other assets of the CFML Mortgage Fund if the Manager and the Supervisor consider it is in the interest of investors in the Fund 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 CFML Mortgage Fund. Assets which are "side-pocketed" will be managed separately from the other assets of the CFML Mortgage Fund, will not be available to new investors in the CFML Mortgage Fund and may be subject to certain restrictions on withdrawals.

For example, investors may not be able to withdraw that part of their investment referable to the "side-pocketed" assets until the investment becomes liquid or the Manager 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 the Manager (with the agreement of the Supervisor) only the current investors in the CFML Mortgage Fund at the point in time at which the assets are "side-pocketed" will be affected on a pro rata basis.

CFML Lending has agreed to comply with the Arrears Management Policy to the extent it applies to CFML Lending's business.

## Conflicts of Interest and Related Party Transactions Policy

The Manager and CFML Lending are also related parties of CPL and CPG.

CPL (or another entity in the Conrad Properties Group) or a director or senior manager of the Manager may invest in the CFML Mortgage Fund from time to time on the terms and conditions set out in the offering documents for the CFML Mortgage Fund (i.e. on the same terms and conditions as all other investors).

CFML Lending may advance loans to borrowers who own, and provide secure mortgages over, residential properties that are being or have been developed by the Conrad Properties Group. CPG is a party with the same shareholder as the Manager.

Loans secured by Mortgages made by CFML Lending may be concentrated in apartment buildings developed by the Conrad Properties Group. As at the date of this SIPO, 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 this SIPO.

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:
  - o the total interest payable on the Lower Interest Rate Loan; and
  - o 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.

CFML Lending is an associated person of the Manager, and therefore related to the Manager as the Manager has the power indirectly to control the exercise of the rights to vote attaching to the shares of CFML Lending in which it invests.

The Manager is also the trust manager and servicer of the Warehouse Trust, which also invests in loans secured by mortgages, and provides subordinated debt to the Warehouse Trust.

Accordingly, it is possible for conflicts of interest to arise. The Manager will manage all conflicts fairly and efficiently, to enter into any transactions on an arm's length basis, and in accordance with its Conflicts of Interest and Related Party Transactions Policy (**Conflicts Policy**). The Conflicts Policy includes a Mortgage Allocation Process and a Mortgage Transfer Process which are designed to ensure mortgage allocations and transfers between the Fund and the Warehouse Trust (and vice versa) are in the best interests of investors in the Fund and (in the case of transfers from the Fund to the Warehouse Trust) meet the Warehouse Trust's transfer criteria or the transfers are otherwise acceptable to the Warehouse Trust. Specifically:

- the purpose of the Mortgage Allocation Process is to determine which lending entity will settle the potential loan in a manner where the Manager has no involvement or discretion, so as to remove any potential conflict of interest the Manager may have in that choice; and
- the purpose of the Mortgage Transfer Process is to ensure loans secured by Mortgages are transferred between CFML Lending and the nominee for the Warehouse Trust (and vice versa) only when the transfer is in the best interests of investors in the Fund, and (in the case of transfers from the Fund to the Warehouse Trust) the loans secured by Mortgages transferred meet the Warehouse Trust's transfer criteria or the transfers are otherwise acceptable to the Warehouse Trust.

The Manager's governance structure has been developed to mitigate the risk of any conflicts of interest. The Manager has an independent board of directors, which will oversee the Credit Committee. The Credit Committee is responsible for overseeing credit policy, product policy, mortgage servicing outsourcing and all loan approvals. CFML Lending has agreed to follow its decisions.

All loan valuations will be conducted by a member of an independent valuation panel (see under “Valuation Policy” below).

All fees payable to the Manager, including borrower application fees for Mortgages, are disclosed in the offering documents for the CFML Mortgage Fund.

No employee or director of the Manager may borrow from CFML Lending or CFML Number 1 Limited.

## Liquidity Policy

Liquidity of the Fund is managed by the Audit, Risk and Compliance Committee (ARCC), with delegated authority to the Mortgage and Credit Manager who manages the amount of Mortgages approved, and the Chief Operations Officer who manages the level of cash and bank deposits held by CFML Lending (on behalf of the CFML Mortgage Fund) in accordance with the target asset allocations set out in this SIPO. Cash levels are reported to the Credit Committee weekly, and the credit criteria may be tightened if cash levels are at the lower end of the target asset allocation range. Liquidity levels are reported to the Manager’s Audit, Risk and Compliance Committee and Board on a regular basis by the Credit Committee.

The Manager may redeem investments from the CFML Mortgage Fund (at its discretion) on notice to investors in the Fund if cash levels are at the higher end of the target asset allocation range for the CFML Mortgage Fund. If the Manager redeems an investment at its discretion during a lock in period, a break fee will not be payable. The Manager is able to suspend redemptions of units in the Fund if for any good reason reasonably determined by the Manager, the Manager shall form the opinion that it is not desirable, or would be prejudicial to the interests of investors in the Fund as a whole, for the Manager to cause the redemption of units of investors in the Fund. This power can be used, if needed, by the Manager to deal with illiquidity issues.

The CFML Mortgage Fund (through purchasing shares in CFML Lending) also ultimately holds an allocation to on-call and short-term deposits at a New Zealand registered bank to help the Manager meet redemptions as they fall due. See the target allocation ranges on **page 7** for the amounts kept to meet redemption requests.

Withdrawals from the CFML Mortgage Fund are subject to the following lock in periods from the date of investment:

- 3 years for investors investing for the purposes of an Investor 1 Resident Visa;
- 4 years for investors investing for the purposes of an Investor 2 Resident Visa; and
- 2 years for all other investors.

The Manager may waive the lock in requirement, with or without a break fee, in the Manager’s sole discretion, including in the case of hardship. See **Section 5** of the CFML Mortgage Fund product disclosure statement for break fee details.

The Manager may also manage liquidity through the transferring of loans secured by Mortgages between the Fund and the Warehouse Trust in accordance with the Mortgage Transfer Process which forms part of the Conflicts Policy.

Liquidity management tools (LMTs) are used to protect investors from unfair treatment and/or prevent the CFML Mortgage Fund from diverging significantly from its investment strategy.

The Manager has a range of LMTs readily available to deploy in specific circumstances.

LMTs available are described in the liquidity policy and further detailed in the stress testing policy. (see summary below).

## Stress Testing Policy

The Manager conducts appropriate stress testing to determine how the investment strategy would perform in a hypothetical adverse event, such as changes in macro-economic circumstances.

The Manager has identified events that bring potential risks and has considered how to mitigate these risks, where possible. Additionally, an action plan shows what steps will be taken should such events occur. These action plans include various LMTs that are relevant to specific scenarios.

The Manager applies stress testing to the investment strategy every quarter to test the effect of macro-economic events on the CFML Mortgage Fund and CFML Lending.

## Taxation Policy

The Fund elected to become a multirate Portfolio Investment Entity (**PIE**) from inception. The Fund pays tax on the taxable income attributable to each investor at his/her advised prescribed investor rate (**PIR**). The Manager monitors compliance with the PIE eligibility requirements in maintaining the PIE tax status of the Fund.

The Fund is a PIE, but this status may change if the Fund cannot satisfy the requirements for PIE eligibility on an ongoing basis, and cannot be relied upon in the future.

As at the date of this SIPO, it is anticipated that PIE status can be maintained for the Fund provided that there are at least 20 investors or a specific type of investor in the Fund. If there are less than 20 investors or no specific type of investor in the Fund, PIE status may not be able to be maintained.

CFML Lending has elected to be a PIE for New Zealand income tax purposes. On the basis that the CFML Mortgage Fund holds 100% of CFML Lending, and provided that the Fund maintains PIE status itself, it is expected that CFML Lending should maintain PIE status also. While CFML Lending is a PIE, it may be treated as a look-through entity for New Zealand tax purposes.

See Section 6 of the Other Material Information document for further information in relation to the taxes investors will pay, including a description of the taxes payable in the event PIE status is not able to be maintained by the CFML Mortgage Fund.

## Unit Pricing & Valuation Policy

The Manager will value the units in the CFML Mortgage Fund in accordance with the Governing Document each time units are issued to an investor or withdrawn by an investor, on the last Business Day of each calendar quarter, or at such other times and dates as the Manager may determine at its sole discretion. Any valuation of the units in the CFML Mortgage Fund requires valuation of the shares in CFML Lending and the underlying net assets of the CFML Mortgage Fund to be undertaken in the manner described below.

### *Valuations of Shares*

Shares in CFML Lending will be valued by reference to the value of CFML Lending's underlying net assets.

### *Valuations of cash and bank deposits*

Cash or bank deposits which CFML Lending invests in will be valued at face value, plus any accrued interest, other than accrued interest which would be allocated to the Revenue Account if received by the CFML Mortgage Fund (the Revenue Account is the account into which all income earned by the CFML Mortgage Fund is credited until applied, distributed to investors or credited as units for distribution to investors).

### *Valuations of loans secured by Mortgages*

CFML Lending will require an initial valuation on all loans prior to drawdown. The valuations where the LVR is 65% or above will be undertaken by a Registered Valuer. Where the LVR is below 65%, a Rateable value or Evaluation may be used.



The loans secured by 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 the Revenue Account in accordance with the Governing Document if received by the CFML Mortgage 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 the Manager reasonably determines to be the principal amount recoverable under the loan.

The price of the units could go down if CFML Lending's loan book has a bad debt provisioning larger than the Fund's Bad Debt Reserve Account. See under "Arrears Management Policy" on **page 9** for further information. Any proposed unit price alteration will be completed following prior discussion with, and the approval of, the Supervisor.

The Manager will, on behalf of CFML Lending, ensure that Registered Valuations that it requests of the underlying investments of the CFML Mortgage Fund are conducted by a panel of independent valuers selected by the Manager, after conducting due diligence. The panel members must be New Zealand registered valuers and independent from the relevant borrower and any Conrad Properties Group company (the **Valuation Panel**).

The Manager will, on behalf of CFML Lending, ensure that no one valuer on the Valuation Panel conducts more than one third of the valuation work within a particular development, or in relation to CFML Lending's loan book as a whole. All valuations will be carried out at the cost of the borrower (unless the Manager, at its sole discretion, waives this requirement).

## Limitations on borrowings

Borrowing may be undertaken by the CFML Mortgage Fund, if the Manager (with the permission of the Supervisor) believes it is appropriate. The aggregate of the principal moneys borrowed and outstanding in respect of the CFML Mortgage Fund, or secured against the investments of the CFML Mortgage Fund, may not exceed 40% of the total funds invested in the CFML Mortgage Fund.

## Outsourcing Policy

The Manager will ensure that any functions that are outsourced to third party providers, including investing by CFML Lending, are appropriately monitored and reviewed.

The Manager has outsourced the day-to-day administration of the loans to Funding Partners Administration Limited, who performs initial borrower assessments, credit recommendations and administration services on behalf of the Manager. The credit approval process is handled by the Manager under its delegation policy.

## Rebalancing Policy

The assets of the CFML Mortgage Fund will be invested in line with the CFML Mortgage Fund's target asset allocations. However, the allocation of each asset class will vary within the asset allocation ranges set out above due to fund flows and investment availability/maturity.

Given the relatively illiquid nature of the loans in which the CFML Mortgage Fund ultimately invests (through purchasing shares in CFML Lending), cash flow to or from the CFML Mortgage Fund is the primary mechanism for ensuring that the CFML Mortgage Fund's asset allocation is maintained broadly in line with the target asset allocations.

The exposure to the asset classes is monitored by the Credit Committee on a regular basis (at least monthly) and will be rebalanced, to the extent possible at the determination of the Manager, to ensure that the allocation remains within the permitted ranges. This may include the Manager redeeming investments from the CFML Mortgage Fund at its discretion on notice to investors. See under "Liquidity Policy" on **page 11** for further information.

## Hedging Policy

CFML Lending will invest in fixed and floating rate mortgages, on-call and short-term bank deposits. Interest rate risk is not to be hedged.

There is no other specific hedging policy.

## 6. RISK MANAGEMENT

### Risk management principles

The Manager has compliance procedures and policies in place that ensure compliance with its regulatory and professional obligations such as the:

- Credit Policy and Credit Criteria;
- Arrears Management Policy;
- Conflicts of Interest and Related Party Transactions Policy (which includes the Mortgage Allocation Process and the Mortgage Transfer Process);
- Liquidity Policy;
- Stress Testing Policy;
- Taxation Policy;
- Unit Pricing & Valuation Policy;
- Limitation on borrowings;
- Outsourcing Policy;
- Rebalancing Policy;
- Hedging Policy;
- Governance, Risk & Compliance Framework;
- Risk Register/ Heat Map identifying the risks the Manager faces and the measures in place to keep those risks at an acceptable minimum and in line with the Compliance Assurance Programme;
- Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT) Compliance Programme;
- Regulatory Compliance Manual documenting its compliance obligations under regulatory requirements;
- Information Technology Capability Policy (including the Security Policy); and
- Human Resource Policy.

The Investment & Product Committee and the ARCC are responsible for managing risk and report to the Board regularly.

# 7. INVESTMENT PERFORMANCE MONITORING AND REPORTING

## Performance Monitoring

The Manager monitors the performance of the Fund against its investment objectives.

The Manager reviews the investment performance of the Fund as a continuous process by monitoring:

- the value of the CFML Mortgage Fund's ultimate investments in cash;
- the New Zealand banks that the CFML Mortgage Fund ultimately has on call or term deposits with and their credit ratings (S&P, Moody's);
- the performance of investment deposits against available market deposit interest rates;
- the value of the underlying investments in loans secured by Mortgages, which will be assessed in accordance with the Governing Document (and in particular evaluating regularly whether the loans are in default);
- RBNZ OCR meetings and any indications of rate changes in the short and long term for on call or term deposits, for the purposes of determining interest rates to be offered on fixed rate loans, resetting interest rates on the floating rate loans in the portfolio and anticipating any changes; and
- the risk of CFML Lending's portfolio of loans secured by Mortgages by closely monitoring payments on the loans once they are made to ensure that borrowers pay interest and principal as scheduled. Credit control functions and recovery will be undertaken if payments are not made.

In addition, the Manager's Credit Committee will provide regular reports to the Manager's ARCC, the Investment & Product Committee and Board on the performance of the CFML Mortgage Fund. Performance will be reported to the Supervisor quarterly.

The Manager also makes appropriate general and specific provisions for loss on the Mortgage portfolios in which the CFML Mortgage Fund ultimately invests, and these provisions will be discussed with and reviewed by the auditor of the Scheme.

## Reporting

Investors will be able to access a quarterly Fund update on the Manager's website ([www.cfml.nz](http://www.cfml.nz)). The Manager will provide investors with an annual report in relation to the CFML Mortgage Fund.



# 8. SIPO REVIEW PROCESS

## SIPO Review

The ARCC will review this SIPO no less frequently than annually, or sooner if appropriate, due to events including, but not limited to:

- the CFML Mortgage Fund's return objective not being met for a period of over three months;
- the CFML Mortgage Fund's investment mix not being met for a period of over three months;
- the CFML Mortgage Fund not having \$10 million of assets at any time after the first year following its establishment.

A SIPO review will cover:

- investment mixes and allowable target allocation ranges and limits;
- the CFML Mortgage Fund's investment objectives, strategies and type of investments; and
- the Scheme's governance framework and policies.

In reviewing and approving changes to the SIPO, the ARCC will take into consideration the Manager's investment philosophy and the CFML Mortgage Fund's investment strategies and objectives.

A report of the review, together with the recommendations, if any, will be tabled at the next Board meeting held after the report is completed.

The Manager will consult with the Supervisor prior to approving any changes to the SIPO and provide written notice of the changes to the Supervisor prior to the effective date of the changes. Any material changes will be notified to investors prior to the effective date of the changes.

## Availability of SIPO

A copy of the SIPO is available, on request and free of charge, to the Scheme's investors by contacting the Manager at [info@cfml.nz](mailto:info@cfml.nz) or is found on the Disclose Register [disclose-register.companiesoffice.govt.nz](https://disclose-register.companiesoffice.govt.nz) together with the Management Deed mentioned above.

# 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



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