

EFFECTIVE DATE: 8 November 2024  
FIRST MORTGAGE MANAGERS LIMITED

# Statement of Investment Policy and Objectives ("SIPO")

for the First Mortgage Trust  
Group Investment Fund ("Fund")



## Description of the Fund

The Fund is a Group Investment Fund (GIF) established under the Trustee Companies Act 1967. The Fund is a managed investment scheme registered under the Financial Markets Conduct Act 2013 ("FMC Act").

The Fund was established pursuant to a trust deed between Trustees Executors Limited ("Supervisor") and First Mortgage Managers Limited ("Manager") ("Trust Deed"). The Fund does not have a defined term.

The Fund invests in loans secured by mortgages over land and buildings. These must be first mortgages within defined criteria. The Fund also invests in deposits with registered New Zealand banks (under the Banking (Prudential Supervision) Act 1989). The Manager generally has discretion as to which authorised investments are acquired, held, or disposed of in and for the Fund.

## Roles and Responsibilities

The Manager is, among other things, responsible for managing the Fund's assets and investments and must ensure that the Fund has a statement of investment policy and objectives that provides adequately for the following matters:

- the nature or type of investments that may be made, and any limits on those; and
- 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 investment objectives of the Fund.

The Supervisor is, among other things, responsible for holding the Fund's assets and for supervising the performance by the Manager of its functions and obligations.

## Investment Objective

The investment objective of the Fund is the provision to investors of an income return at a level better than bank deposits. While this cannot be assured, the Manager's objective is to give investors an annualised pre-tax return (after fees and expenses) per quarter of at least 1% per annum, higher than the average of the 12-month term deposit rates offered by New Zealand's four main trading banks.

## Investment Philosophy

The Manager is an active fund manager, dedicated to growing and protecting wealth by delivering consistent and reliable returns

## Investment Strategy

### Overall investment strategy

The Manager aims to achieve the objective by establishing and maintaining a range of loans secured by first mortgages over residential, commercial and rural property. These loans are provided for a range of purposes, with a mix of interest rates, maturity dates and physical locations of the mortgaged properties.

The Manager also invests in a mixture of on-call deposits and term deposits with registered New Zealand banks (with maturities of up to 24 months).

### Authorised investments

There are restrictions on the types of investments the Fund can make, as set out in its Trust Deed. These restrictions align with the investments required for the Fund to retain its character as a designated group investment fund under the Income Tax Act 2007. Under that Act, designated group investment funds must primarily invest in loans secured by first mortgages.

Under the Trust Deed the Fund must always be invested in "authorised investments". Until such time as the Manager and Supervisor agree otherwise, the Fund shall invest in:

- Loans made upon the security of mortgages or mortgage-backed securities; and
- Cash and term deposits with any registered bank in New Zealand.

The Manager shall only invest the Fund's funds pursuant to the specific guidelines, benchmark asset allocations, and lending limits described further below.



## Specific guidelines

The Manager's specific investment strategy guidelines for the Fund are as follows:

- **Loan purpose** - Loans are provided for a range of purposes including, but not limited to, buying or refinancing a residential, commercial or rural property; providing working capital for business purposes and property development (land subdivision and construction of residential and commercial property).
- **Location of mortgaged properties** - The loan and mortgaged property portfolio is concentrated in the main urban centres with a particular emphasis in Auckland, Wellington, Canterbury, the Bay of Plenty, and Waikato.
- **Interest** - Loans are predominantly interest only, with a mix of interest rates and maturity dates. Borrowers pay interest monthly, although a portion of the loans (including most development loans) can have interest capitalised (that is, added to the loan principal and paid at the end of the loan term).
- **Mix of mortgage types** - The loans are secured by first mortgages spread between residential, commercial, and rural properties within the benchmark asset allocations (detailed below).
- **Lending limits** - There are limits that apply at the time the loan is approved on the maximum size of any loan in relation to both the value of the property provided as security and to the total value of the Fund's authorised investments (refer to "Lending limits" below for detail).
- **Term** - Loan terms are generally for one to two years but in some cases may be granted for a maximum term of up to five years. A borrower can apply to extend the loan term prior to the end of the term. A loan's term can be extended at the Manager's discretion if a borrower continues to meet criteria (including loan-to-value ratios).

The Fund is also authorised to provide reverse mortgages (through a product called the FMT Retirement Loan), where the term does not expire until the earlier of the date the security property is sold, or the borrower dies.

- **Development lending** - Loans are provided for property development (being land subdivision and construction of residential and commercial property). Development loans are provided to borrowers with appropriate experience and are structured with appropriate development specific controls and security.

The Manager may appoint an independent quantity surveyor to provide reporting and monitor property development. Interest is generally capitalised on development loans. Loan drawdowns are generally made on a progressive basis on completion of specified milestones or based on the value of completed works as assessed by an independent quantity surveyor.

- **Joint lending** - The Manager may make loans to a borrower together with other lenders, either as part of a lending syndicate, or with other lenders participating in the Manager's loans by providing additional funds to the Manager. Such lending is on terms agreed with the Supervisor and supports the Manager to meet the needs of a wider class of borrowers.
- **Property value and valuations** - The value of property held as security is assessed as part of the approval process for loans. In making this assessment, the Manager will rely upon valuations provided by registered valuers who are independent of the borrower and approved by the Manager. Where possible, valuations are addressed directly to the Fund.

For loans up to \$2.5 million which are secured by certain property types, the Manager may elect to rely upon the current market value of the security property as evidenced by an iVal (supplied by Core Logic or Valocity Limited or a local authority rating valuation).

- **Cash and term deposits** - The Fund holds cash and term deposits in accordance with the benchmark asset allocations detailed below. Cash is held to meet redemption requests, fund distributions to investors, and pay loan advances and operating expenses. The Manager's policy is to hold a variety of deposit terms in order to obtain a balance between liquidity and higher interest returns. The Fund's cash and term deposits may only be held with registered banks.

## Benchmark asset allocations and ranges

Benchmark asset allocation ranges are the minimum and maximum limits for each asset class. The benchmark asset allocation (also known as the "target investment mix") is the Manager's long-term allocation for each asset class. Actual asset allocations will vary from the benchmark asset allocations as market conditions change.

The benchmark asset allocation and asset allocation ranges are as follows (expressed as a percentage of the value of the Fund's authorised investments):

Asset class	Benchmark asset allocation (%)	Ranges (%)
Cash <sup>1</sup>	10%	5% - 20%
Term Deposits <sup>2</sup>	5%	2.5% - 10%
Loans secured over residential property <sup>3</sup>	50%	40% - 75%
Loans secured over commercial property <sup>3</sup>	30%	15% - 45%
Loans secured over rural property <sup>3</sup>	5%	0% - 20%

<sup>1</sup> Cash held on-call or term deposits with a remaining term to maturity of three months or less.

<sup>2</sup> Term deposits with a remaining term to maturity of greater than three months but less than 24 months.

<sup>3</sup> Proportion of total loan values relative to the value of the Fund's authorised investments. Loans are allocated a property type based on the key features of the principal secured property (including zoning, end use and value) as determined by the relevant local council's district plan.

The Manager also follows internal guidance and directions set by the Manager's Assets and Liabilities Committee ("ALCO") from time to time. This can involve targets and acceptable ranges for different types of lending (such as a maximum level for development lending, loans that can have interest capitalised, or the geographical spread of property held as security). These targets and ranges depend on, and take into account, market conditions as well as a range of other fund-specific factors and are therefore dynamic and changeable.

## Lending limits

The Fund has lending limits, based on the amount of the loan when compared with the value of the mortgage security property ("loan-to-value ratio" or "LVR") at the time of loan approval, as follows:

Residential Mortgages	Commercial Mortgages	Rural Mortgages*
Fee simple land and buildings: up to 75% LVR	Fee simple land and buildings: up to 66.7% LVR	Fee simple: up to 60% LVR
Land with power, water, sewage and associated services ("Services") completed: up to 70% LVR		Property used for dairy farming (fee simple): up to 66.7% LVR
Leasehold: up to 50% LVR	Leasehold: up to 50% LVR	Leasehold: up to 50% LVR
Vacant land which does not have Services: up to 50% LVR	Vacant land which does not have Services: up to 50% LVR	Vacant land: up to 50% LVR

\*Rural residential lending is assessed under the Residential criteria.

The Manager may rely on "as is" and/or "on completion" valuations to determine the LVR for development lending.

No more than 5% of the value of the Fund's authorised investments will be secured against any one mortgage or advanced to any one borrower or related group of borrowers at the time of lending. The total value of the six largest loans in the Fund may not exceed 25% of the value of the Fund's authorised investments.

All lending limits are determined and are solely applicable as at the initial loan approval date and at the date of any renewal of a loan. The value of any individual loan or the proportionate value of a loan in relation to the value of the Fund's authorised investments may change subsequent to initial approval or renewal and, as a result, the above limits may be exceeded after those dates.

## Investment Policies

### Rebalancing policy

The assets of the Fund should be invested in line with its benchmark asset allocation. New lending approvals take these allocations into account. However, the allocation to each asset class will vary over time within the ranges set, primarily due to changes in market conditions and lending opportunities.

Given the relatively illiquid nature of mortgage loans, management of new lending and loan repayments are the primary mechanisms for ensuring that the loan asset allocation is maintained broadly in line with the benchmark asset allocation weightings for each asset class. The Manager has less control over repayments, as borrowers have the right to repay loans at any time.

The exposure to the various asset classes is monitored monthly by the ALCO appointed by the Manager. If, at the end of a month, the allocation to a particular class has moved outside the ranges set out for that class, the Manager works to rebalance the asset allocation via the management of new lending and loan repayments to bring the asset allocation back within the permitted ranges. However, there can be some lag in completing the rebalancing. A practical approach is taken to any rebalancing, with one of the objectives being to maintain existing lending policies.

### Liquidity and cash flow management policy

The Board is accountable for determining that the Fund's liquidity and Liquidity Risk Management processes are adequate and is also responsible for ensuring that management effectively manages liquidity risks. The Board receives regular updates from the ALCO on the liquidity and funding situation of the Fund. The ALCO reports to the Board results of any stress testing and monitoring of liquidity Early Warning Indicators.

The Manager is to maintain at least 5% of the value of the Fund's authorised investments in cash (on-call cash or term deposits with a remaining term to maturity of three months or less), to meet redemption requests, fund distributions and for the payment of the Fund's operating expenses.

The Manager monitors cash flows and positions daily to determine whether funding is sufficient to fulfil these obligations. There is an internal requirement for the Board to be notified if monitoring reveals combined cash (as defined above) and term deposits may drop below 10%.

A minimum recommended investment timeframe is suggested to investors holding an investment in the Scheme, to avoid asset liability mismatch between investment tenure and average loan term. The Manager reserves the right to charge withdrawal fees to investors redeeming units within a two-year period, to encourage longer term investment.

Should the Fund encounter a serious liquidity crisis, the Manager has the ability to invoke liquidity management tools, including (but not limited to) the imposition of discretionary redemption restrictions (i.e. to suspend or defer withdrawals).

### Hedging policy

The Manager does not hedge the Fund's interest rate exposures.

### Conflict of interest policy

The Manager will only enter into transactions with related parties with the consent of the Supervisor or if the Manager certifies that any such transaction is on arm's length terms.





## Investment Performance Monitoring

### Monitoring of underlying investments

The Manager closely reviews the loans, once made, to ensure that borrowers pay interest and principal as scheduled and meet other agreed conditions. The Manager monitors progress on development loans including regular site visits to confirm reported progress and where required, appoints an independent quantity surveyor to provide further monitoring and reporting. Credit control functions are undertaken if payments are not made, and these may include recovery actions and mortgagee sales.

The Manager regularly monitors the allocation of cash and term deposits, with a view to balance liquidity against higher interest returns.

The Manager makes appropriate general and specific provisions for losses on the mortgage portfolio and these provisions are discussed with and reviewed by the Fund's auditor.

### Monitoring of investment performance

The Manager's Assets and Liabilities Committee monitors the Fund's investment performance for the past month, as well as projected performance for the month ahead, at monthly meetings. In addition, the Board of the Manager monitors investment performance at scheduled meetings (at least six annually) and receives reporting from the Manager in respect of the Fund's performance. Performance monitoring includes consideration of the absolute performance of the Fund and performance relative to the investment objective.

In accordance with the requirements of the FMC Act and the Financial Markets Conduct Regulations 2014, the Manager will report to the Supervisor, as soon as is practicable, any limit breaks that have not been corrected within five working days after the date that the Manager became aware of the limit break. A limit break is a breach of any of the limits set out in this SIPO in relation to the nature or type of investment that may be made or the proportion of each type of asset in which the fund is invested.

The Manager provides quarterly reports to the Supervisor on the performance of the Fund and adherence with this SIPO, including whether there have been any limit breaks.

The Manager also provides monthly reports to the Supervisor. The monthly reports include confirmation:

- That all investments have been properly applied in authorised investments of the Fund;
- That all calculations of the entitlements of investors and the valuation of units have been carried out in accordance with the trust deed provisions; and
- That all proper accounting and internal control procedures have been maintained.

In addition, the monthly reports specify the unit value, the aggregate number of units in the Fund on issue and such other information that the Supervisor may request.

### Appropriate benchmark index

The Fund is an exempt fund under the Financial Markets Conduct (Market Index) Exemption Notice 2024. That exemption notice exempts the Manager from providing market index comparisons to returns for the Fund if an appropriate market index or peer group index is not available.

For further information see the document entitled "No Market or Peer Group Indices" available on the offer register. The internet address for the offer register is: <https://disclose-register.companiesoffice.govt.nz/>.



## Investment Strategy and SIPO Review

Where investment trends indicate this is desirable (and in any event, at least six monthly) the ALCO will:

1. consider whether the benchmark asset allocation in this SIPO is still appropriate;
2. consider whether the benchmark asset allocation ranges in this SIPO are still appropriate; and
3. otherwise consider whether any changes to the SIPO are desirable.

If the ALCO considers it is desirable to make any changes to this SIPO, the ALCO will prepare a paper for the Due Diligence Committee ("DDC") setting out, in the case where changes are recommended to asset allocations:

1. trends in the composition of assets in the Fund;
2. the background reasons for the trend, including risk factors around the decisions relating to trends in the composition of the relevant fund's assets; and
3. the recommendation of the ALCO to changes in the benchmark asset allocations or benchmark asset allocation ranges for the Fund.

Where the recommendation is to otherwise alter the SIPO, the paper prepared for the DDC will set out the ALCO's reasons for the recommended changes to the SIPO.

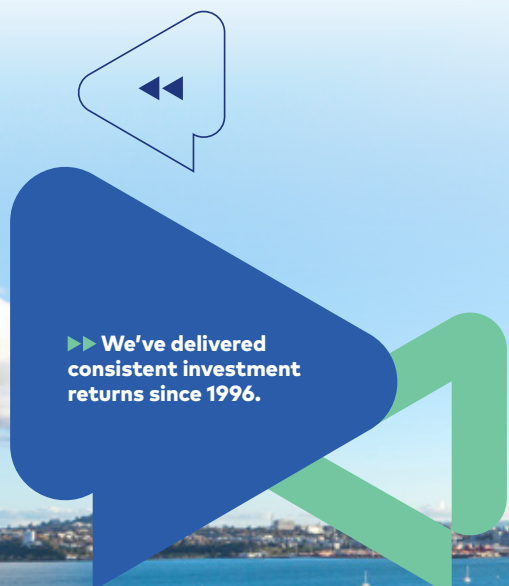
The DDC will consider the ALCO's report at its next meeting. If it approves any SIPO changes, these will be referred to the Board for approval.

Following Board approval (which in ordinary circumstances is conditional on the supervisor approving the change), any SIPO changes must be referred to the supervisor for its approval. In accordance with the Trust Deed, the Manager may amend or replace this SIPO only with the agreement of the Supervisor. If the Manager proposes to alter the SIPO in a manner which materially affects existing investors then the Manager must, prior to effecting any such alteration, give at least 30 days written notice to investors.

Following supervisor's approval:

1. the SIPO changes will be made and lodged on the Disclose Register; and
2. where required, a revised PDS for the Offer will be prepared, to reflect the new SIPO provisions.

If the ALCO considers that changes are required to a SIPO as a matter of urgency, the ALCO's report can be given directly to the Board as a whole.



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