FIRST MORTGAGE MANAGERS LIMITED

Statement of Investment Policy and Objectives ("SIPO") for the First Mortgage Trust Group Investment Fund ("Fund")

EFFECTIVE DATE: 23 December 2021

The most current version of the SIPO is available on the Disclose Register at https://disclose-register.companiesoffice.govt.nz/, Scheme Number SCH10239.

DESCRIPTION OF THE FUND

The Fund is a group investment fund established under the Trustee Companies Act 1967. The Fund is a managed investment scheme registered under the Financial Markets Conduct Act 2013.

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 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.

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 Fund invests in loans secured by mortgages of land and buildings. These must be first mortgages within defined criteria. The Fund also invests in deposits with registered banks. The Manager generally has the discretion as to which authorised investments are acquired, held or disposed of in and for the Fund.

INVESTMENT OBJECTIVES

Investment objective

The investment objective 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 (but after fees and expenses) return per quarter of at least 100 basis points higher than the average of the 12 month term deposit rates offered by New Zealand’s four main trading banks and competitive with comparable investment products.

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 deposits with registered banks (under the Reserve Bank of New Zealand Act 1989) to have a mixture of on-call deposits and term deposits (with maturities of up to 12 months).

INVESTMENT STRATEGY

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.

<u>Specific guidelines</u>

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; working capital for business purposes; 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 the Bay of Plenty, Waikato, Auckland, Wellington and Canterbury.
- ***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 typ*es** - The loans are secured by first mortgages spread between residential, commercial and rural properties within the benchmark asset allocations below.
- ***Lending Limits*** - There are limits that apply at the time the loan is approved on the maximum size of any loan in relation both to the value of the property provided as security and to the total value of the Fund's authorised investments. 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.
- ***Term*** – Loan terms are generally for 1 to 2 years but in some cases may be granted for maximum term of up to 5 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. The loans are provided to borrowers with the appropriate experience and 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 the 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 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 as 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 below. Cash is held to meet redemption requests, fund distributions to investors, loan advances and for the payment of operating expenses. The Manager's policy is to have a variety of deposit terms to provide a balance between liquidity and higher interest returns, with a view to being able to meet withdrawal requests (based on historic withdrawal rates). The Fund's cash and term deposits may only be held with registered banks.

Benchmark Asset Allocation

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.

Benchmark Asset Allocation Ranges

Benchmark asset allocation ranges are the minimum and maximum limits for each asset class.

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[1]	10	5 - 20
Term Deposits[2]	5	2.5 – 10
Loans secured over residential property[3]	50	40 – 75
Loans secured over commercial property[3]	30	15 – 45
Loans secured over rural property[3]	5	0 - 20

[1] Cash held on-call or term deposits with a remaining term to maturity of three months or less.

[2] Term deposits with a remaining term to maturity of greater than three months but less than twelve months.

[3] Proportion of total loan values relative to the value of 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) that is set in the relevant local council's district plan.

The Manager also follows internal guidance and directions set by the Manager's Loans Committee 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 capitalised interest 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.

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 Loans Committee 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.

Lending Limits (Valuation)

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 66.67% 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.

Hedging policy

There is no specific hedging policy, other than maintaining what in the Manager's opinion is a prudent mix of types of mortgages and cash as described previously in this document.

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.

Liquidity and cash flow management policy

The Manager is to maintain at least 5% of the value of the Fund's authorised investments in cash deposits (on-call 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.

METHODOLOGY FOR MONITORING, AMENDING AND DEVELOPING INVESTMENT STRATEGY

Appropriate benchmark index

The Manager considers that there is no appropriate comparative market index, nor is there a suitable comparable peer group index, for the Fund against which to assess either movements in the market in relation to the returns from the assets in which the Fund invests or the performance of the Fund as a whole.

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/.

Monitoring of underlying securities

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 cash and term deposits, with a view to being able to provide a balance between liquidity (to meet withdrawal requests (based on historic withdrawal rates)) and higher interest returns.

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

Investment performance monitoring

The Manager's Loans Committee monitors the Fund investment performance at monthly meetings. In addition, the Board of the Manager monitors investment performance at scheduled meetings (generally nine 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 Financial Markets Conduct Act 2013 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 5 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 gives 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 gives 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 as the Supervisor may request.

The Manager compares the Fund's quarterly returns with information it sources from information published by the Reserve Bank of New Zealand www.rbnz.govt.nz/statistics/b3.

Investment strategy review and amendment

This document is formally reviewed by the Board of the Manager annually and may also be reviewed at any other time if the Manager considers that such a review is required as a result of the prevailing market conditions.

In the course of the review the Manager's executive team will consider whether the Fund's benchmark asset allocations remain appropriate given the prevailing market conditions. Consideration will also be given as to whether the Fund's liquidity policy remains appropriate once again given prevailing market and economic conditions. The Manager's executive team will make recommendations to the Board of the Manager, who will then consider such recommendations.

In accordance with the Trust Deed, the Manager may amend or replace this SIPO with 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.