

**FIRST MORTGAGE MANAGERS LIMITED**  
**Statement of Investment Policy and Objectives ("SIPO")**  
**for the First Mortgage PIE Trust ("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 SCH10249.

**DESCRIPTION OF THE FUND**

The Fund is a managed investment scheme registered under the Financial Markets Conduct Act 2013 ("FMC Act").

The Fund was established by a master trust deed and an establishment deed, as amended and restated ("Trust Deed"). The Fund does not have a defined term.

The supervisor of the Fund is Public Trust ("Supervisor"). 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 property 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 wholly in a group investment fund called the First Mortgage Trust Group Investment fund ("FMT GIF"). The Manager is also the manager of the FMT GIF. The FMT GIF invests in loans secured by mortgages of land and buildings. These must be first mortgages within defined criteria. The FMT GIF also invests in deposits with registered banks (under the Reserve Bank of New Zealand Act 1989). The Manager, as manager of the FMT GIF, generally has the discretion as to which authorised investments are acquired, held or disposed of in and for the FMT GIF.

**INVESTMENT OBJECTIVES**

**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 (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 invests the Fund's assets solely in the FMT GIF. The Manager, as manager of the FMT GIF in relation to the secured lending of the FMT GIF, aims to achieve the objective of the FMT GIF 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, as manager of the FMT GIF, also invests the FMT GIF in deposits with registered banks 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.

Under the Trust Deed, the Fund must always be invested in “authorised investments”, the policy of the Manager is only to invest in the FMT GIF, which invests pursuant to the guidelines described further below.

### Specific guidelines

The Manager restricts the investments of the Fund to units in the FMT GIF because of the investment spread in the FMT GIF.

The Manager’s specific investment strategy guidelines in relation to the FMT GIF 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, Wellington, Canterbury and Auckland.
- **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 allocation.
- **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 FMT GIF’s authorised investments. No more than 5% of the value of the FMT GIF’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 FMT GIF may not exceed 25% of the value of the FMT GIF’s authorised investments.

All lending limits for the FMT GIF 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 FMT GIF’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 FMT GIF 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 by the FMT GIF 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 of the FMT GIF 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 of the FMT GIF 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 FMT GIF's 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 of the FMT GIF 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 FMT GIF.  
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 FMT GIF 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 the FMT GIF's 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 FMT GIF'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. The Fund has only a single investment (being units in the FMT GIF). Accordingly, as the returns on the Fund mirror the FMT GIF returns, the benchmark asset allocations for the FMT GIF are directly relevant for the Fund.

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.

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

<b>Asset class</b>	<b>Benchmark Asset Allocation (%)</b>	<b>Ranges (%)</b>
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 twelve months.

<sup>3</sup> Proportion of total loan values relative to the value of FMT GIF'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.

### **Lending Limits (Valuation) for the FMT GIF**

The FMT GIF 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:

<b>Residential Mortgages</b>	<b>Commercial Mortgages</b>	<b>Rural Mortgages *</b>
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.

### **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 relies upon the liquidity in the FMT GIF, by way of returns and redemptions paid by FMT GIF, to maintain sufficient liquidity in the Fund.

The Manager, as manager of the FMT GIF, is to maintain at least 5% of the value of the FMT GIF'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 (including redemption requests from the Fund) and to pay the FMT GIF'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/>.

## **Investment performance monitoring**

The Manager monitors the Fund's investment performance quarterly. The investment performance is also monitored annually.

The Manager gives quarterly reports to the Supervisor as to the performance of the Fund and adherence to the SIPO. These reports include confirmation that or advice as to whether:

- all amounts invested by the investors have only been invested in authorised investments;
- the Manager has duly observed and performed all covenants, conditions and agreements and provisions binding upon it under the Trust Deed and this SIPO;
- there has been any deviation in the accounting method or method of valuation of investments or liabilities of the Fund not already disclosed in the financial statements;
- full and adequate provision for taxation liabilities to be paid or reclaimed (including deferred taxation) has been made;
- the PIE Trust has met the PIE eligibility requirements for the period, and that reasonable measures were in place to monitor and manage any potential breaches of the PIE eligibility criteria;
- the Manager has taken all reasonable steps to allocate income, expenses, losses and tax credits to investors, calculate tax and adjust investors interests (or make deductions from amounts payable to investors) on account of any PIE Tax and PIE Rebates of the Fund in accordance with the Trust Deed, the Income Tax Act 2007 and the Tax Administration Act 1994 in a manner that (to the extent permitted by the Trust Deed, the Income Tax Act 2007 and the Tax Administration Act 1994) is fair and equitable to Unitholders generally; and
- the composition, nature or type of investments that may be made under the Trust Deed ("limit breaks") have been adhered to.

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 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 benchmarks 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](http://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 liquidity policy and decision to invest solely in the FMT GIF remains appropriate given prevailing market and economic conditions. The Manager's executive team will make recommendations to the Manager's Board, who will then consider such recommendations.

In accordance with the FMC Act and the Trust Deed, the Manager may amend or replace this SIPO only after having given prior written notice to and consulted with the Supervisor.