

31 December 2022

## Australian Securities and Investments Commission Regulatory Guide RG 45 Benchmark and Disclosures Principles

The Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 45, 'Mortgage schemes: Improving disclosure for retail investors' (**RG 45**) sets out benchmarks and disclosure principles for unlisted mortgage schemes, against which the responsible entity of the scheme must report. If a mortgage scheme does not meet any benchmark, the responsible entity must give details of why that benchmark is not being met.

There are 5 benchmarks and 5 disclosure principles that apply to the Schroders RF Select Credit Fund ARSN 090 994 326 (**Fund**). These reflect the information that ASIC considers key to enable retail investors to analyse the risks of investing and continuing to hold interests in unlisted contributory mortgage schemes, such as the Fund.

This report shows the status of the Fund in respect of the benchmarks set and the disclosure principles adopted by ASIC. This information has been prepared by Schroders RF Limited ACN 089 265 270, AFSL 238546 (**Schroders RF**) the responsible entity of the Fund.

To the extent that this information is advice, it is general advice only. It does not take into account the objectives, financial situation or needs of any investor or prospective investor. The current Product Disclosure Statement (**PDS**) dated 29 September 2022 for the Fund should be read in full prior to making any decision to invest. Schroders RF have also prepared a Target Market Determination (**TMD**) for the Fund and for each Syndicate Loan Type.

When accessing this information on-line, a copy of the information may be printed for personal use only. Alternatively, a copy can be forwarded on request. This information should be read in conjunction with the PDS which defines some of the terms and also provides more detailed information.

Schroders RF may be contacted as follows:

Schroders RF Limited  
PO Box R1297, Royal Exchange  
SYDNEY NSW 1225

Telephone (02) 9954 2211  
Facsimile (02) 9954 2222

This information is current as at 31 December 2022 (or as specified in the particular item). It will be updated as soon as practicable after any material adverse change and, in any event, semi-annually. Updated information will appear on Schroders RF's website at [www.schrodersrf.com](http://www.schrodersrf.com)

**Benchmarks**

**Benchmark 1: Liquidity (applicable to pooled mortgage schemes only)**

This benchmark does not apply to the Fund.

**Benchmark 2: Scheme Borrowing**

Details of the Benchmark	Meeting the Benchmark
Schroders RF does not have current borrowings and does not intend to borrow on behalf of the Fund.	<b>Schroders RF meets this benchmark</b>

For additional disclosure on this benchmark see Disclosure Principle 2: *Scheme borrowing* below.

**Benchmark 3: Loan Portfolio and Diversification (applicable to pooled mortgage schemes only)**

This benchmark does not apply to the Fund.

**Benchmark 4: Related party transactions**

Details of the Benchmark	Meeting the Benchmark
Schroders RF does not lend to related parties of Schroders RF or to the Fund’s investment manager.	<b>Schroders RF does not meet this benchmark</b>

Schroders RF has not historically made loans to a person which is a related party of Schroders RF, Schroder Private Assets Holdings Limited (**Schroders**), RF Group or their related entities or associates (including employees, associates, agents, officers and other individuals) and with exception of the loan referred to below, will continue with this practice. Members are advised that during February 2020 Schroders RF lent to a borrower who is treated as a related party of RF Group. The loan was made at an LVR of 31.25% and for a sum that represents 1.6% of the value of the Fund as at 31 December 2022 and was fully disclosed in the relevant Syndicate PDS. Schroders RF applied to it the same lending criteria as it does to non-related party loans, but additionally addressed any potential conflicts of interest.

For additional disclosure on this benchmark see Disclosure Principle 4: *Related party transactions* below.

## Benchmark 5: Valuation Policy

Details of the Benchmark	Meeting the Benchmark
<p>In relation to valuations for the Fund's Mortgage Investments and their security property, the board of Schroders RF requires:</p> <ul style="list-style-type: none"><li>(a) a valuer to be a member of an appropriate professional body in the jurisdiction in which the relevant property is located;</li><li>(b) a valuer to be independent;</li><li>(c) procedures to be followed for dealing with any conflict of interest;</li><li>(d) valuer rotation and diversity;</li><li>(e) in relation to the security property for a loan, an independent valuation to be obtained:<ul style="list-style-type: none"><li>(i) before the issue of a loan and on renewal:<ul style="list-style-type: none"><li>- for development property, both on an 'as is' and 'as if complete' basis; and</li><li>- for all other property, on an 'as is' basis; and</li></ul></li><li>(ii) within two months after the directors form the view that there is a likelihood that a decrease in the value of the security property may have caused a material breach of the loan covenant.</li></ul></li></ul>	<p><b>Schroders RF does not meet the Benchmark.</b></p> <p>Schroders RF meets those aspects of the benchmark in paragraphs (a), (b), (c), (d) and (e)(ii).</p> <p>With respect of paragraph (e)(i) there are limited circumstances in which a valuation is not required before the issue or renewal of a loan, as described below.</p>

Schroders RF does not meet this benchmark for the following reasons:

1. A current Valuer General's assessment may be accepted where the loan to valuation ratio (**LVR**) does not exceed 30%. If so, this will be stated in the relevant Syndicate PDS.

Schroders RF considers that this is an acceptable practice as that assessment, made for rating and taxation purposes, is of the unimproved land value of the Security Property, and does not include the value of any home or other structures and improvements.

2. Schroders RF may not obtain a new valuation on the extension of a loan facility with a further term of 12 months or less. The cost is not warranted in all cases and Schroders RF is satisfied that the following alternative and additional practices are adequate. Each renewal is assessed on a case by case basis and Schroders RF will order an updated valuation if:
  - the latest valuation was obtained more than two years ago;
  - there is a decline in the market that may impact on the value of the Security Property and the LVR (including but not limited to where this may have caused a material breach of a loan covenant); or
  - a Syndicate Member transfers their interest in the Syndicate.

For additional disclosure on this benchmark, see Disclosure Principle 5: *Valuation Policy* below.

## Benchmark 6: Lending principles – loan to valuation ratios

Details of the Benchmark	Meeting the Benchmark
As the Fund directly holds mortgage assets:	<b>Schroders RF meets this benchmark</b>
(a) where the loan relates to property development – funds are provided to the borrower in stages based on independent evidence of the progress of the development;	
(b) where the loan relates to property development – the Fund does not lend more than 70% on the basis of the latest ‘as if complete’ valuation of property over which security is provided; and	
(c) in all other cases – the Fund does not lend more than 80% on the basis of the latest market valuation of property over which security is provided.	

The Fund’s constitution states that the LVR on any first registered security must not exceed **65.0%** of its independent value determined on an ‘as is’ basis and an ‘as if complete’ basis for Construction Loans.

The maximum LVR on any second registered mortgage, including for Construction Loans must not, when taken with the amount advanced on the first registered mortgage and any equal ranking securities, exceed **80.0%** of its independent value determined on an ‘as is’ basis and an ‘as if complete’ basis for Construction Loans.

For additional disclosure on this benchmark see Disclosure Principle 6: *Lending principles – Loan to valuation ratios* below.

## Benchmark 7: Distribution practices

Details of the Benchmark	Meeting the Benchmark
Schroders RF will not pay current distributions from scheme borrowings.	<b>Schroders RF meets this benchmark</b>

For additional disclosure on this benchmark see Disclosure Principle 7: *Distribution practices* below.

## Benchmark 8: Withdrawal arrangements – non liquid schemes

Details of the Benchmark	Meeting the Benchmark
For non-liquid schemes, the responsible entity intends to make withdrawal offers to investors at least quarterly.	<b>Schroders RF does not meet the benchmark</b>

However, as is stated in RG 45.71, the benchmark can be considered to be inapplicable as Schroders RF has disclosed in the PDS that investors have no ability to withdraw from the Syndicate until the Mortgage Investment to which the loan relates has been repaid.

For additional disclosure on this benchmark, see Disclosure Principle 8: *Withdrawal arrangements* below.

## Disclosure Principles

### Disclosure Principle 1: Liquidity *(applicable to pooled mortgage schemes only)*

This disclosure principle does not apply to the Fund.

### Disclosure Principle 2: Scheme borrowing

If the Fund has borrowings, the responsible entity should disclose a number of matters including those relating to:

- the total debts due, their maturity profile, undrawn credit facility and whether refinancing or sale of assets is likely during various periods;
- why Schroders RF has borrowed the money, including whether the borrowed funds will be used to fund distributions or withdrawal requests;
- any material loan covenant breaches;
- the fact that the amounts owing to lenders and other creditors rank before an investor's interests in the Fund; and
- the risks associated with the Fund's borrowings and credit maturity profile.

Schroders RF confirms that the Fund does not have current borrowings and does not intend to borrow on behalf of the Fund.

### Disclosure Principle 3: Loan portfolio and diversification *(applicable to pooled mortgage schemes only)*

This disclosure principle does not apply to the Fund.

While disclosure as to the various Mortgage Investments made by the Fund is not required by this principle, Schroders RF has provided the following information.

### Portfolio Summary

	Totals (\$)	Construction (\$)	Development (\$)	Investment (\$)	Residual Stock (\$)	Residential Secured (\$)
Maximum loan size (approved limit)	14,700,000	8,694,000	8,000,000	14,700,000	3,331,000	3,558,000
Minimum loan size (approved amount)	237,000	4,025,000	237,000	260,000	3,331,000	350,000
Average loan size (drawn amount)	2,880,592	6,323,000	3,053,390	2,435,435	3,331,000	2,081,600
Number of loans	52	3	20	23	1	5
Weighted average LVR1	52.7%	53.2%	49.0%	57.6%	32.5%	53.3%
Weighted average return to investors <sup>2</sup>	6.9%	8.7%	6.6%	6.8%	5.4%	6.9%
Investor funds invested (a)	149,790,800	18,969,000	61,067,800	56,015,000	3,331,000	10,408,000
Funds in trust (b)	21,042,603					
<b>Assets under management (a+b)</b>	<b>170,833,403</b>					

## Investment by sector

	Facility Limit <sup>1</sup>	% of Total Facility Limit <sup>1</sup>	Number of Loans	% of Total Loans	Weighted Average LVR <sup>2</sup>
Residential - Medium Density	12,795,000	8.5%	6	11.5%	50.6%
Residential - Single Residence	30,938,000	20.7%	16	30.8%	57.9%
Land - Residential	79,469,800	53.1%	18	34.6%	50.3%
Industrial	2,172,000	1.5%	2	3.8%	56.8%
Commercial	773,000	0.5%	1	1.9%	65.0%
Land - Commercial	1,050,000	0.7%	1	1.9%	58.3%
Land - Industrial	2,264,000	1.5%	3	5.8%	57.6%
Retail	260,000	0.2%	1	1.9%	37.7%
Rural	1,775,000	1.2%	1	1.9%	45.5%
Residential - Subdivision	18,294,000	12.2%	3	5.8%	54.5%
<b>Total</b>	<b>149,790,800</b>	<b>100%</b>	<b>59</b>	<b>100%</b>	<b>52.7%</b>

1. The total balance of the Facility Limit comprises loan funds advanced to borrowers
2. Based on approved limit and "on completion" valuation

## Investment by region

	Facility Limit <sup>1</sup> (\$)	% of Total Facility Limit <sup>1</sup> (\$)	Number of Loans	% of Total Loans	Weighted Average LVR <sup>2</sup>
NSW - Greater Sydney	71,226,800	47.6%	20	38.5%	48.7%
VIC - Other	1,500,000	1.0%	1	1.9%	60.0%
NSW - Regional	17,221,000	11.5%	6	11.5%	52.1%
QLD - Greater Brisbane	15,998,000	10.7%	8	15.4%	56.4%
QLD - Other	6,000,000	4.0%	2	3.8%	40.1%
VIC - Greater Melbourne	33,467,000	22.3%	11	21.2%	61.1%
NSW - Rural	1,775,000	1.2%	1	1.9%	45.5%
ACT	1,553,000	1.0%	2	3.8%	65.0%
TAS	1,050,000	0.7%	1	1.9%	58.3%
<b>Total</b>	<b>149,790,800</b>	<b>100.0%</b>	<b>52</b>	<b>100.0%</b>	<b>52.7%</b>

1. The total balance of the Facility Limit comprises loan funds advanced to borrowers
2. Based on approved limit and "on completion" valuation

## Loans in default

The Schroders RF Credit Committee continually monitors the level of Mortgage Investments that are in default and reviews the defaults on a weekly basis. A summary of defaults is disclosed in quarterly reports circulated to the Board of Directors and the Compliance Committee.

Default may be interest arrears for non-payment of monthly interest for a period of more than 30 days or principal default due to non-payment of principal on the maturity date. Where a loan is in interest arrears or principal

default, Schroders RF has a range of options including the enforcement of the security and sale of the security property.

Principal default can be for a range of reasons including, but not limited to, non-payment of principal on the maturity date despite the borrower continuing to meet monthly interest payments.

As at 24 February 2023, the Fund had:

- 55 Mortgage Investments;
- no loans in interest arrears for more than 30 days; and
- 2 loans that were in principal default for more than 30 days. These loans represented 2.44% of the value of investor funds invested and 2.43% of the total number of Mortgage Investments in the Fund.

### **Fund Assets other than mortgage loans**

At 31 December 2022, the total assets of the Fund were as follows:

Nature of Asset	Value (\$)	Proportion of Total
Cash & cash equivalents	28,668,724	16.1
Trade & other receivables	120,978	0.1
Investor funds invested	149,790,800	83.8
<b>Total</b>	<b>178,580,502</b>	<b>100%</b>

### **Ranking of securities**

All loans were secured by first registered mortgages to at least the minimum loan to valuation ratio for that loan.

### **Borrowers and lending**

There has been no change in the general profile of borrowers from that described in the PDS, nor of the loan approval procedures adopted by the Schroders RF Credit Committee.

### **Credit worthiness of borrowers**

There has been no change in the procedures adopted by the Schroders RF Credit Committee as to the manner or extent to which it assess the credit worthiness of a borrower from that described in the PDS.

### **Types of securities**

There is no change in the types of securities on which Schroders RF will lend. There is no requirement that the security be income producing.

### **Loan documentation**

There has been no change in the type of loan documentation from that described in the PDS.

### **Investment in other unlisted mortgage funds**

Schroders RF does not invest in other mortgage funds. Accordingly, it has no policy as to whether such a scheme must itself meet the benchmarks or apply the disclosure principles.

## Disclosure Principle 4: Related party transaction

If the responsible entity enters into related party transactions, Schrodgers RF should disclose details of those transactions including:

- the value of the financial benefit;
- the nature of the relationship (i.e. the identity of the related party and the nature of the arrangements between the parties, in addition to how the parties are related for the purposes of the Corporations Act 2001 or ASX Listing Rules – for group structures, the nature of these relationships should be disclosed for all group entities);
- whether the arrangement is on 'arm's length' terms, is reasonable remuneration, some other exception applies, or ASIC has granted relief;
- whether scheme member approval for the transaction has been sought and, if so, when (e.g. if member approval was obtained before the issue of interests in the scheme);
- the risks associated with the related party arrangement; and
- the policies and procedures that Schrodgers RF has in place for entering into related party transactions, including how compliance with these policies and procedures is monitored.

With the exception of the single loan disclosed in relation to Benchmark 4: *Related party transactions* the Fund will not make any loan to any related party of the Fund. This includes the Directors and shareholders of Schrodgers RF, Schrodgers, RF Group or any entity associated with any of them, together with their respective spouses or employees. As part of its Management of Conflicts of Interest Policy, no borrowing is permitted by a related party of the Fund. From time to time Schrodgers RF, Schrodgers, RF Group or their associates (including associated staff and other individuals) may (in various capacities) deal in transactions or interests identical to those described in the PDS and may invest in the Fund or any Syndicate, and as such will derive interest income in the same way as any other member of the Syndicate or the Fund.

The policy of Schrodgers RF as to how it manages any potential conflict of interest that may arise in relation to any related party investment in a Mortgage Investment or any other related party transaction is described in Section 10.7 of the PDS.

## Disclosure Principle 5: Valuation policy

The responsible entity must disclose:

- where investors may access the Fund's valuation policy;
- the processes that the directors employ to form a view on the value of the security property;
- the frequency of valuations; and
- any material inconsistencies between any current valuations over security property and the Fund's valuation policy.

### Valuation Policy

The Valuation Policy adopted by Schrodgers RF is available by request or can be downloaded from Schrodgers RF's website at [www.schrodgersrf.com](http://www.schrodgersrf.com).

### Valuation Processes

The processes that the Board of Directors employs to form a view on the value of the security property are described in the PDS. A formal valuation is obtained from an independent valuer who meets the criteria set out in the Valuation Policy. In accordance with the Valuation Policy, the Credit Committee may adopt an alternative method of estimating the value of a security property and will disclose that alternative method in the relevant Syndicate PDS. Upon signing the Syndicate Application Form, each Syndicate Member agrees to adopt that value.

### **Diversity and rotation of valuers**

Under its Valuation Policy, Schroders RF maintains a panel of valuers who are independent, experienced and qualified to perform valuations on Security Property. No valuer may provide more than three consecutive valuations of any single Security Property, other than for a Construction Loan. No valuer may conduct more than one-third of the total valuation work for the Fund based on either the total number of loans or by value of funds under management at the time of the valuation.

This policy as to rotation and diversity of valuers recognises that it may not be possible at any particular time to achieve the preferred one-third position and the overriding requirement that the valuation meets the competency, independence, experience, specialisation and professional indemnity insurance criteria adopted by Schroders RF together with the ability of the Fund to rely on the valuation as having been provided for the purpose of the loan.

### **Frequency of valuations**

The valuation of the Security Property must not be more than six months old when the particular Mortgage Investment is made or a Member is placed in a Syndicate unless an alternative method of estimating the value of the property has been disclosed in the Syndicate PDS.

When a Mortgage Investment is renewed, Schroders RF assesses on a case by case basis whether an updated valuation is required. For further information on the Valuation Policy adopted by Schroders RF, refer to Section 4.8 in the PDS and to Benchmark 5: *Valuation policy* above.

### **Material inconsistencies**

As at 31 December 2022 there were no material inconsistencies between any current valuation and Schroders RF's Valuation Policy.

## **Disclosure Principle 6: Lending principles – loan to valuation ratios**

As the Fund will directly hold mortgage assets the responsible entity must disclose:

- (a) the maximum and weighted average loan to valuation ratios for the Fund as at the date of reporting; and
- (b) where funds are lent for property development:
  - the criteria against which the funds are drawn down;
  - the percentage (by value) of the completion of any property that is under development as at the date of reporting;
  - the loan to valuation ratio of each property development loan as at the date of reporting.

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Mortgage Investments are held by Syndicate Members in each Syndicate, rather than by the Fund itself. The LVR for a Mortgage Investment is provided in the Syndicate PDS. Please also refer to the information provided in the Portfolio summary in Disclosure principle 3 : *Loan portfolio and diversification* above.

## Disclosure Principle 7: Distribution practices

The responsible entity makes distributions to investors from the Fund. The responsible entity should therefore disclose:

- the source of the current and forecast distributions (e.g. from income earned in the relevant distribution period, operating cash flow, financing facility, capital, application money);
- if the distribution is not solely sourced from income received in the relevant distribution period, the reasons for making those distributions and the risks associated with such distributions;
- if the distribution is sourced other than from income, whether this is sustainable over the next 12 months;
- when the responsible entity will pay distributions and the frequency of payment of distributions.

Monthly interest paid by the borrower in respect of the particular Mortgage Investment is distributed to the Syndicate Members in their respective proportions. If the income received from the borrower is insufficient in any monthly period to enable a distribution of interest to be made in full or in part, interest is distributed to Syndicate Members only to the extent that the income has actually been received from the borrower.

## Disclosure Principle 8: Withdrawal arrangements

The responsible entity should disclose:

- the Fund's withdrawal policy and any rights that Schroders RF has to change the policy;
- the ability of investors to withdraw from the Fund when it is liquid;
- the ability of investors to withdraw from the Fund when it is non-liquid;
- any significant risk factors or limitations that may affect the ability of investors to withdraw from the Fund;
- how investors can exercise their withdrawal rights, including any conditions on exercising these rights;
- the approach to rollovers and renewals, including whether the 'default' is that investments in the Fund are automatically rolled over or renewed;
- if the withdrawals from the Fund are to be funded from an external liquidity facility, the material terms of this facility, including any rights the provider has to suspend or cancel the facility;
- the maximum withdrawal period that applies to the payment of withdrawal requests when the Fund is liquid;
- any rights Schroders RF has to refuse or suspend withdrawal requests; and
- the policy of the Fund on balancing the maturity of its assets with the maturity of its liabilities and the ability of its members to withdraw (e.g. if the Fund has a policy of ensuring that sufficient assets are held in readily realisable investments to meet future withdrawal requests, Schroders RF should state this in its PDS, provide details of the source of the realisable investment and report against this in its ongoing disclosure).

If the Fund promotes a fixed redemption unit price for investments (e.g. \$1 per unit), Schroders RF must clearly disclose details of the circumstances in which a lower amount may be payable, details of how that amount will be determined and the impact of a default under the Fund's mortgage assets on investors (e.g. on investor distributions and the unit price).

Members should note:

- a Member may request to withdraw any Holding Monies that have not been committed to a Syndicate by submitting a withdrawal request in such form required by Schroders RF;

- if a Member has committed to invest in a Mortgage Investment, their Holding Monies will remain committed to that Mortgage Investment for 60 days from the date the monies were committed. If the Mortgage Investment is not settled within 60 days, the Holding Monies may then be allocated to another selected Mortgage Investment or withdrawn;
- Syndicate Members may not withdraw their investment in a Syndicate until the loan has been repaid or the Security Property realised, the proceeds are available for distribution and the Syndicate is terminated; and
- any request by the borrower for an extension or variation to the term of a Mortgage Investment must be agreed to by the Syndicate Members. A Syndicate Member is under no obligation to agree to the extension or variation and may request the withdrawal of their investment from the Syndicate.

Please refer to the PDS for further information.

**Issued:** 10 March 2023