

30 June 2024

Australian Securities & Investment Commission Regulatory Guide RG 45 Benchmark & Disclosure 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 10 May 2024 for the Fund should be read in full prior to making any decision to invest. Schroders RF has also prepared a Target Market Determination (TMD) for the Fund and for each Syndicate Loan Type.

When accessing this information online, 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 provides more detailed information.

Schroders RF may be contacted as follows:

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This information is current as of 30 June 2024 (or as specified in the particular item). It will be updated as soon as practicable after any material adverse change and, in any event, bi-annually. Updated information will be published on 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

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

Meeting the Benchmark

Schroders RF meets this benchmark.

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

Schroders RF does not lend to related parties of Schroders RF or to the Fund's investment manager.

Meeting the Benchmark

Schroders RF meets this benchmark.

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

Benchmark 5: Valuation Policy

Details of the Benchmark

In relation to valuations for the Fund's Mortgage Investments and their Security Property, the board of Schroders RF requires:

- (a) a valuer to be a member of an appropriate professional body in the jurisdiction in which the relevant property is located;
- (b) a valuer to be independent;
- (c) procedures to be followed for dealing with any conflict of interest;
- (d) valuer rotation and diversity;
- (e) in relation to the Security Property for a loan, an independent valuation to be obtained:
 - i. before the issue of a loan and on renewal:
 - for development property, both on an 'as is' and 'as if complete' basis; and
 - for all other property, on an 'as is' basis; and
 - 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.

Schroders RF does not meet this Benchmark.

Schroders RF meets those aspects of the benchmark in paragraphs (a), (b), (c), (d) and (e)(ii).

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.

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:	<i>Schroders RF meets this benchmark.</i>
(a) where the loan relates to property development – funds are provided to the borrower in stages based on independent evidence of the development 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 a Construction Loan.

The maximum LVR on any second registered mortgage, including for a Construction Loan 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 a Construction Loan.

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.	<i>Schroders RF meets this benchmark.</i>

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

Benchmark 8: Withdrawal Arrangements – Non-Liquid Schemes

Details of the Benchmark

For non-liquid schemes, the responsible entity intends to make withdrawal offers to investors at least quarterly.

Meeting the Benchmark

Schroders RF does not meet this benchmark.

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.

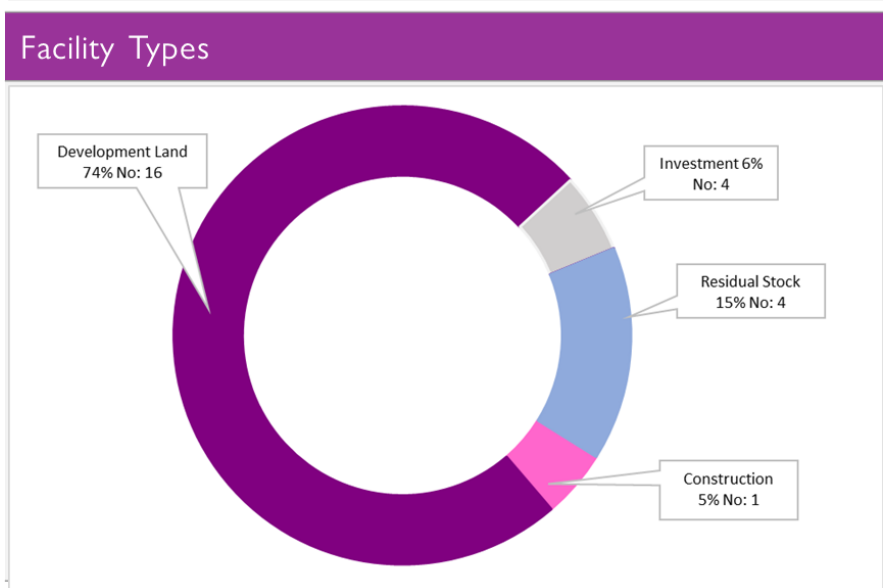
Schroders RF confirms that the Fund does not have current borrowings and does not intend to borrow on behalf of the Fund.

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

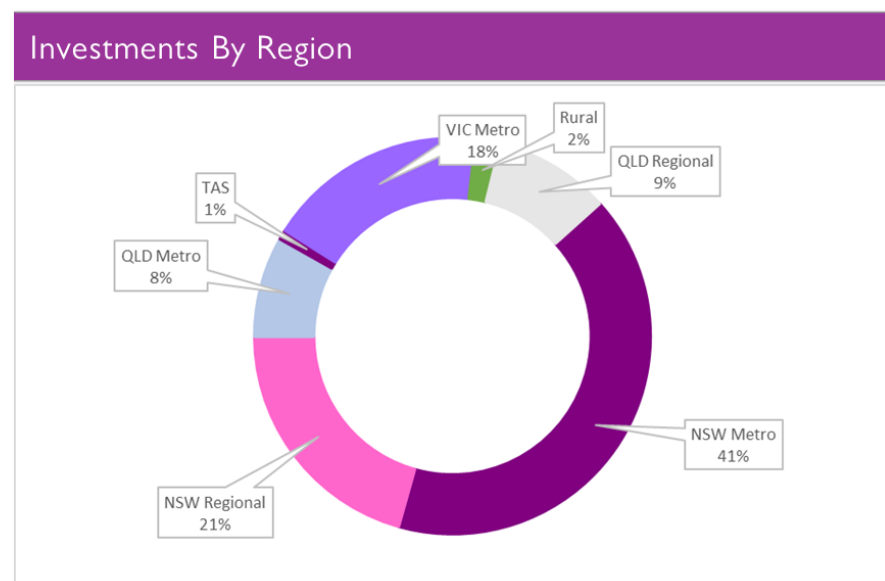
This disclosure principle does not apply to the Fund.

While disclosure regarding the various Mortgage Investments made by the Fund is not required, Schroders RF has provided the following portfolio information, current as at 31 July 2024. In this information, the total balance of the Facility Limit comprises loan funds advanced to borrowers. The LVR is determined on an 'as is' basis and an 'as if complete' basis for a Construction Loan.

Portfolio Summary		
Maximum Loan Size	\$	16,875,000
Minimum Loan Size	\$	503,000
Average Loan Size	\$	5,160,706
Number of Loans		25
Total Loan Portfolio (a)	\$	129,017,652
Funds in Trust (b)	\$	32,183,695
Assets under management (a+b)	\$	161,201,347



LVR & Borrower Interest Rate Range					
LVR			Interest Rates		
	% Loans	No. Loans		% Loans	No. Loans
0% - 35%	3%	2	5.0% - 8.0%	3%	1
35% - 45%	2%	2	8.0% - 9.0%	0%	-
45% - 55%	13%	4	9.0% - 10.0%	27%	12
55% - 65%	82%	17	10.0% - 11.0%	35%	9
>65%	0%	-	>11.0%	35%	3



Loans in Default

The Schroders RF Credit Committee continually monitors the level of Mortgage Investments that are in default and reviews them 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, various options are available to recover moneys owed 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 31 July 2024, the Fund had :

- 25 Mortgage Investments ;
- 0 loans in interest arrears for more than 30 days ; and
- 1 loan in principal default for more than 30 days. This loan represented 10% of the value of investor funds invested and 4% of the total number of Mortgage Investments in the Fund.

Fund Assets other than Mortgage Loans

On 30 June 2024, the total assets of the Fund were as follows:

- Trade and other receivables: \$121,063
- Cash and cash equivalents: \$48,256,019.

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 material 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.

Creditworthiness of Borrowers

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

Types of Securities

There has been no material change in the types of securities on which Schroders RF will lend 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 Transactions

If the responsible entity enters into related party transactions, Schroders 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 agreement; and
- the policies and procedures that Schroders RF has in place for entering into related party transactions, including how compliance with these policies and procedures is monitored.

The Fund has no loans with any related party. This includes the Directors and shareholders of Schroders RF, Schroders, RF Group or any entity associated with any of them, together with their respective spouses or employees.

From time-to-time Schroders RF, Schroders, 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 Fund.

Schroders RF has entered into the following related party transactions:

- A company within Schroders, Schroder Investment Management Australia Limited ACN 000 443 274 (**SIMAL**) has entered into an investment management agreement appointing Schroders RF the investment manager of the Schroder Real Estate Debt Fund (SRED Fund). There is a risk that the SRED Fund will be treated preferentially to the potential detriment of the Fund. To manage this risk, Schroders RF has adopted a number of policies and procedures that are designed to ensure fair and equitable treatment of all funds managed by Schroders RF.
- SIMAL has entered into a Licence Agreement with Schroders RF granting a licence to occupy the premises shown in the Corporate Directory.
- SIMAL has agreed to provide certain services to Schroders RF relating to the administration, management and operation of the Fund. Schroders RF has agreed to pay SIMAL a service fee for the provision of these services which includes, but is not limited to, provision of staff and equipment.
- A company which is associated with a Director of Schroders RF, Farrer Corporation Pty Limited ACN 658 441 680 (**Farrer**), has agreed to provide consultancy services to Schroders RF relating to loan origination. Schroders RF has agreed to pay Farrer a service fee for the provision of these services.

SIMAL and Farrer are associated with the owners of Schroders RF, and the arrangements described above are related party transactions. Schroders RF will pay all fees associated with the related party transactions and no fees are payable by the Fund or by any investor.

The agreements were entered into on arm's length terms and otherwise in accordance with the provisions of the Corporations Act 2001 and Schroders RF's Related Party Transactions Policy. The procedure for managing any potential conflicts of interest arising from a related party investment or transaction is described in 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

Schroders RF's Valuation Policy is available upon request or on www.schrodersrf.com

Valuation Processes

The valuation process that the Board of Directors employs to form a view on the value of the security property is detailed 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. 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 valuation.

Regarding valuer rotation and diversity, the Valuation Policy recognises that it may not be possible from time-to-time to adhere to the one-third position. There may be an overriding requirement to obtain a valuation by a valuer that is competent, independent, experienced, insured, and possess the relevant specialisation. For example, where there is a limited number of qualified valuers who specialise in a particular property type or geographical region, Schroders RF may employ the same valuer to conduct more than one-third of the Fund's total valuation work.

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 whether an updated valuation is required on a case-by-case basis. For further information on the Schroders RF Valuation Policy, refer to the PDS and to Benchmark 5: *Valuation Policy* above.

Material Inconsistencies

As at 30 June 2024 there were no material inconsistencies between Schroders RF's Valuation Policy and any current valuations.

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.

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 relevant Syndicate PDS. Please also refer to the Portfolio Summary provided under Disclosure principle 3: *Loan Portfolio and Diversification*.

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 to enable a full or part interest distribution, 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 the following:

- Members 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 Syndicate Members. A Syndicate Member is under no obligation to agree to any extension or variation and may request the withdrawal of their investment from the Syndicate.

Please refer to the PDS for further information.

Issued 22 August 2024