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Statement of Investment Policy and Objectives (SIPO)

FINBASE PIE FUND

Finbase



Introduction

This is the Statement of Investment Policy and Objectives **(SIPO)** for the Finbase PIE Fund (Fund).

The purpose of this SIPO is to provide details of:

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

This SIPO is subject to change from time to time. The current version is available from Finbase Funds Management Limited **(Manager)**.

Overview of The Fund and those involved

The Fund is governed by a master trust deed and an establishment deed each dated 22 May 2024 (together the **Trust Deed**) between the Manager and Public Trust (**Trustee**). The Manager is a wholly-owned subsidiary of HP Capital Limited, trading as Finbase (**Finbase**).

The Fund is a wholesale managed investment scheme. Investors invest in units in the Fund. Investors' investments are pooled and lent by the Fund, as explained below. Investments in the Fund are limited to wholesale investors in terms of clause 3(2) or 3(3)(b) of Schedule 1 of the Financial Markets Conduct Act 2013.

The Manager is responsible for (among other things) managing the Fund's investments in line with the Trust Deed and relevant laws. Under the Trust Deed, the Manager is required to ensure that the Fund has investment guidelines. These are set out in this SIPO. The Manager has appointed Finbase to carry out management and investment functions for the Fund on its behalf.

The Trustee is responsible for (among other things) holding the Fund's assets and for acting on behalf of unitholders in relation to the Trust Deed.

More information about the Fund is set out in the Fund's information memorandum, which is available from the Manager.

Investment strategy

Investment objective

The Fund's current investment objective aims to provide investors with an annualised, after fees but before tax, return per quarter of at least 5% higher than the 90-day bank bill rate as published by The Reserve Bank of New Zealand (RBNZ).[1]

From 01 January 2027 the Fund's investment objective will aim to provide investors with an annualised, after fees but before tax, return per quarter of at least 400 basis points higher than the Official Cash Rate (OCR) as published by the Reserve Bank of New Zealand (RBNZ).[2]

The Fund aims to achieve this investment objective by investing in a range of loans secured by first ranking mortgage, as well as a limited amount of cash for liquidity and transactional purposes (including the payment of quarterly distributions and tax), in accordance with the Trust Deed and this SIPO.

Returns are not guaranteed - actual returns could differ.

[1]RBNZ Wholesale Interest rates daily close as at 31 March, 30 June, 30 September and 31 December each year.
[2]RBNZ OCR as at 31 March, 30 June, 30 September and 31 December each year.

Authorised investments

Under the Trust Deed, the Fund is permitted to invest in a defined list of "authorised investments". These are investments which are broadly consistent with the Fund's focus on first-mortgage lending (with a limited amount of cash held for liquidity and transactional purposes, including the payment of quarterly distributions and tax). However, there is also a discretion for the Fund to make other investments where agreed between the Manager and the Trustee.

Despite the permitted range of authorised investments described in the Trust Deed, the Manager will only invest the Fund in accordance with the detailed investment strategy and policies described below. In addition, while the Fund is a PIE, the assets of the Fund will be invested as far as practically possible so the Fund continues to be eligible as a PIE.

Typical asset allocation ranges

The Fund will be invested in loans secured by first mortgages against residential, commercial and rural properties, and cash and cash equivalents, typically within the following proportions (as to value) of the Fund:

	LOANS SECURED BY FIRST MORTGAGE OVER:			
	Residential	Commercial	Rural	Cash & equivalents
Typical range:	30 - 70%	15 - 30%	0 - 50%	0% - 10%

Because these are typical ranges only, there may be times when the Fund's exposure to particular sectors is more or less than the percentages set out above. That is not a breach of this SIPO.

Loans secured by first mortgage

The Manager's policy relating to loans secured by first mortgage is to establish and maintain a broad range of loans with a mix of interest rates, maturity dates, and a spread of location and type of mortgaged properties.

However, it should be noted that some concentration of loans can be expected as the Fund grows in size.

Cash and cash equivalents

The Manager's policy is to hold a limited amount of cash for liquidity and transactional purposes, including the payment of quarterly distributions and tax, and pending loans being made. The Manager's policy is to hold bank deposits at call or terms up to 90 days to provide a balance between greater liquidity and higher investment returns.

Cash and cash equivalents (as determined in accordance with GAAP) will be held with registered banks (as defined under the Banking (Prudential Supervision) Act 1989).

However, greater amounts of cash (including in excess of the typical 10% maximum) may be held at times, including during the Fund's initial establishment period as the Fund grows in size.

Lending policy

Lending from the Fund will be made in accordance with the following policies:

- **Loan to valuation ratios:** The Fund has Loan to Value (LVR) lending limits, based on the amount of the loan when compared with the value of the security property at the time of loan approval, as follows:
    - The Fund's weighted aggregate LVR and the Fund's portfolio LVR will not exceed 60%.
    - The Fund will not lend more than 70% of the value of any single security property (at the time the loan is taken out), where the security property has a building on it and is a fee simple or cross lease interest in land.
    - The Fund will not lend more than 60% of the value of any single security property (at the time the loan is taken out), where the security property has a building on it and is a unit title (stratum in freehold).
    - The Fund will not lend more than 55% of the value of the security property (at the time the loan is taken out), where the security property is bare land.
    - The Fund will not lend against the security of leasehold land.

  The security property value can be determined at the Manager's discretion, but will typically be determined by a registered valuation, real estate agent appraisal, or e-valuation report. In respect to development lending the Manager may rely on 'as-is' or 'on-completion' valuations.

- **No consumer lending:** The Fund will not undertake consumer lending regulated by the Credit Contracts and Consumer Finance Act 2003.
- **No related party lending:** The Fund will not lend to any entities controlled or owned by the Manager's or Finbase's directors. However, the Fund may invest alongside third parties and, potentially, the Manager and its associated persons (refer to "participating loans" below).



- **Maximum loan term:** The maximum loan term will typically be 24 months. However, the Manager may agree to renew a loan for a further period (in which case, the loan will be re-assessed against these lending policies at the time of renewal).
- **Interest rates:** The Manager will typically lend out of the Fund on a fixed-rate basis but may also lend on a floating rate basis, or a combination of both. Interest will normally be payable by borrowers during the term of the loan, but on some occasions the Manager may agree that interest can be capitalised.
- **Participating loans:** The Fund may invest in a loan as the sole lender, or may invest in a loan alongside other lenders. Other lenders could include third parties identified through Finbase's deal-matching service, other third parties, or the Manager or its associated persons participating in loans in their personal capacity, subject to compliance with the Trust Deed and any other relevant requirements. All such loans must fall within the parameters set out above, except that the maximum exposure limits will be assessed by reference to the Fund's portion of the loan, not the full loan value.

In addition, all loans will be considered in line with the Manager's credit policies. Loans will only be made where the Manager is satisfied that its lending and credit criteria are met.

All lending limits are assessed as at the initial loan approval date (and, if applicable, at the date of any renewal of a loan). Because the value of an individual loan or the proportionate value of that loan relative to the overall Fund may change, the above limits may sometimes be exceeded after those dates. This will not constitute a breach of this SIPO.



Other investment policies

Borrowing

Borrowing is not permitted by the Trust Deed. As a result, the Manager does not intend for the Fund to borrow.

Rebalancing policy

The Manager intends to manage the Fund so that investments are held within the typical ranges set out above under "typical asset allocation ranges". However, it can be expected that, from time to time, the Fund's investment composition will fall outside of these ranges. This could occur for a variety of reasons, such as borrowers repaying loans earlier than expected, greater investments into the Fund than forecast (meaning more cash is held pending investment in loans), lower than expected demand for loans, or the Manager forming the view that investing outside of the typical ranges is desirable given market conditions.

Most of the Fund's lending is expected to be of a short-term duration. As a result, the Manager's policy is to rebalance the Fund through cash flows (either to or from the Fund) and by focussing on new lending in "underweight" categories (where appropriate). This means any rebalancing of the Fund's investment composition can be expected to occur over time. Loan assets will not be sold for the purpose of rebalancing the Fund.

Hedging policy

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

Conflict of interest policy

The Fund will not lend to any entities controlled or owned by the Manager's or Finbase's directors. However, the Fund may invest alongside third parties and, potentially, the Manager or Finbase and their associated persons (refer to "participating loans" in the "lending policy" section above).

The Manager will not enter into any transaction that may provide a related party benefit (as defined in the Trust Deed) without complying with the requirements of the Trust Deed.

The Manager and its associated persons may invest in the Fund, subject to complying with the requirements of the Trust Deed.

Liquidity and cash flow management policy

The Manager will carefully monitor the Fund's liquidity and cash flow needs.

A limited amount of cash will be held primarily for liquidity and transactional purposes, including the payment of quarterly distributions and tax. Liquidity requirements will be managed primarily by the Manager carefully matching loan maturity dates to expected Fund redemptions and cash flows, noting that withdrawals from the Fund are only available at the end of each calendar quarter.

Provisioning policy

The Manager may, in its discretion, make provision for potential loan losses. The Manager intends to maintain a provision of approximately 0% to 1% of Fund value, depending on its view of market conditions, by transferring up to 0.25% per quarter out of the Fund's income to the Fund's provisioning account. The Manager will calculate the provision amount based on various factors, including market conditions, credit quality across the Fund's portfolio, the Fund's performance and the Fund's Expected Credit Loss (ECL) methodology. The amount Finbase provides may change from time to time without notice.

Amounts will be released from the Fund's provisioning account at the Manager's discretion to offset any loan losses that occur within the Fund or other events impacting on investment returns. Amounts in the Fund's provisioning account are an asset of the Fund, but are not taken into account in determining the Fund's unit price or distributions to investors.

Transfers to the Fund's provisioning account will have the effect of reducing distributions to investors. Transfers out of the Fund's provisioning account will have the effect of maintaining or enhancing distributions. However, the Fund's provisioning account may not be sufficient or available to offset losses in all situations and, therefore, is not a guarantee against falls in distributions or unit value.

Measuring and monitoring fund performance

Monitoring loans

The Manager carefully monitors all loans to ensure that interest and principal payments are received on time. The Manager will also work with borrowers in advance of the loan repayment date to secure the repayment of loans as scheduled. In some instances, the Manager may agree to renew the loan for a further term. Any renewal will be assessed against the Manager's lending and credit policies as if it was a new loan.

Where loan payments are missed, the Manager will work proactively with the borrower to secure the payment of any arrears. If necessary, recovery action will be taken in line with the Manager's arrears policies. Ultimately this could involve issuing a Property Law Act notice, and enforcement proceedings on the expiry of that notice.

The Manager makes provisions for potential loan losses (refer to "provisioning policy" in the "other investment policies" section above).

Monitoring overall performance

The Manager carefully monitors the Fund's overall investment performance on an ongoing basis. This involves an assessment of the Fund's absolute performance, as well as its quarterly performance against the Fund's investment objective (as described earlier in this SIPO).

In the event of relative underperformance, the Manager will consider the reasons for underperformance and any steps that can be taken to improve the Fund's performance (for example, concentrating on areas of lending activity that the Manager believes offer the potential for improved returns).

Trustee oversight

The Manager provides quarterly reports to the Trustee. These reports cover various matters, including performance of the Fund and adherence with this SIPO together with confirmation that investments have been properly made in line with this SIPO, and in respect of investor entitlements and unit pricing matters. In addition, these reports provide factual information about the operation of the Fund to assist the Trustee in its oversight role.

The Trustee has various powers under the Trust Deed if it has concerns about the Manager's performance of its role. However, as this is a wholesale scheme these powers are not as extensive as they are for a retail managed investment scheme.

Reviewing and amending this SIPO

This SIPO, including the investment strategy, is subject to an annual review by the Manager, and may be reviewed more often if the Manager considers that a review is warranted. A review may also be carried out at the Trustee's request.

A review of this SIPO will consider whether:

- the Fund's investment objective and strategy remain appropriate;
- the Fund's investment policies as summarised in this SIPO remain appropriate; and
- any other changes to this SIPO are necessary or desirable.

The Manager may amend or replace this SIPO only with the consent of the Trustee. Investors will be notified of any material changes to this SIPO before they take effect.



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