

INFORMATION MEMORANDUM

Australian Secure Capital Fund Ltd (Trustee)

ACN 613 497 635

AFSL and ACL No. 491201

ASCF Private Fund

Important Information

Issuer

The issuer of this Information Memorandum (**IM**) and of the Units in the ASCF Private Fund (**Fund**) is Australian Secure Capital Fund Ltd ACN 613 497 635 (**Trustee, we, us, our**). The Trustee holds an AFS licence (AFSL no. 491201) and an Australian Credit Licence (ACL no. 491201).

This document

This IM is dated 05 October 2021 and relates to an invitation to subscribe for Units in the Fund. This IM is intended to provide potential investors with information only and does not constitute a product disclosure statement or other disclosure document required by the Corporations Act. This IM has not been lodged with the ASIC or any other government body. ASIC takes no responsibility for the contents of this IM.

No performance guarantee

Neither the Trustee nor any of its directors, related parties or associates, guarantee the performance or success of the Fund, the repayment of capital or any particular rate of capital or income return. Past performance is not indicative of future performance.

No investment advice or recommendation

The Trustee is not authorised to give any personal financial product advice and nothing in this IM constitutes financial product advice by the Trustee or a recommendation to subscribe for Units or invest in the Fund. This IM contains important information, however, it does not take into account your investment objectives, financial situation or particular needs. Accordingly, before you invest, you should read this IM carefully and in its entirety, conduct an independent investigation and analysis as to the merits and risks of investing in the Fund, and if you consider it necessary or appropriate, obtain independent professional advice (including financial and taxation) about whether an investment in the Fund is suitable for you.

Not regulated by APRA

The Trustee is not authorised under the Banking Act 1959 (Cth) and is not supervised by APRA, and investments in the Fund are not covered by the deposit or protection provisions available to depositors that make a deposit with an Australian authorised deposit-taking institution.

Forward looking statements

This IM includes forward looking statements that may contain the words “believe”, “intend”, “estimate”, “expect”, “anticipate” and words of similar meaning. All statements other than statements of historical facts included in this IM, including, without limitation, those regarding investment strategy, plans and objectives are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Fund to be materially different from future results, performance or achievements expressed or implied by such forward looking statements.

Any forward-looking statements are based on numerous assumptions regarding the Fund’s operations and present and future business and investment strategies. These forward-looking statements are current only as at the date of this IM. Accordingly, there can be no assurance that such statements, estimates or projections will be realised.

Information

This IM supersedes all preliminary information and other previous communications in connection with the Fund. All such preliminary information and previous communications should be disregarded.

No one is authorised to provide any information or to make any representation in connection with the Fund, which is not contained in this IM. No such information or representation may be relied on as having been authorised by us.

To the maximum extent permitted by law, neither the Trustee nor any of its associates, related parties, directors, officers, employees, advisers or representatives make any representation or warranty, express or implied, as to the accuracy, reliability or completeness of the information contained in this IM.

Certain information in this IM is subject to change from time to time. Any updated information will be placed on the Trustee’s website at ascfprivate.com.au. This information may include details about investment performance. The

Trustee strongly recommends that the investors review this material before making a decision to acquire Units in the Fund.

Availability of invitation

The invitation to subscribe under this IM is available to persons receiving the IM within Australia. This IM does not constitute and should not be construed as an offer, invitation or recommendation by the Trustee to apply for Units in any state, country, or jurisdiction where such offer, invitation or recommendation may not be lawfully made. If you come into possession of this IM in another jurisdiction, you should seek your own advice, and observe any such restrictions of the laws of that jurisdiction. We will take your return of a duly completed Application Form to constitute a representation and warranty by you that there has been no breach.

This investment opportunity is only available to investors who meet the definition of a Wholesale Client or Sophisticated Investor set out in the Corporations Act. Investors who do not meet the definition of either a Wholesale Client or Sophisticated Investor may only be accepted by specific approval of the Trustee. The Trustee reserves the right to accept or reject any application for investment in the Fund at its discretion.

Risks

There are risks associated with investing in the Fund. These risks may be exacerbated by social and health issues, such as the COVID-19 pandemic happening at the date of this IM, and any number of unknown risks may also arise as a result of COVID-19, which may adversely impact the Fund and distributions to Investors. See Section 5 of this IM for more information. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek professional advice before deciding whether to invest in the Fund.

Glossary and photographs

Throughout this IM, certain defined terms are used. Terms are defined in the Glossary in Section 9 of this IM (if necessary).

Photographs in this IM are not assets of the Fund, unless otherwise indicated.

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Section 1 Overview of the Fund

This Section provides an overview of the main features of an investment in the Fund. It is not intended to be exhaustive. For more detailed information, please refer to the relevant Section of the IM noted in the column on the right. You should read this IM in its entirety to make an informed decision about whether to invest in the Fund.

Feature	Overview	Refer to Section
Objective	The objective of the ASCF Private Fund is to provide monthly income through a portfolio of indirect investments in loans and fixed income products.	2.1
Investment strategy	The Fund (via its wholly owned sub trust, the Australian Mortgage Finance Services Fund (Sub Fund)) invests in mortgage secured investments over Australian real property (Loans) to a maximum LVR of 80%. Loans will either be advanced directly by the Sub-Fund or indirectly via other funds, corporate Bonds, special purpose vehicles (SPV) or related entities of the Trustee.	2.2
Investment parameters	<p>The Sub Fund may undertake any of the following:</p> <ol style="list-style-type: none"> Direct Mortgage Secured Investments <ul style="list-style-type: none"> Provide Loans directly to borrowers secured by a Mortgage in accordance with the Lending Guidelines. Loans will be secured by a first or second registered mortgage (but see below for specific information about some second mortgages). Provide Loans jointly with either ASCF Premium Capital Fund, ASCF Select Income Fund, ASCF High Yield Fund, ASCF Managed Investments Pty Ltd and/or any other party provided such loans meet the Lending Guidelines. Accept an assignment of existing loans from ASCF Premium Capital Fund, ASCF Select Income Fund, ASCF High Yield Fund, ASCF Managed Investments Pty Ltd or such other entity (which may or may not be related to the Trustee) and which loans may or may not be in arrears or default at the time of the assignment, provided that such loans meet the Lending Guidelines in all other respects. Provide Loans jointly with a third party or financial institution under a warehouse or joint funding agreement in circumstances where the Sub Fund's contribution to the loan may be subordinated to the other party. Under this joint arrangement, the Sub Fund may provide up to a maximum of 50 percent of a Loan with the balance being provided by the other party. Such loans must meet the Lending 	2.2

Feature	Overview	Refer to Section
	<p>Guidelines, however the repayment of the contribution of the third party to the joint loan may be in priority to repayment of the Sub Fund's contribution to the joint loan.</p> <ul style="list-style-type: none"> • Provide loans for property development or construction purposes to borrowers on a stage-by-stage basis, based on the anticipated end value of any improvements to be constructed on the Secured Property or on an "as if complete" valuation of the Secured Property, provided such Loans meet the Lending Guidelines in all other respects. Funds will be advanced on a cost to complete basis and drawdowns shall only be made via a quantity surveyor report. 	
	<p><i>Second Mortgages</i></p>	
	<ul style="list-style-type: none"> • If there are delays in the Sub Trustee obtaining production of the title documents or consent to registration of a second mortgage from a senior lender, there could be delays which prevent the registration of the Sub Trustee's second mortgage. In these circumstances, the Sub Trustee will register a caveat over the Secured Property immediately after settlement in order to prevent dealings in the Secured Property pending registration of the second Mortgage. • If a Borrower defaults under a Loan secured by an unregistered second Mortgage, the mortgagee's enforcement powers are more limited than it would have if it were enforcing a fully registered second Mortgage. • A proportion of the Loans will be secured by unregistered second Mortgages that are subject to these caveat arrangements until the relevant Loan has been repaid. See section 2.2(a) of this IM for further information. 	
	<p>2. Indirect Mortgage Secured Investments</p>	
	<ul style="list-style-type: none"> • Invest in ASCF Premium Capital Fund, ASCF Select Income Fund or ASCF High Yield Fund and/or unrelated funds, provided that the lending guidelines for these funds are no less favourable than the Lending Guidelines in respect of a direct mortgage secured investment. • Invest in corporate Bonds, including those issued by related parties of the Trustee, which undertakes Loans in accordance with the Lending Guidelines. The repayment of the investment may be subordinated to the other investors or Bond holders in the issuer and repayment of their investment may rank in priority to the Sub Fund's investment. 	

Feature	Overview	Refer to Section
	<ul style="list-style-type: none"> Invest in (through the provision of a loan, acquisition of share capital or joint venture agreement) in an SPV or a related entity of the Trustee which undertakes loans in accordance with the Lending Guidelines. The investment in the SPV may be subordinated to the other investors or shareholders in the SPV and repayment of their investment may rank in priority to the Sub Fund's investment. 	
<p>Loan types</p>	<p>The Sub Fund will invest directly or indirectly in Loans secured by a Mortgage over Australian real property to a maximum LVR of 80%.</p> <p>Loans will not be provided by the Sub Fund where the total LVR of all loans secured by the Secured Property exceeds 80%.</p> <p>Depending on the structure of the Loan, Mortgages may be taken over vacant land, residential, commercial, retail or industrial properties.</p> <p>The Sub Fund may approve Loans for property development or construction purposes based on the anticipated end value of any improvements to be constructed on the proposed Secured Property or on an "as if complete" valuation.</p> <p>The Sub Fund will not make coded loans under the National Credit Code. Any such loans would need to be made by the Fund directly, but it is not the current intention of the Trustee to do so.</p> <p>Funds not immediately invested in loans will be deposited in short-term cash and cash-like investments to earn interest for the Sub Fund.</p>	<p>2.2</p>
<p>Benefits of the Fund</p>	<ol style="list-style-type: none"> Monthly income. Capital stability. Direct and indirect access (via the Sub Fund) to investment in Loans secured by Mortgages on vacant land, residential, commercial, retail and industrial properties in Australia. Spread protection against losses to Investors by providing for a performance fee lock down provision whereby the Trustee will forego any right to performance fees in the event the Sub Fund incurs a loss until such time as the loss has been recouped by the Sub Fund. Timely and informative communication to Investors regarding the Fund's performance. Option to reinvest distributions pursuant to the ASCF Distribution Reinvestment Plan. 	<p>2.1</p>

Feature	Overview	Refer to Section
Minimum and maximum investment amount	<p>\$50,000 and then in multiples of \$1,000, or \$10,000 for any additional investments.</p> <p>Each subsequent investment is a new investment in the Fund and is subject to a new Investment Term. See Section 2.10 below for more information on Investment Terms and withdrawal rights.</p> <p>The Trustee may accept lower minimum investment amounts at its sole and absolute discretion.</p> <p>The maximum investment permitted by any one Investor in the A1 Units (described below) is \$250,000.</p>	2.4
Unit pricing	<p>We intend to issue Units in the Fund at \$1.00. However, the Unit price for the Fund is based on the underlying value of the Fund's assets (which includes the Sub Fund's assets) and may rise or fall.</p> <p>Unit prices will be calculated daily and will be published on ascfprivate.com.au within two Business Days of the relevant pricing date should a change to the pricing occur.</p> <p>Applicants should check the current Unit price before investing in the Fund.</p>	2.6
Issue of Units	<p>Units will be issued daily on the day the Application Monies are received.</p>	2.7
Investment options	<p>Investors may invest in one or more of the following Investment Terms available in the Fund which offer different Distribution Rates depending on the term of the investment:</p> <ol style="list-style-type: none"> 1. 6 months (A1 Units). 2. 12 months (A2 Units). 3. 18 months (A3 Units). 4. 24 months (A4 Units). <p>The current Distribution Rates applicable to each Investment Term in the Fund are available on our website ascfprivate.com.au and should be read in conjunction with this IM.</p> <p>Distribution Payments will be paid monthly within ten days following the end of each month. The Distribution Rates will be fixed for the Investment Term and are net of all management fees and other Fund costs.</p> <p>Alternatively, Investors may wish to reinvest their Distribution Payments pursuant to the ASCF Distribution Reinvestment Plan. Further details are set out below.</p> <p>Investors should be aware that distributions are not guaranteed nor is the repayment of capital.</p>	2.8

Feature	Overview	Refer to Section
ASCF Distribution Reinvestment Plan	<p>The Trustee has established the ASCF Distribution Reinvestment Plan (DRP) which provides Investors with the option to re-invest Distribution Payments.</p> <p>The DRP is a convenient way for Investors to increase their holding of Units in a Fund by automatically reinvesting some or all of the Distribution Payments without having to lodge an Application Form each month.</p> <p>Under the DRP Investors may elect to reinvest some or all of their Distribution Payments by opting to participate in the DRP on the Application Form when investing in a Fund, or for existing Investors, by completing and submitting with the Trustee a DRP Election Form. However, if Investors have multiple accounts within the Fund, then they can elect to reinvest Distribution Payments on some or all of the accounts. In respect of any one of those accounts, all of the Distribution Payments, and not just some, can be reinvested if the Investor makes an election to participate in the DRP.</p> <p>New Units issued pursuant to the DRP will be issued on the day Distribution Payments are paid, which is within ten days of the end of each month.</p>	2.8
Key risks	<p>There are risks associated with investing in the Fund.</p> <p>The Trustee will attempt to manage and mitigate risks, however not all risks can be eliminated, and some risks are outside the control of the Trustee. If risks eventuate, then it can have a negative impact on distributions and the value of your investment. Distributions are not guaranteed nor are any capital returns.</p> <p>Key risks include:</p> <ol style="list-style-type: none"> 1. Loan default. 2. Reduction in values of Secured Property. 3. Breach of borrowing covenants. 4. Counterparty risk. 5. Subordination risk. 6. Social and health risks (e.g. COVID-19). <p>You should read Section 5 in its entirety before making a decision to invest in the Fund.</p>	Section 5
Fees and costs	<p>We will receive a performance fee for managing the Fund. The performance fee (if any) is calculated and payable monthly in arrears. The performance fee is the balance of the Fund's returns after the payment of all Distribution Payments to Investors and other Expenses of the Fund (which include accounting, insurance and legal costs).</p>	Section 6

Feature	Overview	Refer to Section
Tax information	<p>This IM contains general information about tax. Before investing, you should obtain your own independent tax advice, taking into account your own circumstances.</p>	Section 7
Withdrawal rights	<p>Each period of an Investor's investment in the Fund is referred to as an Investment Term.</p> <p>When an Investor invests in the Fund, the first Investment Term begins on the day the investment is accepted and runs for the length of the Investment Term. At the expiration of the Investment Term, the investment will automatically roll over for the same term at the prevailing Distribution Rate offered by the Fund at the time. Each subsequent Investment Term runs for the same period of time, starting from the date the preceding Investment Term expires.</p> <p>If you wish to withdraw from the Fund in whole or in part at the end of the Investment Term, then you must lodge a Withdrawal Request with the Trustee at least 90 days before the end of the Investment Term.</p> <p>On receipt of a Withdrawal Request, the Trustee will use reasonable endeavours to redeem your Units at the end of the Investment Term.</p> <p>You do not have the right to withdraw your investment in the Fund until the Investment Term has expired. However, the Trustee may consider an Early Withdrawal Request. In such cases, the Trustee will charge the Investor an early withdrawal fee of 1 percent of the amount of that Investor's capital being withdrawn.</p> <p>Such early withdrawal will be at the discretion of the Trustee.</p> <p>The Withdrawal Request form and Early Withdrawal Request form can be found on the Trustee's website ascfprivate.com.au.</p> <p>If you do not lodge a Withdrawal Request within the required time frame, then your investment will be automatically rolled over for a further Investment Term of the same length without notice at the then prevailing Distribution Rate applicable for that Investment Term contained on the Trustee's website ascfprivate.com.au. You will not have another opportunity to withdraw your investment until that Investment Term has expired (noting the timeframe in which a Withdrawal Request must be lodged prior to the expiration of the Investment Term, as outlined above).</p> <p>Subject to the above, the Trustee will endeavour to pay Withdrawal Requests on the date the Investor's Investment Term expires if such date is a Business Day, and if such date is not a Business Day, then the payment will be made on the first Business Day following the date of expiry of the Investor's Investment Term.</p>	2.10
Related party loans and loans to Borrowers	<p>The Sub Fund may make Loans to related parties of the Trustee. All such Loans will be on arm's length terms and in compliance with the Lending Guidelines.</p>	3.1

Feature	Overview	Refer to Section
Borrowings	<p>The Fund may borrow, including to fund withdrawals, costs and expenses and to enhance the Fund's liquidity.</p> <p>The Sub Fund may borrow to make Loans where the Sub Fund Trustee reasonably believes this to be in the interests of Investors.</p>	2.12
Co-investment	The Trustee and its associates (including the directors of the Trustee) may co-invest alongside Investors.	
Cooling-off	No cooling-off period applies to an investment in the Fund.	8.8
Complaints	We have a procedure for handling any complaints.	8.9

Section 2 Fund information

2.1 Objective of the Fund

Our aim is to provide you with the following in exchange for your investment in the Fund:

- (a) Monthly income.
- (b) Capital stability.
- (c) Access to investment indirectly in Loans secured by a Mortgage within Australia on vacant land, residential, commercial, retail and industrial sectors.
- (d) Timely and informative communication to you regarding the Fund's performance.

The Distribution Rates for each Investment Term are available on our website ascfprivate.com.au. The monthly return will vary depending on which Investment Term the Investor invests in as each Investment Term delivers a different Distribution Rate. See Section 1 for more information in relation to the Investment Terms.

The Distribution Rates are an investment return objective and not a forecast. It is merely an indication of what the Fund aims to achieve on the assumption that credit markets remain relatively stable throughout the Investment Term. The Fund may not be successful in meeting this objective. Distribution Payments are not guaranteed and no assurance is given that any level of distributions will be achieved.

2.2 Investment strategy

The Fund owns all of the units in a wholly owned unit trust, the Australian Mortgage Finance Services Fund (Sub Fund). The Sub Fund is a unit trust which invests either directly or indirectly in mortgage secured investments. The use of the Sub Fund quarantines the risk and liabilities attached to some loan transactions, protecting the Trustee and the Fund.

A direct investment is where the Sub Fund itself provides a Loan either on its own or jointly with another party to a borrower secured by a Mortgage over the borrower's property. See Section 2.2(a) for further details.

An indirect investment is where the Sub Fund invests in another entity making a Loan secured by a Mortgage. See Section 2.2(b) for further details.

All investments undertaken by the Sub Fund either directly or indirectly must be secured by a registered first or second Mortgage with a maximum LVR no greater than 80%.

Funds received from Investors which have not been invested in Loans will be invested in short-term cash and cash-like investments.

2.2(a) Direct Mortgage Secured Investment

A direct mortgage secured investment undertaken by the Sub Fund is where a Loan is provided by the Sub Fund either on its own or jointly with another party such as ASCF Premium Capital Fund, ASCF Select Income Fund, ASCF High Yield Fund, ASCF Managed Investments Pty Ltd or any other party approved by the Trustee. The Sub Fund's interest in the Loan is recorded on the Mortgage over the Secured Property.

Loans will be secured by a Mortgage. However, if the Sub Fund is a second mortgage lender, then its Mortgage will rank in priority behind a senior lender's mortgage. Therefore, in the event of a default by the Borrower, the ability to recover the amount owing under the Loan agreement will be affected by the actions of the senior lender.

Generally, the senior lender will have the right to take possession of, and deal with, the security property and assets of the Borrower if various covenants of the senior lender's loan facility are not met. Because the Sub Fund's security will rank behind the senior lender, if the Borrower defaults

under any of the loan facilities and the senior lender exercises its security, then the Sub Fund Trustee will not have day-to-day control over the Borrower's assets. This will generally mean that the Sub Fund Trustee cannot exercise the Sub Fund's security until the senior lender has been paid in full. In addition, any monies available to the Sub Fund in these circumstances would be limited to what is recovered after the senior lender has been paid in full.

There may be delays in the Sub Trustee obtaining production of the title documents or consent to registration from the senior lender, which could delay or, in limited cases under which such consent is not forthcoming, prevent the registration of the Sub Trustee's second mortgage. In these circumstances, the Sub Trustee will register a caveat over the Secured Property immediately after settlement, in order to prevent dealings in the Secured Property pending registration of the second Mortgage.

A caveat is a statutory injunction which effectively prevents the registration of most dealings in the property (without consent) until the caveat is formally withdrawn, removed or lapses. A proportion of the Loans will be secured by unregistered second Mortgages that are subject to these caveat arrangements until the relevant Loan has been repaid.

If a Borrower defaults under a Loan secured by an unregistered second Mortgage, the mortgagee's enforcement powers are more limited than it would have if it were enforcing a fully registered second Mortgage.

The Sub Fund's target Borrower is small-to-medium businesses seeking finance for business and/or investment purposes in circumstances where traditional large financiers are inefficient, slow, or unreasonably difficult to deal with. It will offer customers access to business finance with a fast, efficient and sensible lending approach whilst still adopting a stringent lending criteria. Typically, the Loans are repaid from an identified business transaction and are always secured by a Mortgage. This results in a balanced risk position for the Fund which distinguishes the Fund from other mortgage investment funds.

The Sub Fund will make Loans that are short-term in nature, usually between 1 and 24 months in length. However, in certain circumstances and subject to the satisfactory conduct of the Loan and compliance with our valuation policy, the Sub Fund may roll over an existing Loan for a further period. The benefit of investing in short term loans is the Sub Fund is exposed to less risk, as short-term Loans are repaid in full in a shorter time period, minimising the likelihood something will affect the financial position of the Borrower or the value of the Secured Property. The short-term nature of the Loans also facilitates diversification as the Secured Property will be consistently changing, and the providers of the Secured Property will be varied in nature and not limited to one sector or industry.

The purposes for which the Sub Fund will make the Loans broadly include the following:

- (a) Acquisition or refinance of existing vacant land, residential, commercial, retail or industrial property.
- (b) Business purposes, such as—
 - (i) purchasing additional stock
 - (ii) payment of debts held in a Borrower's name (e.g. business credit card or short-term overdraft)
 - (iii) commercial investment
 - (iv) working capital
 - (v) creditor payments (including payment of debts owing to the Australian Taxation Office)
 - (vi) funding of business investments or expansions.
 - (vii) refinancing existing business debt
 - (viii) buying out a shareholder or business partner, and

- (ix) property development or construction purposes on a stage by stage basis based on the anticipated end value of any improvements to be constructed on the proposed Secured Property or on an “as if complete” valuation.

The Sub Fund may also accept the assignment of an existing loan from ASCF Premium Capital Fund, ASCF Select Income Fund, ASCF High Yield Fund and/ or ASCF Managed Investments Pty Ltd or any other party and such assigned loans may or may not be in arrears or in default at the time of the assignment.

The Sub Fund may co-lend with a third party or financial institution under a warehouse or joint funding agreement. Under a co-lending arrangement, the Sub Fund may lend up to a maximum of 50 percent of the Loan amount, with the balance being provided by the co-lender. In some circumstances, the repayment of the co-lender’s advance may be in priority to repayment of the Sub Fund’s advance.

The Sub Fund may make Loans to related parties of the Trustee provided such Loans are on an arm’s length basis and in compliance with the Lending Guidelines.

2.2(b) Indirect Mortgage Secured Investment

The Sub Fund may invest in other mortgage related investments by various means including the following:

- (a) Investing in ASCF Premium Capital Fund, ASCF Select Income Fund and/or ASCF High Yield Fund.
- (b) Investing in corporate Bonds issued or to be issued by entities (which may or may not be related to the Trustee) and which undertake loans to borrowers, provided the loan terms are no less favourable than a Loan undertaken by the Sub Fund Trustee as if it were a direct mortgage secured investment provided by the Sub Fund.
- (c) Invest in (through the provision of a loan, acquisition of share capital or joint venture agreement) in an SPV or other related entity related to the Sub Fund Trustee which provides loans to borrowers. The loans provided by the SPV must be no less favourable than a Loan undertaken by the Sub Fund Trustee as if it were a direct mortgage secured investment provided by the Sub Fund, however the investment may be subordinated and rank below all or some of the other investors in the SPV or third-party lenders to the SPV.
- (d) Participate in loans provided by third party financial institutions or provide funding to another entity jointly with another financial institution where repayment of the Sub Fund’s contribution to the joint loan/funding is subordinated to the repayment of contributions of the other participant to the joint loan.

All Loans provided by the Sub Fund or the entities it invests in as an indirect mortgage secured investment must satisfy the following criteria:

- (i) The loan must be secured by a Mortgage over real property in Australia.
- (ii) The maximum LVR must be no greater than 80% of the value of the secured property.

For further details on the credit process and security taken for loans refer to Section 3.

2.3 Structure of the Fund

By investing in the Fund, you will hold Units in the Fund. The Fund owns all of the units in a wholly owned unit trust, the Australian Mortgage Finance Services Fund (‘Sub Fund’). The board of directors of the Sub Fund Trustee is the same as the Trustee.

Your investment in the Fund will entitle you to indirectly share any income generated from the Loans and other investments of the Sub Fund. Each Investment Term is represented by a different class of Units. The key differences between the classes of Units are the length of the investment and the Distribution Rates.

The rights and obligations that apply to all classes of Units are set out in the Fund's Constitution.

2.4 **Minimum and maximum investment amount**

The minimum investment amount for the Fund is \$50,000 per Investor, and then in multiples of \$1,000, or \$10,000 for any additional investments. Each subsequent investment by an Investor is a new investment in the Fund and is subject to a new Investment Term. See Section 2.10 below for more information on withdrawal rights.

We may accept lower minimum investment amounts at our sole and absolute discretion.

The maximum investment permitted by any one Investor in the A1 Units is \$250,000.

2.5 **Investors**

The Fund is available for investment by Wholesale Investors and Sophisticated Investors. The Fund is available for investment by superannuation funds, subject to their own investment criteria.

2.6 **Unit price**

We intend to issue Units in the Fund at \$1.00. However, the Unit price is based on the underlying value of the Fund's assets (and the Sub Fund's assets) and is calculated in accordance with the terms of the Constitution and as such the Unit price may fluctuate.

The withdrawal price for a Unit will be the Unit price that is applicable on the day the Withdrawal Request has been accepted by the Trustee. This price may be different from the price an Investor originally paid for the Unit.

Unit prices will be calculated daily and will be published on our website ascfprivate.com.au usually within two Business Days of the relevant pricing date where a change to the unit prices has occurred.

Applicants should check the current Unit price before investing in the Fund.

2.7 **Issue of Units**

Units will be issued on a daily basis.

2.8 **Distributions**

Distribution Payments

It is intended that Investors will receive Distribution Payments on a monthly basis (paid within 10 days following the end of each month). Investors will receive a Distribution Rate based on the amount invested and the Investment Term selected by the Investor. Distribution Payments will be paid into each Investor's nominated bank account.

ASCF Distribution Reinvestment Plan

The Trustee has established the ASCF Distribution Reinvestment Plan (DRP) which provides Investors with the option to re-invest Distribution Payments.

The DRP is a convenient way for Investors to increase their holding of Units in a Fund by automatically reinvesting some or all of the Distribution Payments without having to lodge an Application Form each month.

Under the DRP Investors may elect to reinvest some or all of their Distribution Payments by opting to participate in the DRP on the Application Form when investing in a Fund, or for existing Investors, by completing and submitting with the Trustee a DRP Election Form.

However, if Investors have multiple accounts within the Fund, then they can elect to reinvest Distribution Payments on some or all of the accounts. In respect of any one of those accounts, all of the Distribution Payments, and not just some, can be reinvested if the Investor makes an election to participate in the DRP.

New Units issued pursuant to the DRP will be issued on the day Distribution Payments are ordinarily paid, which is within ten days of the end of each month.

Payment and eligibility to receive distributions

An Investor will become eligible to receive distributions from the Fund from the date their application is accepted, and Application Money has been received.

Distributions will only be paid from the income of the Fund which in turn depends on the realised income of the Sub Fund from Loans.

The Fund will not use any borrowings to pay distributions to Investors.

Investors should be aware that Distribution Payments are not guaranteed and may fluctuate depending on the performance of the Fund and the Sub Fund. There is a risk that Investors do not receive any income distributions.

2.9 Short-term cash and cash-like investments

The Trustee's aim is to hold 5% of the Fund's assets in short-term cash or other cash-like investments. However, the Fund may hold more or less than 5% of its assets in short-term cash or cash-like investments, which may depend on factors such as the amount and timing of Withdrawal Requests, available investment opportunities for the Fund/ Sub Fund, Distribution Payments and the level of fees, costs and expenses of the Fund (including abnormal expenses).

Cash and cash-like investments will include short-term cash and other at-call deposits at financial entities.

This short-term cash and other cash-like investments will be used to help fund enforcement costs and meet other Expenses of the Fund.

2.10 Withdrawals

How the withdrawal mechanism works

Investment term

Each period of an Investor's investment in the Fund is referred to as an **Investment Term**. Investors choose their investment term on the Application Form when they make their investment.

When an Investor invests in the Fund, the first Investment Term begins on the day their Application is accepted and the Application Money is received and runs for the length of the Investment Term. Unless a Withdrawal Request is received, at the expiration of the Investment Term, the investment will automatically roll over for the same term at the prevailing Distribution Rate offered by the Fund at the time. Each subsequent Investment Term will run for the same period of time, starting from the date the preceding Investment Term expires at the then prevailing Distribution Rate listed on our website for that particular Investment Term.

If you wish to withdraw from the Fund in whole or in part at the end of the Investment Term, then you must lodge a Withdrawal Request with the Trustee at least 90 days before the end of the Investment Term.

On receipt of a Withdrawal Request, the Trustee will use reasonable endeavours to redeem your Units at the end of the Investment Term.

Early withdrawal

The Trustee will consider (but is not obliged to grant) requests by Investors who, through unforeseen or exceptional circumstances, wish to withdraw part or the whole of their investment prior to the maturity date of their Investment Term. Such early withdrawal will be at the discretion of the Trustee.

The Trustee will consider applications for early withdrawal on a reasonable endeavours basis and with a minimum notice period of 60 days.

In considering whether to allow the withdrawal, the Trustee will have regard to all the facts and circumstances, including the Trustee's statutory duties to act in the best interests of all Investors of the Fund, its duty to treat all Investors of the same class equally and its duty to treat all Investors of different classes fairly.

To make an early withdrawal you must complete and lodge with the Trustee an Early Withdrawal Request form, which is available at ascfprivate.com.au. If the Trustee approves an Early Withdrawal Request, then the Investor will be required to pay a 1% fee of the withdrawal amount. The Trustee will deduct the fee from the proceeds of withdrawal before paying the balance to the Investor. The Trustee may in certain circumstances agree to waive the fee in its sole discretion.

Such early withdrawal will be at the discretion of the Trustee.

See Section 6 of this IM for further information about fees.

2.11 **Transfer of Units**

You can transfer the ownership of your Units at any time provided that the transferee meets the requirements of an Investor in the Fund, and the transfer has been approved by us.

Under the Constitution, the Trustee has the discretion to refuse the transfer of Units and is not obliged to accept a transfer of Units. Please note that a transfer of Units may have taxation consequences. See Section 7 of this IM for further information.

There will not be any established secondary market for the sale of Units.

2.12 **Borrowings**

The Fund may borrow from a financial institution to supplement funds received from Investors to fund withdrawals, costs and expenses and to enhance the Fund's liquidity. In the event the Fund does borrow, the Fund's assets may be used as collateral to secure such loan.

The Fund will not use any borrowings to pay distributions to Investors.

The Sub Fund may borrow to enable the Sub Fund to make Loans where the Trustee reasonably believes the relevant Loans will be to the benefit of the Fund and, ultimately, the Investors of the Fund.

The costs associated with the establishment and maintenance of any loan facility by the Fund or the Sub Fund will be paid for by the Trustee or the Sub Fund Trustee (as applicable) and not the Fund or the Sub Fund (as applicable).

The only costs payable by the Fund or the Sub Fund will be the interest payable on the borrowings and any line fee the financial institution may charge on the facility.

2.13 **How you can invest**

Applications to invest in the Fund must be made by completing the Application Form which is available on our website ascfprivate.com.au. The Trustee may accept or decline any application for investment in the Fund in its sole and absolute discretion.

2.14 **Investment Term**

The Fund is an open-ended trust, meaning there is no fixed term for the Fund. However, your investment is subject to the Investment Term applicable to the class of Units in which you invest.

You will only be able to make a Withdrawal Request at the end of an Investment Term. An Investor will not have a right to withdraw their investment until their Investment Term expires.

Therefore, Investors should view investment in the Fund as a minimum six to 24 months fixed-term investment, depending on the Investment Term selected and as outlined in Section 1.

However, in limited circumstances, the Trustee may allow Investors to withdraw their investment from the Fund, as outlined in section 2.10. Please see that section for more information on how to withdraw from the Fund.

Section 3 Investments

3.1 Direct Mortgage Credit Investments

A direct mortgage investment undertaken by the Sub Fund is where a loan is provided by the Sub Fund either on its own or jointly with another party including ASCF Premium Capital Fund, ASCF Select Income Fund, ASCF High Yield Fund, ASCF Managed Investments Pty Ltd or any other party approved by the Trustee and the Sub Fund Trustee's interest in the loan is recorded on the Mortgage over the borrower's property.

3.1(a) Business finance lending

The Sub Fund will offer small to medium businesses access to finance with a fast, efficient and sensible lending approach whilst still adopting stringent lending criteria. Loans made by the Fund are generally expected to be repaid from an identified business transaction and must always be secured by a Mortgage over real property.

3.1(b) The process of selecting a Loan

This section sets out the Loan selection process for the Sub Fund including the assessment, approval and management of Loans.

3.1(c) Guiding principles

The Sub Fund Trustee will ensure at all times that the risk / reward profile of each Loan is appropriate having regard to the following factors:

- (a) The character and operating capacity of Borrowers.
- (b) The liquidity of the market within which the Secured Property is located including the character and appeal of the Secured Property.
- (c) The purpose of the Loan.
- (d) The LVR.
- (e) The exit strategy proposed by the Borrower.
- (f) The quality and value of the Loan, underlying Secured Property and the risk analysis process.

All Loan investment decisions will be based on risk-adjusted returns over the term of the Loan. All Loans, Borrowers and Mortgages are assessed under a loan and borrower assessment program, which is described below.

In addition, each Loan will be properly documented and appropriately secured following a comprehensive assessment of the purpose, servicing capacity of the Borrower, valuation, insurance and management protocols proposed for each Loan.

All Loans are subject to our satisfaction and must comply with the Lending Guidelines below.

Lending Guidelines

Parameter	Explanation
Type of Loan and security	All Loans must be secured by a first or second ranking Mortgage over real property including vacant land, residential, commercial, retail or industrial property.

Parameter	Explanation
Loan to Valuation Ratio	<p>The maximum LVR permitted on a first or second mortgage shall be 80%.</p> <p>The LVR is a percentage which is calculated by dividing the total of all current debts secured by the Secured Property and all anticipated borrowings from the relevant Fund by the value of the Secured Property:</p> <div style="border: 1px solid black; padding: 10px; margin: 10px 0;"> $\text{LVR} = \frac{(A + B)}{C}$ <p>Where:</p> <p>A = Current debts secured by the Secured Property.</p> <p>B = Anticipated Loan amount from the relevant Fund.</p> <p>C = Value of the Secured Property.</p> <p>Example:</p> <p>A Borrower wishes to borrow from a Fund to purchase a property. The property is valued at \$1,000,000 (C).</p> <p>The Borrower has secured a loan for \$500,000 from another lender (A) and wishes to borrow \$100,000 from a Fund (B).</p> $\frac{(\\$500,000 (A) + \\$100,000 (B))}{\\$1,000,000 (C)}$ <p>LVR = 60%</p> </div>
Additional security	Where appropriate, some Loans will also be secured by a general security agreement provided by the Borrower, company guarantees and/or directors' guarantees, and any other personal property or other security the Trustee considers necessary. In addition, an insurance policy covering replacement of the Secured Property will also be requested.
Loan term	As at the date of this IM, it is not intended that Loan terms greater than 24 months will be offered. However, in certain circumstances and subject to the satisfactory conduct of the Loan and compliance with our valuation policy, the Sub Fund may roll over an existing Loan for a further period of up to 24 months.
Geography	No Loan will be made unless the Secured Property is freehold property and located in Australia.

3.1(d) Valuations

The Trustee has developed a valuation policy which describes the Trustee's requirements for the Sub Trustee to value proposed Secured Property before making a Loan from the Sub Fund.

The purpose of the valuation policy is to—

- (i) ensure the valuations obtained and used by the Sub Trustee are robust and accurate
- (ii) ensure the proposed Secured Property is appropriately valued before making a Loan

- (iii) ensure valuations are conducted in a timely manner, by an independent registered valuer, and
- (iv) allow Investors to assess the reliability of valuations undertaken and the valuation practices of the Sub Trustee.

Where the Sub Fund acquires an existing loan from a third party lender which is in arrears or in default at the time of the assignment, then the Sub Trustee may rely on an existing valuation of the Secured Property obtained by the assignor of the Loan, obtain a new valuation of the Secured Property which complies with the Trustee's valuation policy, or rely on a combination of the following methods:

- A market appraisal by a registered real estate agent of the Secured property.
- Comparative sales evidence as determined by the Trustee.
- A desk top valuation provided by a property data information provider of property value estimates.

A copy of the valuation policy is available on request by contacting the Trustee.

3.1(e) Related party Loans to Borrowers

Loans may be made to related parties of the Trustee. All Loans will be on arm's length terms and must comply with the Lending Guidelines.

3.1(f) Loan Acquisitions

The Sub Fund may acquire existing loans from third party lenders including ASCF Premium Capital Fund, ASCF Select Income Fund, ASCF High Yield Fund and/ or ASCF Managed Investments Pty Ltd or any other party which loans may or may not be in arrears or in default at the time of the assignment provided such loans comply with the Lending Guidelines (which includes that any acquired loans must be secured by a Mortgage over Australian real property to a maximum LVR of 80%).

3.1(g) Joint Loans

The Sub Fund may co-lend with a third party or financial institution under a warehouse or joint funding agreement. Under a co-lending arrangement, the Sub Fund may lend up to a maximum of 50 percent of Loan amount, with the balance being provided by the co-lender. In some circumstances, the repayment of the co-lender's advance may be in priority to repayment of the Sub Fund's advance.

3.1(h) Construction Loans

The Sub Fund may provide construction funding and/or loans for property development purposes to Borrowers on a stage by stage basis based on the anticipated end value of any improvements to be constructed on the proposed Secured Property on an "as if complete" valuation of the Secured Property. The Loan must comply with the Lending Guidelines including the geographical location, LVR and must be secured by a Mortgage.

Funds will be advanced on a cost to complete basis and drawdowns shall only be made via a Quantity Surveyor report.

3.1(i) Anticipated Loan portfolio

All Loans will be made in accordance with the Lending Guidelines.

We intend to actively manage the Loan portfolio to ensure there is an appropriate level of diversification across Borrowers, Loan size, Loan sector (e.g., residential, commercial, retail and industrial) and geographic location, with an appropriate exposure and weighting having regard to the Lending Guidelines and the objectives of the Fund.

3.1(j) Approval process and ongoing management

We will consider whether each loan application complies with the Lending Guidelines and will further assess the loan application and decide to either accept or reject the application.

All decisions to approve a loan application must be made by the majority of the Trustee's board of directors. We have complete discretion in making this decision.

If we approve a loan application, then the Loan documentation will be prepared by specialist legal advisers. Loans will only be made once the legal advisers have provided an appropriate sign-off to the Sub Fund Trustee confirming the Loan documentation accords with the terms of the credit submission and that the Loan documentation is otherwise in order to be signed by the Sub Fund Trustee.

Once a Loan has been made, we will be responsible for the day-to-day and ongoing management of that Loan and will prepare reports in relation to both individual and portfolio Loan performance, including payment and collection of interest, compliance with Loan covenants and conditions and the progress of any legal action commenced against a defaulting Borrower.

We will also conduct a monthly audit of the Loans and prepare a report on their status and performance.

We will dedicate resources towards ensuring that all Secured Properties are appropriately insured for public liability and against loss or damage to improvements before a Loan is made.

3.1(k) Loan default management and enforcement

Investors may be indirectly affected by any default by a Borrower under a Loan.

We have appointed professional and experienced staff to administer the Loans and disclose all defaults in reports that are circulated to the board of directors of the Trustee.

We will determine whether to take enforcement action against any defaulting Borrowers.

Where a Borrower fails to make an interest payment on or before the due date, the Sub Fund Trustee will—

- (a) contact the Borrower immediately seeking payment
- (b) after allowing a grace period, as appropriate, formally write to the Borrower seeking payment to avoid further action being taken, and
- (c) at its discretion, and dependent upon the terms of the Loan documentation, apply a higher default rate of interest from the date of the last interest payment until the date the default is remedied.

Depending on the Borrower's response to the payment request, the Sub Fund Trustee may issue a default notice, and commence proceedings against the defaulting Borrower.

If recovery action is issued against a Borrower—

- (a) the Sub Fund Trustee may become a mortgagee in possession
- (b) the Sub Fund Trustee may procure a new valuation in respect of the underlying Secured Property
- (c) the underlying Secured Property may be placed on the market for sale or, depending on the nature of the Secured Property, may be managed by the Sub Fund Trustee prior to commencing a sale process, and
- (d) it is possible that the Secured Property may be sold at a price that is less than the amount required to satisfy the outstanding balance of the Loan, interest and costs (including recovery fees). Should this occur, recovery action against the Borrower and any guarantors will continue.

3.2 Indirect Mortgage Credit Investments

An indirect investment would be where the Sub Fund Trustee uses money subscribed to the Fund to invest or lend money to another entity or fund which provides loans to borrowers secured by a Mortgage.

The investment may be made through the provision of a loan, acquisition of share capital, joint funding arrangement, acquisition of Bonds or joint venture agreement in an SPV or other related entity of the Trustee which provides loans, provided that such loans provided by the SPV or other entity meet the Lending Guidelines as if it were a direct mortgage secured investment. The Sub Fund's investment in the SPV may be subordinated to the other investors or Bond holders in the SPV and repayment of their investment may higher rank in priority to the Sub Fund's investment.

3.2(a) Related party Investments

The Sub Fund may invest in ASCF Premium Capital Fund, ASCF Select Income Fund, and/or ASCF High Yield Fund. The schemes provide loans to borrowers on terms which are no less favourable than the Lending Guidelines. ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund are pooled mortgage investment schemes and a copy of the Product Disclosure Statement for ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund is available for download at ascf.com.au.

3.2(b) Investment in corporate Bonds

The Sub Fund or its related parties may issue corporate Bonds and the Sub Fund may acquire these Bonds, provided they have a maturity date no greater than 5 years from the date of issue or acquisition. The issuer must only issue loans on terms and security which comply with the Lending Guidelines as if it were a direct mortgage secured investment provided by the Sub Fund.

ASCF Managed Investments Pty Ltd (a related party of the Trustee) was the issuer of Bonds totalling \$35 million on the 14 September 2018. ASCF Holdings Pty Ltd (a related party of the Trustee) is the holder of \$3 million Class C Bonds in the issuer. The Bonds do not pay interest and are subordinated to the Class A and Class B Bond holders in the issuer. In the event this issuer incurs a loss, the Class C Bonds shall be the Bonds which will incur the loss. It is intended that the Sub Fund may acquire all or a part of these Bonds from ASCF Holdings Pty Ltd at par value of \$3 million upon the Sub Fund having the requisite capital. The issuer does not pay interest on the Class C Bonds but rather interest at the rate of 12% per annum is paid monthly by Mortgage Capital Australia Pty Ltd (a related entity of the Trustee) to the Class C Bond holder pursuant to a deed of agreement between the Class C Bond holder and Mortgage Capital Australia Pty Ltd. Upon the transfer of the Class C Bonds to the Sub Fund, a new agreement for payment of the interest shall be entered into between Mortgage Capital Australia Pty Ltd and the Sub Fund for the payment of the monthly interest based on the value of the acquisition. A copy of the Investor Information Memorandum for ASCF Managed Investments Pty Ltd is available for download ascf.com.au/ASCFMI.

The Sub Fund may invest in other Bond issues issued by related party entities on terms similar to ASCF Managed Investments Pty Ltd provided that the issuer only issue loans on terms and security which comply with the Lending Guidelines as if it were a direct mortgage secured investment provided by the Sub Fund and the loans are originated and serviced by a related entity of the Sub Fund Trustee.

3.2(c) Investments in SPV or other related parties of the Sub Fund Trustee

The Sub Fund may invest in an SPV or other related entity related to the Sub Fund Trustee which provides loans to borrowers on terms no less favourable than the Lending Guidelines as if it were a direct mortgage investment provided by the Sub Fund. The investment shall be for a period of no greater than 5 years and must be on such terms the Sub Fund Trustee deems appropriate based on its obligations to investors in the Fund.

The investment may be made by:

1. The provision of a loan by the Sub Fund Trustee to the related entity.
2. The acquisition of an equity or debt instrument in the related entity such as a corporate Bond or other hybrid instrument.
3. The acquisition of share capital in the related entity.
4. A combination of one or more of the above.

The investment may be subordinated to the other investors in the SPV or lenders to the SPV and the investment may not offer the benefit of spread protection to the Sub Fund Trustee on the investment.

3.2(d) Indirect Subordinated Loans

The Sub Fund may provide loans jointly with a third party or financial institution under a warehouse or joint funding facility to a related entity or SPV for the purpose of providing loans to borrowers provided the loans made by the SPV or related entity comply with the Lending Guidelines. The repayment of the Sub Fund’s contribution to the loan via the SPV may be subordinated to the repayment of the contribution of the other party jointly funding the loan. In these circumstances, the Sub Fund’s contribution shall rank second in priority and the other party’s contribution shall rank first on repayment of the loan. The fund’s contribution shall in effect act as first loss piece on any given loan undertaken by the SPV and is similar to a direct subordinated Loan.

The benefit to the Sub Fund of such a facility is that it is able to leverage its investment by accessing third party funds at a lower cost of capital thereby increasing the Sub Fund’s return on its investment in the Loan.

The Sub Fund may provide up to a maximum 50% of a loan to the SPV under this arrangement with the balance being provided by the other party.

All and any loans may by the Sub Fund Trustee to the SPV or related entity shall be for a period no greater than 5 years.

3.3 Loan losses

The Sub Fund Trustee operates a provisioning policy in relation to losses on individual Loans and should a loss on a Secured Property occur it may impact the unit price of your investment.

Example—

If you had invested \$100,000 in one of the Fund for 6 months and the unit price at the time of your investment was \$1 then you would receive 100,000 units and the value of your investment would be \$100,000.

If the Fund were to incur a loss on a Loan and an impairment charge was made of say \$500,000 there would be a reduction in the unit price calculated as follows: -

Value of loss (\$500,000)

Total funds under management as at the date of the impairment (\$50,000,000)

The loss represents 1% of the funds under management.

The Unit price would therefore decrease by approximately 1% to 99 cents.

Your investment would also decrease by 1% or \$1,000 to \$99,000 which represents the value of the loss on your investment.

You would still continue to receive Distribution Payments but this would be calculated on your reduced investment amount.

3.4 Investor Reserve

The Trustee has established a discretionary Investor Reserve Account to be used for the sole benefit of Investors in the Fund. The Investor Reserve Account is held by the Trustee and does not form part of the Fund's assets.

The decision to use money held in the Investor Reserve Account is in the sole discretion of the Trustee and funds held in the Investor Reserve Account may be used to cover impairments and capital losses incurred on individual Loans caused due to Borrower defaults in the Sub Fund (or if applicable, the Fund).

Should the Trustee exercise such discretion, an impairment would be funded from the Investor Reserve Account maintained by the Trustee to offset credit risk presuming there are adequate funds available in the account to cover the impairment.

The Trustee contributes to the Investor Reserve Account out of the management income it receives on a cash received basis each month. The amount contributed to the Investor Reserve Account shall be in the sole discretion of the Trustee.

The Trustee may from time to time make additional contributions to the Investor Reserve Account from its retained earnings or other funds available to it to reduce any potential volatility of distributions to Investors, cover capital losses incurred on individual Loans in the Sub Fund (or if applicable, the Fund), fund expenses that would ordinarily be payable by the Fund and fund legal and/or other recovery fees in respect to Loans the Sub Fund (or if applicable, the Fund) has made.

The Investor Reserve Account cannot be overdrawn and in the event a Loan loss occurs and there are insufficient funds in the Investor Reserve Account to cover the loss or the Trustee does not exercise its discretion to use the funds in the Investor Reserve Account to cover the loss, the Unit price will be adjusted accordingly to reflect the capital loss.

3.5 Spread Protection

In addition to the ability to use the Investor Reserve Account, the Fund also offers Investors the benefit of spread protection should an impairment or capital loss on Loan or other mortgage investment occur.

The interest spread is the difference between the monthly income received by the Fund in interest payments on mortgage investments received by the Sub Fund, less the amount paid to Investors in the Fund in Distribution Payments. The spread is used to cover the Fund's expenses and the Trustee's performance fees.

In the event a capital loss is declared on a mortgage investment by the Sub Fund Trustee and the value of the Investor Reserve Account is insufficient to make good the loss at the time the loss is declared, then the Trustee shall use any accrued performance fees owing to it from the Fund on an ongoing basis until such time as the value of the Units in the Fund which may have decreased as a result of such loss are returned to their same value prior to the loss being declared. The Trustee shall not be entitled to any performance fees from the Fund during this time and only Fund expenses such as legal, accounting and other costs associated with the running of the Fund may be reimbursed or paid.

Section 4 Management of the Fund

4.1 **Trustee: Australian Secure Capital Fund Ltd**

The Trustee and Sub Fund Trustee are operated by personnel with considerable experience in operating managed investment schemes, mortgages and credit activities.

4.2 **Executives and Key personnel**

Richard John Taylor

Chief Executive Officer and Director – Finance

Mr Taylor has extensive experience in finance and credit industries having worked in those industries over the past 38 years.

Mr Taylor has a Bachelor of Economics from Bournemouth University, a Diploma in Commercial Management from Bournemouth University, a Diploma of Financial Services (Financial Planning) from Tribeca, a Certificate IV in Financial Services (Finance/Mortgage Broking) from Intellitrain and a Diploma of Financial Services (Finance/Mortgage Broking Management) from Intellitrain and a Certificate IV in Property Services (Real Estate) from the Australian School of Business & Law.

Mr Taylor is also an accredited Financial Broker (no. 16714) of the Mortgage and Finance Association of Australia and is a licensed Real Estate Agent, Qld (no.3981311).

Mr Taylor is responsible for overseeing the general management of the Trustee's business and of the Fund and Sub Fund, including reviewing and determining whether to recommend approval of an investment or loan by the Sub Fund Trustee.

Mr Taylor will also provide regular ongoing reports to the board of the Trustee and the Sub Fund Trustee in relation to the performance of the investments in accordance with the protocols established under the Lending Guidelines.

Mr Taylor is also responsible for preparing and reviewing the Lending Guidelines.

Filippo Sciacca

Director - Investor Relations, Asset Management and Compliance

Mr Sciacca has worked across the property development industry for over 20 years and has extensive property market expertise.

Mr Sciacca commenced his career as a property lawyer at Sciaccas Lawyers and Consultants in 1987 before pursuing a career in property development. Mr Sciacca was a director of Kozmic Developments, a property development group between 1997 and 2016, during which time the group developed over 400 apartments in and around the Brisbane.

Mr Sciacca has a Bachelor of Laws from the Queensland University of Technology.

As investor relations director, Mr Sciacca will provide regular ongoing reports to the board of the Trustee and the Sub Fund Trustee and Investors in relation to performance of the funds under management. As Asset Manager and Compliance Director, Mr Sciacca is primarily be responsible for reviewing, assessing and approving all investments made by the Sub Fund and shall ensure the Lending Guidelines are met in relation to each investment as well as overseeing all aspects of compliance for the Sub Fund.

Mr Sciacca will also oversee the day-to-day management of the Sub Fund's loans and investments.

Kosta Giovanos**Director- Business Development**

Mr Giovanos has extensive experience in relation to the banking and credit industries, as he has worked in those industries over the past 14 years.

Mr Giovanos commenced his career as a sales manager for home and investment lending for National Fidelity Mortgage, a residential mortgage lender operating in the United States of America before becoming a branch manager and private client manager of Bankwest.

Mr Giovanos has a Certificate IV in Finance and Mortgage Broking, Finance and Related Services Training Academy and is a member of the Mortgage and Finance Association of Australia and the Credit and Investments Ombudsman.

Mr Giovanos is responsible for procuring and developing new business through the Trustee's broker network of referrers.

Mr Giovanos will also oversee the day-to-day management of the Sub Fund's Loans on direct credit secured investments, including reviewing and determining whether to recommend approval of an application for a loan to the Sub Fund Trustee.

Mr Giovanos is also responsible for preparing and reviewing the Lending Guidelines for consideration by the Sub Fund Trustee.

Peter Aubort**Compliance Committee chairman**

Mr Aubort has worked across the financial services industry for over 22 years and has extensive expertise in the operation of both registered and unregistered managed investment schemes, having worked for 11 separate AFS licensees across his career, all of which have been involved in the establishment and operation of schemes.

Mr Aubort has a Bachelor of Business (Accountancy) from the Queensland University of Technology, a graduate diploma in information technology, a Diploma in Financial Planning 1 from the Financial Planning Association of Australia, RG 146 certificates in securities and managed investment schemes from the Securities Institute of Australia. Mr Aubort is also a qualified member of the Institute of Chartered Accountants Australia.

The compliance committee will be responsible for the Trustee's and the Sub Fund Trustee's obligations pursuant to the Corporations Act and ASIC policy. Mr Aubort is also a member of the compliance committees for the Trustee's registered schemes, ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund.

Section 5 Risks

As with any investment, investing in the Fund involves risk. Many risks are outside the control of the Trustee. If these risks eventuate, distributions to Investors may not be as expected and may be reduced or suspended and the capital value of the Fund may be reduced. Distribution Payments are not guaranteed and neither is the return of your capital.

At the date of this IM, the Trustee considers the following are key risks of an investment in the Fund:

- (a) Mortgage investment risks, including the risk that investment values or incomes decrease.
- (b) Fund investment risks, including in relation to holding Units.
- (c) General investment risks, including economic and market conditions.

These risks are outlined in more detail below.

Please read this IM in full and consider your attitude towards risk before deciding to invest in the Fund. You should also assess, in consultation with your professional advisers, how an investment in the Fund fits in to your overall investment portfolio.

The risks in this section are not an exhaustive list.

Mortgage investment risks—all mortgage investments

5.1 Valuation risk

The valuation of Secured Property may be inaccurate at the time of the Loan and the amount realised on a forced sale may be less than would have been expected had the valuation been correct. There is also the risk that a valuer who provided an inaccurate valuation does not have or no longer has adequate professional indemnity insurance to cover the valuation on which the Sub Fund Trustee relied.

5.2 Interest rate risk

Fluctuations in market interest rates may impact your investment in the Fund. For example, rising market interest rates may increase the interest costs of a Borrower with a variable rate Loan, making it more difficult to make regular payments. Similarly, falling interest rates may lead a Borrower of a fixed rate Loan to repay the Loan in order to refinance at a cheaper rate. Rising interest rates may also impact a Borrower's ability to refinance a Loan.

5.3 Default and credit risk

A Borrower or Borrower's guarantor may not be able to meet their financial obligations. This may be for a wide range of reasons, including—

- (a) a change in the financial or other circumstances of the Borrower, or
- (b) a change in the economic climate generally that adversely affects all borrowers.

The Sub Fund Trustee will seek to manage and minimise these risks by only making Loans to Borrowers that meet the Lending Guidelines.

Investment in the Fund is not capital guaranteed. During the life of a mortgage investment, factors outside the control of the Sub Fund Trustee such as economic cycles, property market conditions, government policy, inflation and general business confidence can affect property values and a Borrower's ability to continue to service a Loan.

If a Secured Property is required to be sold to recover a debt, capital of Investors in the Fund may be diminished or lost if the sale fails to realise sufficient funds to satisfy the Loan balance and any capitalised interest and costs. Enforcement costs may not be recoverable in part or in full, in these circumstances.

Where a Loan is not renewed, the return of investment capital may be delayed until the Loan is either refinanced or repaid. Interest is charged to the time of repayment of the Loan.

The Sub Fund Trustee manages capital risk by applying the Lending Guidelines for Loans and employing efficient collection and management systems. All Loans and valuations are subject to periodic review.

5.4 **Security risk**

The Secured Property may be damaged or destroyed and the insurance cover may prove to be insufficient to cover the full amount of the Loan. This risk will be managed by ensuring certificates of currency for all insurances are provided by the Borrower and that the insured sum is commensurate to asset valuation. Given that the underlying security is real property, which is illiquid, there is also a risk that delays could occur between a Loan going into default and the sale of the Secured Property. These delays may affect the payment of distributions to Investors and the ability of Investors to receive their funds at the end of the Investment Term due to insufficient cash being available.

5.5 **Term risk**

A Loan may not be repaid or refinanced in a timely fashion, which may cause a delay or potential loss of capital. The Sub Fund Trustee seeks to manage this risk through the initial loan approval process as well as managing maturing loans in a timely fashion.

5.6 **Construction Risk**

A Loan may be made for property development or construction purposes and there are specific risks associated with this type of loan. These risks include—

- (a) construction or development costs can exceed budgeted costs and the borrower may be unable to complete the construction or development unless the borrower can obtain further funds
- (b) as funds will be advanced on a stage-by-stage basis, the funds kept in reserve by us to complete the construction or development being insufficient to meet the cost of completion, and
- (c) a change in market conditions could result in the completed development or construction being worth less than anticipated, or in lower sale rates and prices than expected.

This risk will be managed by—

- (a) ensuring the proposed development or construction will employ standard construction techniques and that adequate building insurance cover is in place
- (b) monitoring all construction and development loan drawdowns to ensure there are always sufficient funds remaining to complete the project, and
- (c) a contingency factor on total construction costs are also factored into the debt funding by the borrower for each proposed development or construction.

5.7 Enforcement risk

If a Borrower defaults, the Sub Fund may have to enforce its security to recover the Loan and any unpaid interest. Consequently, any enforcement delay may result in the Sub Fund temporarily having insufficient money to pay any or all distributions which will affect the Fund's ability to pay Distribution Payments. Enforcement costs will be financed by the Sub Fund and shall form part of the amounts recoverable by these parties from the amounts recovered from the enforcement action. The source of funding for any enforcement costs will come from the following sources:

- (a) any accrued but unpaid performance fee owing to the Trustee
- (b) the reserves maintained by the Sub Fund, and
- (c) from borrowings by the Fund, as outlined in section 2.12.

The funding of enforcement costs will proceed in the above order.

Enforcement costs may not be recoverable in part or in full if the value of any recovered amounts from the Borrower are insufficient to fully pay these costs.

Mortgage investment risks—second ranking mortgage investments

5.8 Junior lender risk

Loans will be secured by a Mortgage. However, if the Sub Fund is a second mortgage lender, then its Mortgage will rank in priority behind a senior lender's mortgage. Therefore, in the event of a default by the Borrower, the ability to recover the amount owing under the Loan agreement will be affected by the actions of the senior lender.

Generally, the senior lender will have the right to take possession of, and deal with, the security property and assets of the Borrower if various covenants of the senior lender's loan facility are not met. Because the Sub Fund's security will rank behind the senior lender, if the Borrower defaults under any of the loan facilities and the senior lender exercises its security, then the Sub Fund Trustee will not have day-to-day control over the Borrower's assets. This will generally mean that the Sub Fund Trustee cannot exercise the Sub Fund's security until the senior lender has been paid in full. In addition, any monies available to the Sub Fund in these circumstances would be limited to what is recovered after the senior lender has been paid in full.

There may be delays in the Sub Trustee obtaining production of the title documents or consent to registration from the senior lender, which could delay or, in limited cases under which such consent is not forthcoming, prevent the registration of the Sub Trustee's second mortgage. In these circumstances, the Sub Trustee will register a caveat over the Secured Property immediately after settlement, in order to prevent dealings in the Secured Property pending registration of the second Mortgage.

A caveat is a statutory injunction which effectively prevents the registration of most dealings in the property (without consent) until the caveat is formally withdrawn, removed or lapses. A proportion of the Loans will be secured by unregistered second Mortgages that are subject to these caveat arrangements until the relevant Loan has been repaid.

If a Borrower defaults under a Loan secured by an unregistered second Mortgage, the mortgagee's enforcement powers are more limited than it would have if it were enforcing a fully registered second Mortgage.

Mortgage investment risks—Indirect Loans

5.9 Indirect investment risk

The Sub Fund may invest in Loans indirectly through ASCF Premium Capital Fund, ASCF Select Income Fund and/or ASCF High Yield Fund, other funds, corporate Bonds or warehouse facilities. In such cases, the Fund is exposed to the underlying risks facing these lenders.

ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund are pooled mortgage investment schemes operated by the Trustee and a copy of the Product Disclosure Statement for these schemes is available for download at ascf.com.au/pds.

5.10 Conflict of interest

In case of related party transactions, the Trustee may have conflicting duties due to its role as responsible entity of ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund and its role as Trustee of the Fund. In this situation the Trustee would be acting in different capacities and would need to balance the interests of Investors in the Fund with the interests of investors in ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund.

Fund investment risks

The following risks relate to an investment in the Fund and may impact the performance of the Fund:

5.11 Capital and Distribution Payments risk

Distribution Payments and the return of your capital is not guaranteed. If the Fund suffers a loss, then you may lose some or all of your capital.

Distribution Payments depend on the return the Fund receives from the Sub Fund's investment in the Loans. The Sub Fund Trustee seeks to minimise these fluctuations by only making Loans to Borrowers that meet the Lending Guidelines.

5.12 Management risk

The Trustee is responsible for managing the Fund's investments on a day to day basis. The Sub Fund Trustee is responsible for managing the Sub Fund's investments on a day to day basis. If the Trustee/ Sub Fund Trustee fails to do so effectively, then this could negatively affect the Fund's performance. In particular, there is a risk that the Sub Fund Trustee may fail to anticipate movements in the property market, fail to manage the investment risks appropriately or fail to properly execute the Sub Fund's investment strategies. These factors could have an adverse impact on the financial position and performance of the Fund/ Sub Fund.

5.13 Liquidity risk

Investments may become illiquid due to market developments or other factors (that is, they cannot be readily converted to cash, either at all or quickly enough to meet liabilities).

The Trustee will manage, analyse and monitor the liquidity position of the Fund and will take such action as may be required to enable the Fund to discharge their liabilities and meet its cash flow requirements in the best interests of Investors of the Fund as a whole.

All redemptions from the Fund will be undertaken on a reasonable endeavours basis. In the event there are insufficient liquid assets held in the Fund, or where the Trustee considers that redemption at the time is not in the best interest of the Investors, the Trustee may suspend redemptions or postpone/delay the payment of redemptions.

There is no established external secondary market for the sale of Units. Investors may arrange for their own private sale. There is no right for Investors to require their Units to be purchased by the Trustee or by any other person.

5.14 Investment term

There is no guarantee that Investors' capital will remain invested for the expected Investment Term. There are circumstances which may result in the Investment Term being shorter or longer, including—

- (a) the Sub Fund Trustee not being able to source mortgage investments for the Sub Fund, and
- (b) a Borrower failing to repay a Loan when due.

5.15 Due diligence risk

In all investments there exists a risk that material items that could affect the performance of individual investments are not identified during the investment analysis process and that these risks are not mitigated by the Trustee or Sub Fund Trustee.

5.16 Market risk

Market risk is a generic term to describe the risk factors affecting the securities markets generally that could adversely affect the value of investments in the Fund. These factors include inflation rate increases, real or perceived unfavourable market conditions, investor behaviour, economic cycles and climate, movements in interest rates and foreign exchange rates, changes in domestic and international economic conditions which generally affect business earnings, political and natural events and changes in governments monetary policies, taxation and other laws and regulations.

5.17 Taxation risk

Distributions to Investors may be affected by changes to taxation legislation. Changes to taxation legislation may necessitate a change to the Fund's structure to ensure Investor interests are protected.

5.18 Sourcing investments risks

Sourcing favourable investments may be difficult and the Fund may not be able to fully invest its funds at acceptable prices. This may affect the Trustee's ability to implement the Fund's investment strategy.

5.19 Operational risk

There is a risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Adverse impacts may arise internally through human error, technology, or infrastructure changes, or through external events such as third-party failures or crisis events. The Trustee and Sub Fund Trustee have procedures in place to manage these risks and, as much as possible, monitor the controls within these procedures to ensure operational risks are adequately managed.

5.20 Fund risk

The Fund could terminate, or the fees and expenses paid from the assets of the Fund could change. There is also the risk that investing in the Fund may give different results than investing in the underlying assets of the Fund directly because of the income or capital gains accrued in the Fund and the consequences of investment and withdrawal by other Investors.

5.21 New fund risk

The Fund is a newly established managed investment scheme and has no track record or past performance.

5.22 Documentation risk

There is a risk that a problem in Mortgage and other relevant documentation could, in certain circumstances, adversely affect the return on an investment. The Sub Fund Trustee will manage this risk by using qualified solicitors with professional indemnity cover to prepare documentation.

5.23 Regulation risk

There is a risk that the Fund may be adversely affected by changes in government policy, regulations and laws or changes in generally accepted accounting policies or valuation.

5.24 Counterparty risk

In cases of joint loans, the Sub Fund may be adversely affected by a counterparty (such as the joint lender) not honouring its financial commitment upon settlement of a transaction or by breaching loan covenants.

5.25 Related party risk

There are risks involved given the Sub Fund will lend to related parties of the Trustee or invest in other investments originated or managed by the Trustee or its related parties, such as ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund.

Other key risks**5.26 Indirect management risk**

The Sub Fund may invest in Loans indirectly through ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund, through corporate Bonds issued by a related or third party, through a related entity (through the provision of a loan, acquisition of share capital or a joint venture arrangement) or through an SPV.

In such cases, the Sub Fund is not the legal lender nor does it manage the Loans portfolio directly. It must therefore rely on ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund, or the issuer/manager of the corporate Bonds to enforce any security and recover the Loan proceeds in an event of default. Where ASCF Premium Capital Fund, ASCF Select Income Fund and ASCF High Yield Fund, or the issuer/manager are unable to enforce the Loans successfully, the Sub Fund may incur losses which may result in the Fund incurring losses.

5.27 Liquidity risk of indirect investments

The investments in which the Sub Fund has invested indirectly, or any related party or third party, may become illiquid. This could have a detrimental effect on the value of the investments, or may impact an Investor's ability to withdraw from the Fund.

5.28 Subordination risk

Where the Sub Fund contributes to Loans jointly with another funder or SPV or participates in Loans provided by third party financial institutions, the repayment of the Sub Fund's contribution may be subordinated to repayment of contributions of other participants. Accordingly, if insufficient funds are received from Borrowers, full payments of interest and full repayments of principal to the Sub Fund may not be able to be made when due because payments to the other participants are made in priority to the Sub Fund.

5.29 Imperfect assignment

Existing loans may be acquired from third party lenders. The Sub Fund Trustee may not take all steps necessary to perfect its legal title in the security relating to the Loans. The consequences of the Sub Fund Trustee not holding legal title of the security relating to the Loans include—

- (a) until a Borrower has notice of the Sub Fund Trustee's interest in the Loans, such person is not bound to make payment to anyone other than the relevant third-party lender, and can only obtain a valid discharge from the third party
- (b) rights of set-off or counterclaim may accrue in favour of the Borrower against its obligations under the Loans which may result in the Sub Fund Trustee receiving less money than expected from the Loans

- (c) the Sub Fund Trustee's interest in those Loans may become subject to the interests of third parties created after the assignment but prior to the Sub Fund Trustee acquiring a legal interest, and
- (d) the third-party lender may need to be a party to certain legal proceedings against any Borrower in relation to the enforcement of those Loans.

5.30 **Consumer protection laws**

Unfair Terms

Under the Australian Consumer Law and the *Australian Securities and Investments Act 2001* (Cth) (ASIC Act) any term of a standard-form consumer contract will be unfair, and therefore void, if it causes a significant imbalance in the parties' rights and obligations under the contract, is not reasonably necessary to protect the supplier's legitimate interests and it would cause detriment to a party if applied or relied on.

The provisions in the Australian Consumer Law and ASIC Act regarding unfair contract terms will apply to a term of the Loans to the extent that those contracts were entered into, are renewed, or the term is varied, after the commencement of those provisions.

If any term of a Loan is found to be void, it may affect the timing or amount of interest, fees or charges, or principal repayments under the relevant Loan.

5.31 **General risk factors**

In addition to the specific risks identified above, general risks can affect the value of an investment in the Fund. These include the following:

- (a) The state of the Australian and world economies.
- (b) Inflation movements.
- (c) Negative consumer sentiment, which may keep the value of assets depressed.
- (d) Natural disasters and man-made disasters that are beyond the control of the Trustee or the Sub Fund Trustee.
- (e) The illiquidity and cost of capital markets.

The performance of the Fund or the Sub Fund, the repayment of capital or of any particular rate of return, is not guaranteed by the Trustee or the Sub Fund Trustee, their directors or associates. Mortgage investment, by its nature, carries a level of risk and no guarantee is or can be given that an investment in the Fund will not decrease in value and that Investors will not suffer losses.

5.32 **Social and health risks (e.g. COVID-19)**

As at the date of this IM, the outbreak of what is now known as the COVID-19 pandemic has continued to spread, resulting in significant volatility within the Australian and global economies as well as Government imposed social distancing practices and business shutdowns.

The risks described in this Section 5 may be exacerbated by COVID-19, and any number of unknown risks may arise as a result of COVID-19, which may adversely impact the Fund and distributions to Investors.

Section 6 Fees and Other Costs

6.1 Fees and other costs

Table 1 shows fees and other costs that you may be charged. These fees and costs may be deducted from the money you invest, from the returns on your investment or from the Fund's assets as a whole and may be used to compare costs between different simple managed investment schemes.

The fees set out in the table below are inclusive of GST and less any reduced input tax credits expected to be available.

Table 1

Unless otherwise specified, all dollar amounts are Australian dollars.

Type of fee or cost	Amount	How and when paid
Fees when money moves in or out of the Fund		
<i>Establishment fee:</i> The fee to open your investment	Nil	Not applicable
<i>Contribution fee:</i> The fee on each amount contributed to your investment	Nil	Not applicable
<i>Withdrawal fee:</i> The fee on each amount you take out of your investment	Nil	Not applicable
<i>Exit fee:</i> The fee to close your investment	Nil	Not applicable
<i>Early withdrawal fee:</i> The fee on the amount you take out of your investment when withdrawing from the Fund prior to the end of your Investment Term. The fee is only payable if the Trustee approves the Withdrawal Request.	The fee is 1% of withdrawal amount.	The fee is payable by the withdrawing Investor. The Trustee will deduct the fee from the proceeds of withdrawal before paying the balance to the Investor. The fee is payable to the Fund from which the Investor withdrew. The fee becomes part of the income of the Fund.
Management costs—The fees and costs for managing your investment –		
Performance fee	Estimated at 2-5% of the Fund's assets (which includes the Sub Fund's assets) (after payment of Distribution Payments and Expenses).	Accrued and paid to the Trustee from the Fund's assets monthly in arrears.

Type of fee or cost	Amount	How and when paid
Expenses	Estimated at 0.75% of the Fund's assets (which includes the Sub Fund's assets).	Expenses payable from the Fund's assets as incurred. Refer to the 'Additional explanation of fees and costs' section below.
Indirect costs	Nil	Not applicable
Service fees		
<i>Switching fee:</i> The fee for changing investment options	Nil	Not applicable

6.2 Example of annual fees and costs

The following table gives an example of how the fees and costs applicable to units in the Fund can affect your investment over a one-year period. You should use each table to compare each product with other managed investment products.

Example	Balance of \$50,000 with a \$5,000 a year contribution	
Contribution Fee	Nil	For every additional \$5,000 you put in, you will be charged \$0.
Plus Management costs	5.75%	For every \$50,000 you have invested in the Fund you will be charged \$2,875 per year plus Expenses. These management costs are already accounted for prior to the payment of Distribution Payments to Investors.
Equals Cost of the Fund		If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year, you will be charged between \$2,875 and \$3,162.50 (depending on the time during the year when you make the additional contribution) plus Expenses. The management costs are already accounted for prior to the payment of Distribution Payments to Investors.

Please note:

- *This is just an example.*
- *The Trustee reasonably estimates it will receive a performance fee of between 2% and 5.75% of funds under management per annum. A performance fee of 5.75% of funds under management per annum has been used for the purposes of this example.*

- *Management Costs consist of the performance fee and Expenses (representing the actual expenses charged to the Fund and the Sub Fund). The actual expenses recovered may increase or decrease over time.*
- *This example does not take into account any Distribution Payments you may receive on your investment in the Fund.*

6.3 Additional explanation of fees and costs

(a) Performance fee

We may be entitled to receive a performance fee. The performance fee (if any) is calculated and payable each month in arrears. It is calculated in respect of each Investment Term (each Investment Term is represented by a separate class of Units). Under the Constitution, the performance fee is 100% of all returns over a benchmark rate of 4.5%. However, in accordance with our right to do so under the Constitution, the Trustee will waive a proportion of its performance fee with the effect the fee is calculated as 100% of the returns for an Investment Term after payment of Expenses and all Distribution Payments to Investors who have invested in that Investment Term.

An example of how the performance fee is calculated is set out below.

Example 1—A performance fee is payable

Assumptions:

- Investment Term—18 months.
- Performance period (1 month)—1 March 2021 to 31 March 2021.
- Fund performance over the performance period—15.5%.
- Benchmark rate (as per the Constitution)—4.5%.
- Expenses incurred by the Fund during the performance period—0.75%.
- Distribution Payments in respect of an 18-month Investment Term—11%.

In this scenario, we would be entitled to receive a performance fee of 3.75% of actual distributions for the performance period calculated as follows:

$$\begin{aligned} \text{Performance fee} &= \text{Fund performance} - \text{Distribution Payments} - \text{Expenses} \\ &= 15.5\% - 11\% - 0.75\% = 3.75\% \end{aligned}$$

Example 2—A performance fee is not payable

Assumptions:

- Investment Term—24 months.
- Performance period (1 month)—1 March 2021 to 31 March 2021.
- Fund performance over the performance period—11.75%.
- Benchmark rate (as per the Constitution)—4.5%.
- Expenses incurred by the Fund during the performance period—0.75%.
- Distribution Payments in respect of a 24-month Investment Term—11%.

In this scenario, we would not receive a performance fee:

$$\begin{aligned} \text{Performance fee} &= \text{Fund performance} - \text{Distribution Payments} - \text{Expenses} \\ &= 11.75\% - 11\% - 0.75\% = 0\% \end{aligned}$$

It is not possible to estimate the amount of performance fees which would be payable in a year. This example is hypothetical only and is not a forecast or simulation of the Fund's distributions, nor is it a reference to past performance. The actual Fund distributions may be materially different from what is shown in the example. The example may help Investors decide if the Fund is a suitable investment. No content in this section or elsewhere in this IM is investment advice. Investors should speak to their financial adviser before investing in the Fund.

(b) **Operating costs and Expenses**

The Trustee and the Sub Fund Trustee are entitled to be paid or reimbursed for Expenses associated with the operation of the Fund and the Sub Fund, such as the costs associated with the administration or distribution of income, administration fees, custody fees, accounting fees, and other expenses properly incurred in connection with performing our duties and obligations in the day-to-day operation of the Fund and the Sub Fund.

These operating costs and Expenses are either paid when incurred or reimbursed to the Trustee or Sub Fund Trustee (as applicable).

(c) **Abnormal expenses**

Abnormal expenses are expenses not generally incurred during the day-to-day operation of the Fund and are not necessarily incurred in any given year. These expenses are due to abnormal events and include (but are not limited to) the cost of convening and hosting a meeting of Investors, preparing a new offer document for the Fund, legal costs incurred by changes to the Constitution or commencing or defending legal proceedings.

Abnormal expenses will be paid from the assets of the Fund as and when they are incurred by the Trustee.

(d) **Early withdrawal fee**

This fee may be payable by Investors who withdraw their investment from the Fund prior to the end of the Investment Term.

If the Trustee approves the Early Withdrawal Request, then the Investor may be required to pay an early withdrawal fee of 1% of the withdrawal amount. The early withdrawal fee will not be paid to the Trustee. Rather, it will be paid to the Fund as income of the Fund.

The Trustee will deduct the fee from the proceeds of withdrawal before paying the balance to the Investor. However, it may in certain circumstances agree to waive the fee in its sole discretion.

(e) **Indirect costs**

Management costs include all indirect costs.

6.4 **Transaction costs**

Most transactional costs associated with issuing the Loans will be borne by the Borrower. However, the Sub Fund may incur some transaction costs.

Transaction costs will differ depending on the nature of the Loan and will be paid out of the Sub Fund's assets. We estimate the Sub Fund's transactional costs will be approximately 0.1% per annum of the net asset value of the Sub Fund. We will provide notification of the current net transaction costs for the Sub Fund on our website at ascfprivate.com.au should this change.

6.5 **GST**

Unless otherwise stated, all fees set out in this section are inclusive of the net effect of GST.

This includes GST, net of input tax credits or reduced input tax credits as applicable. The Fund may not be entitled to claim a full input tax credit in all instances. Further information on the tax implications associated with an investment in the Fund can be found in Section 7.

6.6 **Maximum fees**

The maximum performance fee that can be charged in respect of each Investment Term under the Constitution is 100% of the Fund's income after payment of all Distribution Payments and Expenses.

The size of the Trustee's performance fee will depend on the performance of the Fund. The higher the income received from interest received from the Loans provided by the Sub Fund, the higher the Trustee's performance fee.

As the Investors receive Distribution Payments, the size of the Trustee's performance fee will not affect the Investor's return.

The Trustee may change the fees without consent of the Investors provided the fees remain below the maximum fees. The Trustee will provide at least 30 days' notice if it intends to increase the fees in those circumstances.

6.7 **Waiver or deferral of fees**

We may, in our discretion, accept lower fees and Expenses than we are entitled to receive, or may defer payment of those fees and Expenses for any time. If payment is deferred, then the fee will accrue until paid.

6.8 **Negotiate fees**

We may negotiate with potential Investors, on an individual basis, in relation to rebates on our fees. In the event rebates are offered they will be paid by us and will not therefore affect the fees paid by, or any distributions to, other Investors.

6.9 **Adviser remuneration**

Investors may elect to pay their own adviser an upfront fee paid out of their Application Money. This will be deducted from the Application Money and then paid to their adviser following the issue of Units. This is not a fee payable to us.

The net amount of the Application Money paid, after deducting the upfront adviser fee and GST, will then be invested into the Sub Fund.

6.10 **Introduction fees paid to third parties**

The Trustee, or a related party of the Trustee and/or related entities may pay introduction fees to third parties where the third party has introduced investors to its Fund, and those investors have become Investors in the Fund.

The introduction fee will be paid by the Trustee in its personal capacity, and not in its capacity as Trustee of the Fund. The introduction fee will not be paid by the Fund and as such, the payment of the introduction fee will not impact the returns made to Investors. No fees will be paid that breach the Future of Financial Advice reforms and introducer fees are not paid by the Fund.

6.11 **Fees paid to related parties**

Mortgage Capital Australia Pty Ltd ACN 606 382 192 is a related party of the Trustee and provides administration services to the Trustee and the Fund. Mortgage Capital Australia Pty Ltd receives application and other fees from the Trustee and/or the Fund and Sub Fund for Loans approved by the Fund. All transactions between these related parties are conducted on standard commercial terms and conditions.

Section 7 Taxation Information

7.1 Taxation information

This section is a general discussion of taxation issues relevant to investments in the Fund. You should be aware that the taxation implications of investing will vary between Investors. The Trustee is not a professional tax adviser and strongly recommends that you seek professional taxation advice on investing to take into account your particular circumstances.

The discussion of tax in this IM is not intended to be a complete summary and refers to the Australian tax law in force at the time of writing, which may change.

7.2 Income tax

Generally, the Fund does not pay income tax because it is intended that investors will be presently entitled to all of the taxable income of the Fund for each financial year. This means that all taxable income that Investors become entitled to for a financial year including reinvested amounts, will form part of their assessable income, even though actual payment may not occur until some later time (e.g. 14 July).

7.3 Disposal of interests

Given the nature of the assets of the Fund, capital gains are not expected. However, under the capital gains tax provisions, any taxable capital gains arising on redeeming, switching or transferring of your interests may form part of your assessable income. Some Investors may be eligible for the discount capital gain concession upon disposal of their interests if the interests are held for 12 months or more and the Fund satisfies certain requirements. You should obtain professional tax advice on the availability of this concession.

Certain Investors (for example those who carry on a business of trading in securities) may be assessed in relation to dealing in interests as ordinary income rather than under the capital gains provisions. You should seek professional tax advice about the capital gains tax status of your interests.

7.4 Tax file number

You may quote your Tax File Number (TFN) or claim an exemption from doing so by completing the relevant section of the Application Form. There is no legal requirement to quote a TFN. However, if you choose not to quote a TFN tax will be withheld from distributions at the highest marginal rate of tax plus Medicare levy.

Business investors may quote an Australian Business Number (ABN) instead of a TFN.

7.5 Non-resident investors

If you are not an Australian resident for taxation purposes, tax will normally be deducted from distributions before they are paid to you. The rate will depend on the nature of the country in which you reside. Generally, non-residents who invest in the Fund will have 10% non-residential withholding tax deducted from all interest distributions of the Fund and paid to the Australian Taxation Office.

Section 8 Additional Information

8.1 Related party transactions

As Trustee of the Fund we may from time to time face conflicts between our duties to the Fund as Trustee, our duties to other funds that we manage and our own interests. We will manage any conflicts in accordance with our conflicts of interest policy, the Constitutions, ASIC policy and the law.

Mortgage Capital Australia Pty Ltd ACN 606 382 192 is a related party of the Trustee and provides administration services to the Trustee and the Fund. Mortgage Capital Australia Pty Ltd receives application and other fees from the Trustee and/or the Fund for Loans approved by the Fund. All transactions between these related parties are conducted on standard commercial terms and conditions.

We have a policy on proposed or potential related party transactions, to ensure that any actual or potential conflicts of interest are identified and appropriately dealt with. This policy is available by emailing us at investor@ascf.com.au or contacting us on 07 3506 3690.

The Sub Fund may make Loans to related parties of the Trustee. All loans will be on arm's length terms and in compliance with the Lending Guidelines.

We have a policy on proposed or potential related party transactions, to ensure that any actual or potential conflicts of interest are identified and appropriately dealt with. This policy is available by emailing us at investor@ascf.com.au or contacting us on 07 3506 3690.

8.2 Reporting

We intend to report to you. Our reporting will comprise the following:

- (a) A confirmation on receipt of an Application Form.
- (b) An investment confirmation upon issuing Units.
- (c) Annual distribution report detailing your investment and distributions paid to you.
- (d) Periodic performance update reports.
- (e) An annual tax statement detailing information required for inclusion in your annual income tax return.

Annual and half-year financial reports will be made available at ascfprivate.com.au. They will not be sent to you unless requested.

Information on the Fund will also be made available on ascfprivate.com.au.

8.3 Changing your details

If you wish to change any of the details of your Investor account please provide written instructions to us as follows either via email investor@ascf.com.au or via post to:

Australian Secure Capital Fund Ltd
Suite 6C, 33 Park Road
Milton QLD 4064

When providing written instructions please adhere to the following procedure:

- (a) State the full name of the fund in which your Units are held.
- (b) State your unique Investor number.
- (c) Clearly state the changes you are requesting.
- (d) Provide a contact name and day-time telephone number.

- (e) Ensure the appropriate signatories sign the request.

You may also be required to provide additional documentation to amend some records, such as changes of name and bank account details. Please call 07 3506 3690 for more information.

8.4 **Change of Trustee**

A change of Trustee requires Investors to approve an extraordinary resolution to give effect to the replacement. This is a resolution passed by at least 75% of the total votes that may be cast by Investors entitled to vote, including those not present in person or by proxy.

8.5 **Constitution**

The Constitution is the primary documents that govern the way the Fund operates and sets out many of the rights, liabilities and responsibilities of both us and Investors in the Fund. Each Investment Term is referable to a different class of Units as follows:

- (a) 6 months (A1 Units).
- (b) 12 months (A2 Units).
- (c) 18 months (A3 Units).
- (d) 24 months (A4 Units).

This means that when you invest in a particular Investment Term, you will be issued with a class of Units in the Fund that correspond to the relevant Investment Term noted above.

Each Unit gives you an equal and undivided interest in the assets of the Fund. However, a Unit does not give you an interest in any particular asset of the Fund. Subject to the Constitution, as an Investor of a particular Fund, you have the following rights in relation to the Fund:

- (a) The right to share in any distributions.
- (b) The right to attend and vote at meetings of Investors.
- (c) The right to participate in the proceeds of winding up of the Fund.

The Constitution contains provisions about convening and conducting meetings of Investors.

We can amend the Constitution without Investors' approval provided we reasonably consider the change will not adversely affect Investors' rights.

The Constitution can also be amended by a Special Resolution passed by Investors.

A copy of the Constitution is available free of charge by contacting us on 07 3506 3690.

8.6 **Privacy**

The Privacy Act as amended from time to time regulates, among other things, collection, disclosure of and access to personal information. Other laws also require some personal information to be collected in connection with your application.

By applying to invest in the Fund, the applicant consents to personal information being used and disclosed by the Trustee for the purposes permitted under the Privacy Act, unless you have instructed the Trustee in writing to do otherwise.

If you do not provide the information requested or provide us with incomplete or inaccurate information, your application may not be able to be processed efficiently, or at all.

You are entitled to access, correct and update all personal information which the Trustee holds about you. This information held may be obtained by contacting the Trustee. You should contact the Trustee using its contact details in the Corporate Directory if you have concerns about the

completeness or accuracy of the information we have about you or would like to access or amend your personal information held by the Trustee (or its relevant service provider).

A copy of our current privacy policy is available on our website at ascfprivate.com.au and a paper copy will be sent to you free of charge on request. Changes will be made to our privacy policy from time to time to reflect changes in the law, including the Privacy Act.

If you have any questions relating to the Trustee's privacy policy or anything else found in this IM, please contact the Trustee by e-mail, facsimile or telephone during normal business hours. The contact details are set out in the Corporate Directory.

8.7 **Anti-money laundering (AML)/Counter-Terrorism Financing (CTF)**

The *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) (AML/CTF Law) regulates financial services and transactions in a way that is designed to detect and prevent money laundering and terrorism financing. This means that the Trustee will require you to provide personal information and documentation in relation to your identity, source of funding and purpose when you invest in the Fund. As a result:

- (a) Transactions may be delayed or refused where we require further information regarding your identity or we have reasonable grounds to believe that the transaction breaches the law or sanctions of Australia or any other country.
- (b) Where transactions are delayed or refused, we are not liable for any loss you suffer (including consequential loss) as a result of our compliance with the AML/CTF Law.
- (c) Where required by law, we may disclose your information to regulatory or law enforcement agencies, including the Australian Transaction Reports and Analysis Centre (AUSTRAC), which is responsible for regulating the AML/CTF Law.
- (d) Customer identification requirements for individual investors are collected in the Application Form included with this IM.
- (e) Pursuant to the Trustee's AML/CTF program, any applications made without providing the requisite information or identification documents cannot be processed until all the necessary information has been provided. The AML/CTF program also includes ongoing customer due diligence which may require the Trustee to collect further information

8.8 **Cooling-off period**

No cooling off rights apply to an investment in the Fund.

8.9 **Complaints handling**

We have procedures in place to properly consider and deal with any complaints. We will acknowledge a complaint, investigate it and decide what action needs to be taken and will notify a complainant of its decision together with any remedies that are available under the Constitution or other avenues of redress or appeal.

If you have a complaint in relation to the Fund, please contact our Complaints Officer at Suite 6C, 33 Park Road Milton QLD 4064 (Phone: 07 3506 3690) (email: investor@ascf.com.au). We will ensure the complaint receives proper consideration and will communicate with you as soon as possible (and in any event, within 30 days after receipt of the complaint).

8.10 **Unit pricing policy**

We have a Unit pricing policy for the Fund, which explains how we may exercise any discretion we have under the Constitution when calculating the price of Units.

A copy of the Unit pricing policy is available from the Trustee.

8.11 **Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS)**

FATCA is United States (US) tax legislation that enables the US Internal Revenue Service to identify and collect tax from US residents that invest in assets through non-US entities. If you are a US resident for tax purposes, you should note that the Fund is expected to be a 'Foreign Financial Institution' under FATCA and it intends to comply with its FATCA obligations, as determined by either the FATCA regulations or any inter-governmental agreement entered into by Australia and the US for the purposes of implementing FATCA. Under these obligations, the Fund will have to obtain and disclose information about certain Investors to the Australian Taxation Office.

The CRS is the single global standard for the collection, reporting and exchange of financial account information on non-residents, which applies to calendar years ending after 1 July 2017. Under CRS, the Fund may need to collect and report financial account information on non-residents to the Australian Taxation Office. The Australian Taxation Office may exchange this information with the participating foreign tax authorities of those non-residents.

In order for the Fund to comply with its obligations, we will also request that you provide certain information about yourself, including your US Taxpayer Identification Number (TIN). We will only use such information for this purpose from the date the Fund is required to do so.

8.12 **Consents**

McMahon Clarke

McMahon Clarke has given its written consent to be named in this IM in the form and context in which it is named and has not withdrawn its consent prior to the date of the IM.

Section 9

Glossary

ACL	Australian Credit Licence.
AFS licence or AFSL	Australian Financial Services Licence.
AML/CTF	Anti-money laundering and counter-terrorism financing.
Applicant	Someone who applies for Units in the Fund under this IM.
Application Form	The form which accompanies this IM which must be used to make an application to invest in the Fund.
Application Money	The money paid by an Applicant for Units applied for by completing the Application Form.
APRA	Australian Prudential Regulation Authority.
ASCF Distribution Reinvestment Plan or DRP	The ASCF Distribution Reinvestment Plan that provides Investors the option to reinvest Distribution Payments.
ASCF High Yield Fund	The registered pooled mortgage investment scheme called ASCF High Yield Fund with ARSN 616 367 330.
ASCF Premium Capital Fund	The registered pooled mortgage investment scheme called ASCF Premium Capital Fund with ARSN 637 973 409.
ASCF Select Income Fund	The registered pooled mortgage investment scheme called ASCF Select Income Fund with ARSN 616 367 410.
ASIC	The Australian Securities and Investments Commission.
Bond	A type of debt security typically issued by a company to raise capital. Bonds may comprise debentures, notes or other securities and may be secured or unsecured.
Borrower	An entity that borrows from the Sub Fund under a Loan. Where the context requires, it also includes an entity that borrows from an investment vehicle in which the Sub Fund has an interest (for example ASCF Premium Capital Fund).
Business Day	A day on which banks are open for business in Brisbane, except a Saturday, Sunday or public holiday.
Constitution	The constitution of the Fund dated 16 September 2020, as amended from time to time.
Corporations Act	The <i>Corporations Act 2001</i> (Cth) for the time being in force together with the regulations.

Distribution Payments	The payments made to Investors calculated on the applicable Distribution Rates.
Distribution Rates	The income distribution rate payable to Investors depending on the class of Units held by that Investor, as listed on ascfprivate.com.au , and which is fixed for the duration of an Investor's investment in the Fund.
Early Withdrawal Request	A request to withdraw from the Fund prior to the end of the Investment Term, which can be found at ascfprivate.com.au .
Expenses	Expenses include all costs associated with the operation of the Fund and the Sub Fund, such as the costs associated with the administration or distribution of income, administration fees, custody fees, accounting fees, and other expenses properly incurred in connection with performing our duties and obligations in the day-to-day operation of the Fund.
Fund	The ASCF Private Fund, and where the context requires, includes the Sub Fund.
GST	Goods and Services Tax as defined in <i>A New Tax System (Goods and Services Tax) Act 1999</i> , as amended.
Information Memorandum or IM	This Information Memorandum and any replacement or supplementary information memorandum.
Investment Term	The term which applies to each Unit issued to an Investor. The first Investment Term begins on the day the Unit is issued. Unless a withdrawal request is received, each subsequent Investment Term for that Unit commences from the date of expiry of the preceding Investment Term and will run for the same period of time as the initial term.
Investor	A holder of Units.
Lending Guidelines	The guidelines with which a loan application must comply, as detailed in Section 3 of this IM.
Loan	A loan advanced by the Sub Fund (or in limited circumstances, the Fund) to a Borrower which is secured primarily by way of a Mortgage over the Secured Property. Where the context requires, it also includes loans in which the Sub Fund has an indirect interest (for example by investing in ASCF Premium Capital Fund).
LVR	Loan to Valuation Ratio.
Mortgage	A first or second ranking registered mortgage over the real property of a Borrower or third-party security provider.
Privacy Act	<i>Privacy Act 1988</i> (Cth).
Secured Property	The property of a Borrower or third-party security provider subject to a Mortgage.

Sophisticated Investor	An investor who is a sophisticated investor for the purposes of section 761GA of the Corporations Act.
Special Resolution	A resolution which requires at least 75% of the votes cast by Investors entitled to vote on the resolution in order to be passed.
SPV	A special purpose vehicle established for the purpose of providing Loans secured by a Mortgage.
Sub Fund	The Australian Mortgage Finance Services Fund.
Sub Fund Trustee	Australian Mortgage Finance Services Pty Ltd ACN 643 981 275.
Trustee, we, us, our	Australian Secure Capital Fund Ltd ACN 613 497 635.
Unit	A unit in the Fund.
Wholesale Investor	An investor who is a wholesale client for the purposes of section 761G of the Corporations Act.
Withdrawal Request	A withdrawal request to withdraw from the Fund, which can be found at ascfprivate.com.au .

Section 10

Directory

Trustee

Australian Secure Capital Fund Ltd

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