CFMG Capital

Benchmark Disclosure Report

First Mortgage and Income Fund

ARSN 118 670 705

ASIC benchmarks and disclosure principles

Legislative background

ASIC has developed eight benchmarks and eight disclosure principles for unlisted mortgage schemes, being schemes which have, or are likely to have, at least 50% of their non-cash assets invested in loans that are secured by a mortgage over real property and/or unlisted mortgage schemes. These benchmarks and disclosure principles are set out in ASIC Regulatory Guide 45 (RG 45).

The benchmarks and disclosure principles are designed to help retail investors to understand the risks, assess the potential rewards and to make an informed investment decision.

The following sections contain the benchmark disclosure and disclosure principles for the Fund.

For the purpose of keeping you informed about any significant changes to the benchmark and disclosure principle information in this section, we will periodically (usually half-yearly) provide an update on this information on our website www.cfmgcapital.com.au. For those investors who cannot access our website, you can request a paper copy of an updated benchmark and disclosure principle report to be given to you (free of charge) by contacting us using the details in the Corporate Directory.

Benchmark disclosure

Benchmark	Statement	Explanation	Reference
Benchmark 1: Liquidity For a pooled mortgage scheme, the responsible entity has cash flow estimates for the scheme that: (a) demonstrate the scheme's capacity to meet its expenses, liabilities and other cash flow needs for the next 12 months; (b) are updated at least every three months and reflect any material changes; and (c) are approved by the directors of the responsible entity at least every three months.	The Fund is a contributory mortgage scheme and therefore this benchmark is not applicable.	N/A	For additional disclosure on this bench-mark, refer to section 3.3.
Benchmark 2: Scheme Borrowing The responsible entity does not have current borrowings and does not intend to borrow on behalf of the scheme.	The benchmark is met.	The Fund does not have any borrowings and we do not intend to enter into any borrowing arrangements on behalf of the Fund.	For additional disclosure on this benchmark, refer to section 3.4.
Benchmark 3: Loan Portfolio and Diversification For a pooled mortgage scheme: (a) the scheme holds a portfolio of assets diversified by size, borrower, class of borrower activity and geographic region; (b) the scheme has no single asset in the scheme portfolio that exceeds 5% of the total scheme assets; (c) the scheme has no single borrower who exceeds 5% of the scheme assets; and (d) all loans made by the scheme are secured by first mortgages over real property (including registered leasehold title).	The Fund is a contributory mortgage scheme and therefore this benchmark is not applicable.	N/A	For additional disclosure on this bench-mark, refer to section 3.5.

Benchmark	Statement	Explanation	Reference
Benchmark 4: Related party transactions The responsible entity does not lend to related parties of the responsible entity or to the scheme's investment manager.	The benchmark is not met.	CFMG Land and the SPV Developers are each related parties of the Responsible Entity as they share common directors with the Responsible Entity. A common risk of related party transactions is that in the event of default, the Responsible Entity (or the SPV Developer) may not enforce its rights against a related party. The Responsible Entity maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest (Conflict Policy). Our Conflict Policy sets out strict terms that apply if we enter into transactions with related parties, which require us to ensure these transactions are entered into on commercial arm's length terms and the details of these transactions are disclosed to investors appropriately. The Fund does not have an investment manager.	For additional disclosure on this benchmark, refer to section 3.6.
Benchmark 5: Valuation Policy In relation to valuations for the scheme's mortgage assets and their security property, the board of the responsible entity requires: (a) a valuer to be a member of an appropriate professional body in the jurisdiction in which the relevant property is located; (b) a valuer to be independent; (c) procedures to be followed for dealing with any conflict of interest; (d) the rotation and diversity of valuers; (e) in relation to security property for a loan, an independent valuation to be obtained: (i) before the issue of a loan and on renewal, for development property, on both an 'as is' and 'as if complete' basis and, for all other property, on an 'as is' basis; and (ii) within two months after the directors form a view that there is a likelihood that a decrease in the value of security property may have caused a material breach of a loan covenant.	The benchmark is met.	The Responsible Entity maintains and complies with a written valuation policy (Valuation Policy) which meets this benchmark.	For additional disclosure on this benchmark, refer to section 0.

Benchmark	Statement	Explanation	Reference
Benchmark 6: Lending Principles – Loan-to-Valuation Ratios If the scheme directly holds mortgage assets: (a) where the loan relates to property development – funds should be provided to the borrower in stages based on independent evidence of the progress of the development; (b) where the loan relates to property development – the scheme should not lend more than 70% on the basis of the latest 'as if complete' valuation of property over which security is provided; and (c) in all other cases – the scheme should not lend more than 80% on the basis of the latest market valuation of property over which security is provided.	The benchmark is met.	The Fund's Lending Policy and Procedures Manual is consistent with this benchmark for loans secured by a registered mortgage over real property. It is not intended to make any loans secured by anything other than real property.	For additional disclosure on this benchmark, refer to section 3.8.
Benchmark 7: Distribution Practices The responsible entity will not pay current distributions from scheme borrowings.	The benchmark is met.	The Fund will not borrow and all distributions will be sourced from interest or payments received from loans and proceeds received from the repayment of loans.	For additional disclosure on this benchmark, refer to section 3.9.
Benchmark 8: Withdrawal arrangements For liquid schemes: (a) the maximum period allowed for in the constitution for the payment of withdrawal requests should be 90 days or less; (b) the responsible entity should pay withdrawal requests within the period allowed for in the constitution; and (c) the responsible entity should only permit members to withdraw at any time on request if at least 80% (by value) of the scheme property is money in an account or on deposit with a bank and is available for withdrawal immediately (or otherwise on expiry of a fixed term not exceeding 90 days), during the normal business hours of the bank; or assets that the responsible entity can reasonably expect to realise for market value within 10 business days. For non-liquid schemes, the responsible entity intends to make withdrawal offers to investors at least quarterly.	The Fund is a contributory mortgage scheme and therefore this benchmark is not applicable.	Investors will only be entitled to withdraw funds invested in each Class upon the full or partial repayment of the underlying Loan Investment for that Class by the SPV Developer.	For additional disclosure on this benchmark, refer to section 3.10.

Disclosure principle 1 – Liquidity

Liquidity is the measure of cash and cash equivalent assets as a proportion of a scheme's total assets and is an indicator of the ability of a mortgage fund to meet its short-term commitments. Liquidity of a mortgage fund may be viewed as a risk as the underlying assets of a mortgage fund may not be easily realised within the period of time required to meet withdrawal requests or other commitments or expenses.

As a contributory mortgage scheme, the Fund is not required to disclose the information required by this principle. However, we have systems in place to manage the Fund's cash flows and to ensure that the Fund's short-term commitments are satisfied.

Disclosure principle 2 – Scheme borrowing

Where a mortgage scheme has borrowings, this principle requires responsible entities to disclose the maturity profile and other information relating to the scheme borrowings, including details of total debts due, why the responsible entity has borrowed the money (including whether the borrowed funds will be used to fund distributions or withdrawal requests), any material loan covenant breaches and the risks associated with the scheme's borrowing and credit facility maturity profile.

We do not intend to enter into any borrowing arrangements on behalf of the Fund. Accordingly, we are not required to disclose the information required by this principle.

Disclosure principle 3 – Loan portfolio and diversification

Portfolio diversification measures the level of concentration risk in the portfolio of mortgages held by the scheme. Greater levels of diversification of mortgages by borrower, size, activity and geographical location, lowers the risk that the scheme would suffer significant loss from default by any one borrower or class of borrowers.

As a contributory mortgage scheme, the Fund is not required to disclose against this principle.

Unitholders will only have a beneficial interest in the Loan Investments in which they have elected to invest and not in the Fund's entire portfolio. Therefore, lack of diversification is a risk for Unitholders in contributory mortgage schemes generally. Further information in relation to specific Loan Investments, such as the targeted distribution rates and term of investment, is set out in the SPDS relating to that Loan Investment.

Disclosure principle 4 – Related party transactions

This principle requires responsible entities to disclose their approach to related party lending, investments and other transactions, and how such transactions are assessed and monitored to consider whether the transaction is made with the same rigour and independence as transactions made on an arm's length commercial basis.

CFMG Land and the SPV Developers are each related parties of the Responsible Entity as they share common directors with the Responsible Entity.

A common risk of related party transactions is that in the event of default, the Responsible Entity (or the SPV Developer) may not enforce its rights against a related party. See sections 3.2 (Benchmark 4) and 10.10 of this PDS for information about our Conflicts Policy that governs the related party transactions we may enter.

Should an event of default arise under a loan agreement and the SPV Developer does not remedy that default the Responsible Entity will take action to recover the money owed. Both the Responsible Entity and its directors have a statutory duty to place the interests of Unitholders above their own interests where there is a conflict. The Responsible Entity will keep the Unitholders of the relevant Class informed of the actions being taken.

The Responsible Entity will not seek Unitholder approval to transact with a SPV Developer. The intended terms of a loan agreement will be benchmarked to market and will only be entered if those terms are in line with industry practice.

The directors of the Responsible Entity will only enter a loan agreement with a related party, including a SPV Developer, if they are satisfied the terms of the loan agreement are on terms no less favourable than they would have been had the terms been negotiated between non-related entities dealing at arms length.

Disclosure principle 5 – Valuation policy

This disclosure principle requires the responsible entity to provide investors with information about the valuation of the property securing a loan in which investors have, or are being offered, an interest.

For Loan Investments secured by a mortgage over real property, will obtain an independent valuation of security property in respect of a Loan Investment before the issue of the loan, on renewal of the loan (if the LVR is more than 80%), and if we form a view that there is a likelihood of a decrease in the value of security property which may cause a material breach of a covenant of the relevant loan agreement with the SPV Developer.

The Fund's Valuation Policy (which includes the Fund's Unit Pricing Policy), the Compliance Plan and the Constitution each include a section on valuing the Fund's assets and is available on our website at www.cfmgcapital.com.au.

Disclosure principle 6 – Lending principles – loan to valuation ratio

The loan to valuation ratio (LVR) is a measure of the amount of the loan provided to a borrower against the latest valuation obtained in respect of the security property. LVR is an indicator of how conservative or aggressive a scheme's lending practices are. Generally, the higher the LVR, the more vulnerable the scheme will be to a change in market conditions (for example, a downturn in the property market).

The maximum LVR for each Loan Investment by the Fund will be:

- for a project site suitable for a residential land subdivision -the total maximum borrowing in respect of this form of Loan Investment must not exceed 70% of the 'as if complete' valuation;
- for other loans where the security property is individual completed land allotments (residual stock loans) -the total maximum borrowing in respect of this form of Loan Investment must not exceed 80% of the 'as is' valuation.
- It is possible that the maximum LVR is exceeded in some circumstances from time to time during the life of a loan, for eg, if a loan is in default, the total LVR on that loan may exceed 80%.

Disclosure principle 7 – Distribution practices

This disclosure principle requires responsible entities to explain how the scheme will fund distributions to investors and to disclose any risks associated with current distribution practices.

Distributions from the Fund to investors will be sourced from interest or payments received or withheld from Loan Investments, proceeds received from the repayment of Loan Investments and not from Fund borrowings (as the Fund will not borrow).

Generally, distributions for each Loan Investment's minimum investment term will be made from loan funds withheld by the Fund from the total loan amount advanced to each SPV Developer and will be paid quarterly by electronic funds transfer to the Unitholder's nominated Australian bank account. In the event a Loan Investment's minimum investment term is extended, any distributions for such extended period have not been withheld by the Fund from the loan funds advanced to the SPV Developer.

The key factors that would have the most material impact on the ability to provide distributions to investors are:

Factors impacting Target Distribution Rates	Risk of changes to these factors on distributions	Sensitivity analysis based on changes to these factors
Borrower default	If a borrower, being a SPV Developer, fails to meet interest payments under its loan agreement.	If a SPV Developer does not make any interest payments, Unitholders in the Class related to that Loan Investment may not receive any interim distributions.
Fund expenses	If the Fund incurs extraordinary expenses, which are not payable by us from our management fee or other resources.	If the Fund incurs extraordinary expenses of 0.8% per annum of the Fund's Gross Asset Value relating to a Loan Investment (for example costs in selling security assets upon borrower default), it may result in the distributions paid to the Unitholders in that Class being 0.8% per annum lower than anticipated for that Loan Investment.

Disclosure principle 8 – Withdrawal arrangements

This disclosure principle requires responsible entities to explain the scheme's withdrawal policy and the ability of investors to withdraw from the scheme.

The Fund operates as a contributory mortgage scheme.

Unitholders may not withdraw their investment before the end of the Class term (although transfers are permitted subject to the Constitution at the risk of the Unitholder). The SPDS will disclose the anticipated minimum investment term for the relevant Class.

If the relevant loan is not repaid by the SPV Developer by the end of the relevant loan term, the Responsible Entity may agree to extend the term for up to 12 months. If at the end of the term (that is not extended) or at the end of the extended term the relevant loan is not repaid, the Responsible Entity will commence recovery proceedings against the applicable SPV Developer.

If the SPV Developer fails to repay the entire underlying loan, or we are unable to recover the entire underlying loan upon enforcing our security, then you will receive less than the amount you invested in that Loan Investment.

In such circumstances, the amount you receive from the Loan Investment will be less than the amount you invested in that Class and the actual amount received will reflect each Class Unitholder's proportionate interest in the shortfall in the repayment of the loan by the SPV Developer.

When a loan is repaid (in full or part) we will redeem the Units corresponding to that Loan Investment and pay those funds to the Unitholder.

CFMG
Capital

Real people.

P 1800 155 526
E info@cfmgcapital.com.au
cfmgcapital.com.au

Level 2, 117 McLachlan St
Fortitude Valley QLD 4006
PO Box 663, Fortitude Valley QLD 4006

Printed: September 2024