

**STATEMENT OF INVESTMENT
POLICY AND OBJECTIVES (“SIPO”)**

For

**NZ MORTGAGE INCOME TRUST GROUP INVESTMENT FUND
 (“NZMIT GIF”)**

EFFECTIVE DATE: 1 December 2016

The most current version of the SIPO is available on the Disclose register at www.business.govt.nz/disclose.

DESCRIPTION OF NZMIT GIF

NZMIT GIF is a pooled investment vehicle established under the Trustee Companies Act 1967. NZ Mortgage Income Trust Group Investment Fund ("NZMIT GIF") is a group investment fund. NZMIT GIF is a profit orientated entity, which was formed on 30 July 2001. NZMIT GIF is a reporting entity under the Financial Markets Conduct Act 2013 as from 1 December 2016.

The NZMIT GIF is a portfolio investment entity (PIE) for taxation purposes.

The NZMIT GIF is in the process of being wound up and is closed to new investors.

ROLES & RESPONSIBILITIES

The Manager of NZMIT GIF is Fund Managers Otago Limited. The Manager is, among other things, responsible for the day to day management of NZMIT GIF property and investments and must ensure that NZMIT GIF has a statement of investment policy and objectives that provides adequately for the following matters:

- The nature or type of investments that may be made, and any limits on those; and
- Any limits on the proportion of each type of asset invested in; and
- The methodology used for developing and amending the investment strategy and for measuring performance against the investment objectives of NZMIT GIF.

The Supervisor is Trustees Executors Limited. The Supervisor is, among other things, responsible for holding NZMIT GIF's assets and for supervising the performance by the Manager of its functions and obligations.

The governing document for NZMIT GIF is a Trust Deed between the Manager and the Supervisor ("Trust Deed") which sets out the parties' obligations under the Financial Markets Conduct Act 2013 ("FMCA") and Financial Markets Conduct Regulations 2013 ("Regulations"). The Trust Deed is available at www.business.govt.nz/disclose.

NZMIT GIF invests in loans secured by mortgages over land and buildings. These must be first mortgages within defined lending ratios. NZMIT GIF also invests in deposits with registered banks. The Manager generally has the discretion as to which authorised investments are acquired, held or disposed of in and for NZMIT GIF.

INVESTMENT OBJECTIVES

Investment Objective

The investment objective is the provision to investors of an income return that will normally be better than bank deposits and competitive with comparable investment products. While this cannot be assured, the Manager's objective is to give investors a pre-tax (but after fees and expenses) return per quarter of at least 100 basis points higher than the weighted average six month term deposit rate published by the Reserve Bank and competitive comparable investment products.

Investment Policy

The policy of the Manager in placing investments for NZMIT GIF in regard to its two types of securities is:

1. Bank deposits – deposits with registered banks within the New Zealand banking system so as to have a mixture of on-call deposits and term deposits (with maturities of up to 12 months)
2. Mortgage lending – to establish and maintain a broad range of mortgage investments with a mix of mortgage types, interest rates, maturity dates and physical location of the mortgaged properties.

There are no other forms of securities permitted. NZMIT GIF does take collateral security in the form of General Security Agreements but these are for control and collateral purposes only and are accorded no value when calculating the underlying asset value of NZMIT GIF securities.

The objectives underlying the mortgage portfolio are:

- Preservation of the investor's capital in NZMIT GIF, ensuring that portfolio assets are invested in a prudent manner.
- Maximisation of income from the mortgage portfolio over the medium to long term.

Risk Posture

The lending portfolio risk posture comprises two elements:

- The ability to tolerate volatility in investment returns (risk tolerance).
- NZMIT GIF's willingness to assume risk (risk preference).

Risk Tolerance

The following points are relevant to a consideration of risk tolerance:

- The portfolio bears the risk of any adverse investment decisions.
- NZMIT GIF's financial position is such that volatility must be constrained.

Risk Preference

- The Manager accepts the long term emphasis on the need to have investments which will protect the value of the Fund in real terms.
- The Manager will ensure that the lending portfolio includes a maturity profile that recognises the need to have a strong cash flow over time.
- The Manager will ensure that the setting of interest rates relating to lending, new and existing, is based on a risk assessment of the proposition being funded and the income objective.

INVESTMENT PHILOSOPHY

The investment philosophy of the Fund is to create a portfolio invested in loans secured by first ranking registered mortgages earning non-bank, second tier yields.

INVESTMENT STRATEGY

Restriction on investments

There are restrictions on the types of investments that NZMIT GIF can make, as set out in its Trust Deed. The restrictions align with NZMIT GIF's requirement for it to retain its character as a designated group investment fund as defined in section HR3 (6) of the Income Tax Act 2007. Under the Act, designated group investment funds must primarily invest in first mortgage securities.

Under the Trust Deed, NZMIT GIF must always be invested in "authorised investments", which are as follows:

- cash, deposits with, loans to, or other debt securities of any registered bank under the Reserve Bank of New Zealand Act 1989 or a bank authorised to carry on general banking business in New Zealand ("bank") whether secured or unsecured;
- loans made upon the security of any mortgages or mortgage backed securities;
- the acquisition of any mortgages or mortgage backed securities by way of transfer or assignment of the mortgagee or chargeholder's interest in the mortgage or security;
- property which comes into the possession, ownership or control of the Supervisor by virtue of the exercise of the powers, authorities and discretions vested in the Supervisor by any mortgage or mortgage backed security held by the Supervisor;
- public sector securities.
- derivatives; and
- any trust which invests primarily or wholly in one or more of the investments referred to in the preceding bullet points.

To meet the designated group investment fund requirements referred to above, until such time as the Manager and Supervisor agree otherwise, NZMIT GIF shall:

- primarily invest in loans made upon the security of first mortgages or mortgage backed securities; and
- only be invested in investments in which a designated group investment fund is permitted to invest in order to fall within the definition of a group investment fund as defined in section HR3 (6) of the Income Tax Act 2007.

With the intent that (unless agreed by the Manager and the Supervisor) NZMIT GIF shall always be a designated group investment fund for taxation purposes.

Notwithstanding the range of authorised investments described above, the Manager shall only invest NZMIT GIF's property pursuant to the specific guidelines, benchmark asset allocations and lending limits described further below.

Specific policy guidelines

Specific investment policy guidelines determined by the Manager in relation to NZMIT GIF are as follows:

Interest rates - most investments by NZMIT GIF will be in mortgages with mostly floating interest rates but the Manager may maintain some fixed rate mortgages.

Mix of mortgage types - the mortgage portfolio will be spread mainly between residential commercial and rural properties within the guidelines contained the following table.

	Residential	Commercial	Rural
Mix of mortgage types	Minimum 10% Maximum 75%	Minimum 15% Maximum 75%	Minimum 0% Maximum 50%

Lending Limits - there are limits on the maximum size of any mortgage in relation both to the value of the property provided as security and to the total net asset value of NZMIT GIF. The limits are:

- 80% of an independent valuation for residential land and buildings in fee simple*, 70% on developed residential sections, 50% of the lessee's interest in approved leasehold land and buildings and 50% for vacant undeveloped residential land, or the amount of the valuer's recommendation;
- 66.7% of an independent valuation for commercial land and buildings in fee simple (including developed commercial sections), 50% of the lessee's interest in approved leasehold land and buildings and 50% for vacant undeveloped commercial land, or the amount of the valuer's recommendation;
- 60% of an independent valuation for rural properties in fee simple, 50% of the lessee's interest in approved leasehold land and buildings and 50% for vacant undeveloped rural land, or the amount of the valuer's recommendation;

*Note that for loans between 75% and 80% of an independent valuation for residential land and buildings in fee simple, the Manager will charge an additional 0.15% per annum interest rate margin, with that amount to be placed in NZMIT GIF reserves.

No more than 5% of the net assets of NZMIT GIF will be invested in any one mortgage or advanced to any one borrower (or related party of a borrower) at the time of the initial advance. The total of the six largest lending exposures in NZMIT GIF to a borrower or related party of a borrower (ie. the exposure as a group) may not exceed 25% of the value of NZMIT GIF.

Valuations are generally based on a report from a registered valuer, who is independent from the borrower. Valuations will be less than 12 months old. However, for loans up to \$1 million which are secured either against a residential or a lifestyle property with a residential dwelling or against a bare

section with services provided, the Manager may elect to rely upon a market value valuation report, a council ratings valuation or a ratings valuation as supplied by Quotable Value.

As referred to above all lending limits are determined and are solely applicable as at the initial loan approval date and at the date of any renewal of a loan. The value of any individual loan or the proportionate value of a loan in relation to the net asset value of NZMIT GIF may change subsequent to initial approval or renewal and, as a result, the above limits may be exceeded after those dates.

Cash – NZMIT GIF also holds cash. The Manager shall maintain at least 5.00% of the net asset value of NZMIT GIF in cash deposits and other liquid assets to meet redemption requests and for payment of NZMIT GIF operating expenses. Greater amounts of cash may be held from time to time when the Manager determines that NZMIT GIF requires greater liquidity. NZMIT GIF's cash holdings may only be invested in on-call or term deposits (with maturities of up to 12 months) with registered banks. The Manager has a policy of ensuring that total cash amounts over \$5m are invested with at least two registered banks to address concentration risk.

Borrowings

NZMIT GIF may borrow, if the Manager determines in good faith that it is necessary or desirable to do so in accordance with the Trust Deed . The aggregate of the principal moneys borrowed and outstanding in respect of NZMIT GIF or secured against the investments of NZMIT GIF may not exceed 25% of the "fund value" (as that term is defined in the Trust Deed).

Benchmark Asset Allocation Ranges

Lending limits (mortgage types)

	Residential	Commercial	Rural
Limits for net asset value of NZMIT GIF	10% – 75%	15% - 75%	0% - 50%

Lending Limits (Valuations)

Residential Mortgages	Commercial Mortgages	Rural Mortgages
Fee simple land and buildings: up to 80% LVR*	Fee simple land and buildings: up to 66.7% LVR	Fee simple land and buildings: up to 60% LVR
Leasehold: up to 50% LVR	Leasehold: up to 50% LVR	Leasehold: up to 50% LVR
Vacant land with power, water, sewage and associated services ("Services") completed: up to 70% LVR	Vacant land with power, water, sewage and associated services ("Services") completed: up to 60% LVR	
Land which does not have Services: up to 50% LVR	Land which does not have Services: up to 50% LVR	Land which does not have Services: up to 50% LVR

*Note that for loans between 75% and 80% of an independent valuation for residential land and buildings in fee simple, the Manager will charge an additional 0.15% per annum interest rate margin, with that amount to be placed in NZMIT GIF reserves.

Benchmark Asset Allocations

The benchmark asset allocation is long-term average expected weighting for each class of assets. For NZMIT GIF the benchmark asset allocation is as follows;

Asset Class	Asset Allocation
Cash	5% to 25% of the value of NZMIT GIF
Residential first mortgage lending	20% to 60% of the value of NZMIT GIF
Commercial first mortgage lending	15% to 50% of the value of NZMIT GIF
Rural first mortgage lending	5% to 25% of the value of NZMIT GIF

Appropriate benchmark index

The benchmark index for NZMIT GIF is the weighted average six month term deposit rate as published by the Reserve Bank of New Zealand at www.rbnz.govt.nz/statistics/tables/b3/. This rate is the advertised interest rate paid for a six month term deposit of \$10,000. It is weighted by each of the surveyed registered bank's share of household deposits from the aggregate registered bank statistical returns supplied to the Reserve Bank of New Zealand.

Rebalancing Policy

The Manager monitors the Fund's asset allocation against the benchmark asset allocation ranges to ensure compliance. New lending is driven by the asset allocation policy. The allocation to each asset class will vary, due primarily to market movements, within the ranges set.

Mortgage portfolios are in general relatively illiquid and therefore the cash flow (either to or from NZMIT GIF) is the primary mechanism for ensuring that the asset allocation is maintained broadly in line with the benchmark asset allocation weightings for each asset class.

Monitoring of the asset allocations is done monthly by the Board of the Manager. If this highlights that a particular class of asset has moved outside of the targeted range then the assets are rebalanced to bring the asset allocation within the permitted range. A practical approach is taken to rebalancing.

Hedging Policy

There is no specific hedging policy, other than monitoring what in the Manager's opinion is a prudent mix of types of mortgages and cash as described previously in this document.

Conflicts of Interest Policy

The Manager does not allow lending to any related parties but does allow related parties to invest in NZMIT GIF as long as these are on arm's length and disclosed to the Supervisor and in the financial statements.

Liquidity and cash flow management policy

The Manager will maintain at least 5% of the net assets of NZMIT GIF in cash deposits and other liquid assets to meet the redemption requests and for the payment of NZMIT GIFs operating expenses. In addition the Manager will target a liquidity range of 5% to 25% of the net asset value of NZMIT GIF.

METHODOLOGY FOR MONITORING, AMENDING AND DEVELOPING INVESTMENT STRATEGY

Monitoring of underlying securities

The Manager closely reviews the loans once made to ensure that borrowers pay interest and principal as scheduled. Credit control functions are undertaken if payments are not made.

If the underlying loan is in arrears, the Manager's general approach is that:

1. payment dishonours by borrowers are chased up immediately they occur by telephone and if uncontactable by written notification.
2. At 30 days plus in arrears, if the borrower has not made contact and arranged for the payment to be made or caught up, a final notice is sent threatening mortgagee sale.
3. At 60 days plus in arrears with no attempted borrower contact, formal demand is made.
4. After the expiry of the unsatisfied notice of demand, a Property Law Act Notice is served.
5. If the Property Law Act notice remains unsatisfied and has expired the security is put up for mortgagee sale. In some circumstances a receiver might be appointed if there is an indication that this will lead to a better overall recovery.

6. Post the completion of the realisation process, any loss is accounted for by attempting collection from any guarantors.
7. Any loss, if any at the conclusion of the collection process, will then be written off.

The Manager reviews valuations by registered valuers for security properties where NZMIT GIF has or is likely to suffer a loss on realisation of security properties to ascertain if values may have been overstated and/or the valuations may not have been prepared in accordance with industry guidelines. NZMIT GIF may take legal proceedings in instances where NZMIT GIF has suffered a loss as a consequence of any incorrectly prepared valuations.

The Manager makes appropriate general and specific provisions for loss on the mortgage portfolio and these provisions are discussed with and reviewed by NZMIT GIF's auditor.

Investment Performance monitoring

The Manager monitors the investment performance of NZMIT GIF quarterly in March, June, September and December of each year on a rolling 12 month basis. The investment performance is also monitored annually.

The Manager reports monthly to the Supervisor on the performance of NZMIT GIF and adherence with the SIPO, including whether there have been any limit breaks. A limit break is a material breach of any limits set out in this SIPO in relation to the nature or type of investment that may be made, or the proportion of each type of assets in which the fund is invested.

In accordance with the requirements of the FMCA and the Regulations, the Manager will report to the Supervisor, as soon as practicable, any limit breaks that have not been corrected within 5 working days after the date that the Manager became aware of the limit break.

The monthly reports also includes the necessary confirmations that all entitlements for investors in the No. 2 Fund have been correctly calculated, that valuations of units have been carried out in accordance with the Trust Deed provisions and that proper accounting and internal control procedures have been maintained.

Investment strategy review and amendment

This document is formally reviewed by the board of directors of the Manager annually and may also be reviewed at any other time if the Manager considers that a review is required as a result of the prevailing market conditions. In the course of the review the Manager's board of directors in consultation with the Managing Director will consider whether the benchmark asset allocations remain appropriate given the prevailing market conditions. This will also equally apply to NZMIT GIFs liquidity policy.

In accordance with the FMCA, the Manager may amend or replace this SIPO only after having given reasonable prior written notice to the Supervisor.