

ASIC Benchmarks for Unlisted Mortgage Schemes – Regulatory Guide 45

Kinsmen Securities Limited – Kinsmen Diversified Property Fund

The Australian Securities and Investments Commission recently introduced Regulatory Guide 45: Mortgage Schemes – improving disclosure for retail investors. The regulatory guide sets out guidelines for improved disclosure to investors to help them better understand and assess certain financial products.

The following table describes these benchmarks and explains to what extent Kinsmen Securities Limited as issuer of the Kinsmen Diversified Property Fund satisfies them.

ASIC Benchmark	Benchmark Compliance	Disclosure on how Compliance is achieved
<p>1. Liquidity</p> <p>The responsible entity should:</p> <ul style="list-style-type: none"> a) have cash flow estimates for the scheme for the next 3 months; and b) ensure that at all times the scheme has cash or cash equivalents (but not including undrawn amounts under bank overdraft or lending facilities) sufficient to meet its projected cash needs over the next 3 months. 	<p>Not Met</p>	<p>RG 45 applies to the Kinsmen Diversified Property Fund as it has at least 50% of its non cash assets invested in mortgage loans and/or unlisted mortgage schemes (ie via the Kinsmen Mezzanine Fund)</p> <p>The scheme is closed to further retail investment and is providing no further mortgage lending. The scheme is not liquid (as that term is defined by the Corporations Act 2001). It is however intended to make withdrawal offers and redemptions as liquidity within the scheme permits. The intention is to realise the scheme loan assets and progressively return investors capital and wind up the mortgage scheme. Scheme assets therefore remain in an illiquid form until maturity of the loan investments.</p>

		<p>a) The responsible entity does maintain cash flow forecasts for the scheme for the next 3 months to one year on a rolling basis. Liquidity is monitored on a weekly basis as part of the Responsible Entity's treasury function. Levels of available liquidity ultimately determine the amount of distributions and amount available for redemptions and withdrawal requests.</p> <p>b) Cash or cash equivalents held at a particular point in time may therefore fall below the projected 3 month target cash requirement from time to time until loan assets are realised and liquidity achieved for redemption purposes.</p>
<p>2. Scheme Borrowings</p> <p>If an unlisted mortgage scheme has borrowed funds (whether on or off balance sheet), the responsible entity should disclose:</p> <ul style="list-style-type: none"> a) for each borrowing that will mature in 5 years or less-the amount owing and the maturity profile in increments of not more than 12 months; b) for each credit facility-the aggregate undrawn amount and the maturity profile in increments of no more than 12 months; c) for each credit facility- the aggregate undrawn amount and the maturity profile in increments of no more than 12 months; 	<p>Met</p>	<p>The scheme does not have any borrowings</p>

<p>d) the fact that amounts owing to lenders and other creditors of the scheme rank before an investor's interests in the scheme; and</p> <p>e) the purpose for which the funds have been borrowed, including whether they will be used to fund distributions or withdrawal amounts.</p>		
<p>3. Portfolio Diversification</p> <p>A responsible entity of an unlisted mortgage scheme other than a mortgage scheme) should disclose the current nature of the mortgage schemes investment portfolio, including:</p> <p>a) by number and value, loans by class of activity (eg development projects, industrial, commercial, retail, residential, specialised property, reverse mortgages);</p> <p>b) by number and value, loans by geographic region;</p> <p>c) by number and value, what portion of loans are in default or arrears;</p> <p>d) by number and value of loans, what is the nature of the security for loans made by the scheme (eg first or second ranking);</p> <p>e) what proportion of the total loan monies have been lent to the largest borrower and the 10 largest borrowers;</p> <p>f) by number and value, loans that have been approved but have funds that have yet to be advanced and the funding arrangements in place for any of these undrawn loan commitments;</p> <p>g) by number and value, the</p>	<p>Not Met</p>	<p>The scheme is closed to further retail investment and is providing no further mortgage lending.</p> <p>a) Disclosure on loans is reported on a project by project basis. The ASIC disclosure requirement of reporting by number and value per RG 45.53 is not used. Kinsmen Securities does instead disclose loan details both per the original PDS (and updated reporting in subsequent investor quarterly reports) on a project by project basis with disclosure relating to project value, location, industry sector, developer and anticipated project completion.</p> <p>b) As above. Disclosure relating to project loan location covers geographic regions on a state by state basis.</p> <p>c) For default or arrears reporting, any such loans are reported individually on a project by project basis with the value of loan defaults disclosed and status update</p>

<p>maturity profile of all loans in increments of more than 12 months;</p> <ul style="list-style-type: none"> h) by number and value of loans, loan to valuation ratios for loans, in percentage ranges; i) by number and value of loans, interest rates on loans, in percentage ranges; j) by number and value, loans where interest has been capitalised; k) the use of derivatives if any); and l) a clear description of the non-loan assets of the scheme including the value of such assets. 		<p>provided on a quarterly basis.</p> <ul style="list-style-type: none"> d) All loans of the scheme have second ranking mortgages in place. e) Loan amount is indicated on a project by project basis and updated per quarterly reports which are posted to the website. f) There are no further loans that have been approved but have funds that have yet to be advanced. g) The maturity profile of individual loans is monitored monthly as part of internal management reporting however is not published per current disclosure documents h) The loan to valuation ratios in percentage terms is monitored monthly as part of internal management reporting however is not published per current disclosure documents. i) The number and value of loans are disclosed in current disclosure documents. The interest rate on the individual loans varies from loan to loan and is monitored as part of internal management reporting however is not reported separately in disclosure documents. j) All loans of the scheme have capitalised interest treatment k) Derivatives are not used by the mortgage schemes l) There are no no-loan assets within the mortgage scheme.
<p>4. Related party transactions</p>		

<p>A responsible entity of an unlisted mortgage scheme who transacts with related parties of the scheme, including lending or investing scheme funds with related parties should disclose their approach to these transactions, including:</p> <ul style="list-style-type: none"> a) details of any loans, investments and transactions they have made to or with any related party; b) their policy on related party transactions, including the assessment and approval process for related party lending and arrangements to manage conflicts of interest; and c) how the process and arrangements are monitored to ensure their policy is followed. 	<p>Not Met</p>	<p>Kinsmen Securities has a policy and compliance procedure with respect to related party transactions including ensuring a financial benefit is not given to a related party unless approved by the board and disclosed to unit holders however this policy is not published separately in product disclosure documents. Registers are held of related party transactions as is a conflicts register, There are no investments by Kinsmen Securities in any of its Managed Funds. The Kinsmen Diversified Property Fund does hold units in the Kinsmen Mezzanine Fund and Kinsmen Development Fund.</p> <ul style="list-style-type: none"> a) Details of loans to related parties are disclosed within PDS and quarterly report updates. The Kinsmen Diversified Property Fund does have a related party transaction via its investment in the Kinsmen Mezzanine fund being a related party loan of \$465,018 (at time of this report) to Kinsmen Developments Pty Ltd regarding the Southcott project. b) The policy with respect to assessment and approval process for lending applies equally to related and non related party lending. Related party lending is disclosed. c) The process and
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		arrangements for ongoing monitoring of lending policy are reviewed at senior management and board level on a monthly basis
<p>5. Valuation Policy</p> <p>A responsible entity of an unlisted mortgage scheme should take the following approach to valuations of properties over which it has taken security:</p> <ul style="list-style-type: none"> a) Properties (ie real estate) should be valued on an “as is” and (for development property) also on an “as if complete” basis. b) The responsible entity should have a clear policy on how often they obtain valuations, including how recent a valuation has to be when they make a new loan. c) The responsible entity should establish a panel of valuers and ensure that no other valuer conducts more than 1/3 of the responsible entity’s valuation work for the scheme, calculated by value of the properties (other than for contributory mortgage schemes) 	Not Met	<p>The Responsible Entity does not have a panel of valuers to ensure that no one valuer conducts more than 1/3 of the valuation work for the scheme calculated by valuation of properties. However all valuations are conducted by independent registered valuers that meet industry standards</p> <ul style="list-style-type: none"> a) All development properties are valued on an “as is” and “as if complete” basis b) the responsible entity does have a clear policy on how often valuations are obtained including a once per year minimum. c) Independent and reputable valuers are used at all times that are acceptable to senior debt lender as well as for use in second mortgage lending.
<p>6. Lending principles-loan to valuation ratios</p> <p>A responsible entity of an unlisted mortgage scheme should maintain the following loan to valuation ratios for loans made by the scheme:</p> <ul style="list-style-type: none"> a) where the loan relates to property development – 70% on the basis of the latest ‘as if complete’ valuation: and 	Not Met	<ul style="list-style-type: none"> a) Loans to property development projects by the scheme may be to a value of 85% on an as if complete valuation per current disclosure documents. Hence the disclosure benchmark is not met b) as above

<p>b) in all cases - 80% on the basis of the latest market valuation</p>		
<p>7. Distribution practices</p> <p>If an unlisted mortgage scheme is making or forecasts making distributions to members, the responsible entity should disclose:</p> <ul style="list-style-type: none"> a) the source of the current distribution (eg from income earned in the relevant distribution period, financing facility, application monies); b) the source of any forecast distribution c) if the current or forecast distribution is not solely sourced from income received in the relevant distribution period, the reasons for making those distributions; and d) if the current distribution or forecast distribution is sourced other than from income, whether it is sustainable over the next 12 months. 	<p>Met</p>	<p>The scheme is closed to further retail investment The scheme is not liquid (as that term is defined by the Corporations Act 2001). It is however intended to make withdrawal offers and redemptions as liquidity within the scheme permits</p> <p>The intention is to realise the loan assets and progressively return investors capital and wind up the mortgage scheme.</p> <ul style="list-style-type: none"> a) Distributions by the scheme are made subject to the liquidity levels of the scheme allowing distributions to be made. It is also intended to progressively repatriate capital from the completion of property development projects and maturity of the associated mortgage scheme loans. b) as above c) as above d) as above
<p>8. Withdrawal arrangements</p> <p>A responsible entity of an unlisted mortgage scheme should provide details of whether investors will be able to withdraw from a scheme. If investors are given the right to withdraw from a scheme, the responsible entity should clearly disclose:</p> <ul style="list-style-type: none"> a) the maximum withdrawal period allowed under the constitution for the scheme (this 	<p>Met</p>	<p>The scheme is closed to further retail investment. The scheme is not liquid (as that term is defined by the Corporations Act 2001). It is however intended to make withdrawal offers and redemptions as liquidity within the scheme permits</p> <p>The intention is to realise the loan assets and</p>

<p>disclosure should be at least as prominent as any shorter withdrawal period promoted to investors);</p> <p>b) any significant risk factors or limitations that may affect the ability of investors to withdraw from the scheme (including risk factors that may affect the ability of the responsible entity to meet a promoted withdrawal period);</p> <p>c) the approach to rollovers, including whether the “default” is that investments in the scheme are automatically rolled over; and</p> <p>d) if withdrawals from the scheme are to be funded from an external liquidity facility, the material terms of this facility, including any rights the provider has to suspend or cancel the facility</p>		<p>progressively return investors capital and wind up the mortgage scheme. The ability to provide withdrawal offers may be affected by the available liquidity of the Fund, any delays or arrears in receipt of income and capital or any defaults</p> <p>a) The intention is to realise the loan assets and progressively return investors capital and wind up the mortgage scheme.</p> <p>b) Any withdrawal offers and progressive repayment of capital are subject to scheme liquidity.</p> <p>c) There are no rollover provisions for the scheme</p> <p>d) Withdrawals from the scheme are funded from scheme assets only. No external liquidity facility is used.</p>
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