Sandhurst Select Mortgage Fund (ARSN 090 909 069)
Benchmarks and Disclosure Principles Report

As at 31 March 2020

The Australian Securities and Investment Commission ('ASIC') *Regulatory Guide 45: Mortgage schemes: Improving disclosure for retail investors* sets out eight benchmarks and eight disclosure principles which ASIC has formulated to improve disclosure to retail investors participating in unlisted mortgage schemes. This Benchmarks and Disclosure Principles Report ('Report') addresses these benchmarks and principles and aims to help investors better understand the risks and benefits offered and decide whether an investment in the Sandhurst Select Mortgage Fund (ARSN 090 909 069) ('Fund') is suitable for them. Unlisted Mortgage schemes are expected to state whether relevant benchmarks have been met and, if not met, provide an explanation on an 'if not, why not' basis.

This Report is issued by Sandhurst Trustees Limited ('Sandhurst'), ABN 16 004 030 737 AFSL 237906, the responsible entity of the Fund and a subsidiary of Bendigo and Adelaide Bank Limited ('Bank') ABN 11 068 049 178 AFSL 237879. The report updates information in the Fund Product Disclosure Statement dated 30 January 2017 as amended by the Fund Supplementary Product Disclosure Statement dated 1 July 2017 (collectively referred to as the 'PDS') that provides information on the Fund's performance against ASIC's eight benchmarks and disclosure principles as at 30 September 2016. Sandhurst regularly reviews its position and updates its performance against the eight ASIC benchmarks and disclosure principles every six-months.

This Report provides an update on the Fund's performance against ASIC's eight benchmarks and disclosure principles as at 31 March 2020 and must be read together with the PDS and any updates available on our website. The financial information in the Report is extracted from the Fund's accounting and management records as at 31 March 2020 and is based on unaudited financial records unless stated otherwise.

The disclosure against ASIC's benchmarks and disclosure principles set out in this Report applies, as the context requires, to the mortgage backed loans ('Mortgages') made by the Fund. Unless the context requires otherwise, disclosures in this Report do not apply to other categories of investments made by the Fund.

The information given in this Report is general information only. It does not constitute advice or contain a recommendation to invest in the Fund. The Report has not been prepared taking into account the particular objectives, financial situation or needs of any investor. Before making an investment decision, we recommend that you should obtain financial advice tailored to your personal circumstances. Refer to the Glossary, on page 28 of the PDS, for an explanation of the technical terms used in this Report.

ASIC Benchmarks

The following table sets out each of ASIC's eight benchmarks and addresses whether or not the Fund has met the respective benchmark. The table also identifies where further information on the benchmarks can be found in the Report, if applicable.

Benchmark	Sandhurst response
Benchmark 1: Liquidity	
The responsible entity has cash flow estimates for the fund that: (a) demonstrate the fund'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.	**This benchmark is met.** For additional disclosure on this benchmark, please refer to page 4.

<table>
<tr><th colspan="2">Benchmark 2: Fund borrowing</th></tr>
<tr><td>The responsible entity does not have current borrowings and does not intend to borrow on behalf of the fund.</td><td>This benchmark is met.
The Fund is permitted to borrow in accordance with the Fund’s constitution but currently does not. The Fund may borrow in the future to meet its short-term cash flow needs (including for the purposes of paying redemptions). Any borrowing must be first approved by Sandhurst’s board.</td></tr>
<tr><th colspan="2">Benchmark 3: Loan portfolio and diversification</th></tr>
<tr><td>(a) The fund holds a portfolio of assets diversified by size, borrower, class of borrower activity and geographic region;
(b) The fund has no single asset in the fund portfolio that exceeds 5% of the total fund assets;
(c) The fund has no single borrower who exceeds 5% of the fund assets; and
(d) All loans made by the fund are secured by first mortgages over real property (including registered leasehold title).</td><td>This benchmark is met.
(a) The Fund invests in a diverse range of assets and monitors the geographic, borrower and activity concentrations.
(b) and (c) are met.
(d) All Mortgages are secured by first mortgages over real property.
For additional disclosure on this benchmark, please refer to page 4.</td></tr>
<tr><th colspan="2">Benchmark 4: Related party transactions</th></tr>
<tr><td>The responsible entity does not lend to related parties of the responsible entity or to the fund’s investment manager.</td><td>This benchmark is not met.
The Fund may lend to some related parties, such as directors of Sandhurst and directors of the Bank (or their immediate family). However, the Fund will not lend to any company within the Bendigo and Adelaide Bank Group or an Associated Company.
Mortgages to related parties are conducted on no more favourable terms than to a non-related party.
For additional disclosure on this benchmark, please refer to page 11.</td></tr>
<tr><th colspan="2">Benchmark 5: Valuation policy</th></tr>
<tr><td>In relation to valuations for the fund’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:
(A) for development property, on both an ‘as is’ and ‘as if complete’ basis; and
(B) for all other property, on an ‘as is’ basis; and
(ii) within two months after the directors form a view that there is likelihood that a decrease in the value of security property may have caused a material breach of a loan covenant.</td><td>This benchmark is not met.
(a), (b), (c) and (d) are met:
Sandhurst has procedures in place and utilises the independent panel valuers of the Bank, requiring a rotation of valuers and that all valuations are independent and prepared by appropriately qualified and experienced valuers.
(e) is not met:
Valuations are performed on an ‘as is’ basis.
An independent valuation will be obtained before the issue of a loan. Sandhurst may require a revaluation of secured property at any time, however, a valuation may not be required in certain circumstances on renewal of a Mortgage if the performance of the Mortgage and indications of the value of the property are satisfactory to Sandhurst.
For additional disclosure on this benchmark, please refer to page 12.</td></tr>
</table>

Benchmark 6: Lending principles—Loan-to-valuation ratios	
If the fund directly holds Mortgage assets: (a) where the loan relates to property development—funds are 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 fund does 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 fund does not lend more than 80% on the basis of the latest market valuation of property over which security is provided.	**This benchmark is not met.** (a) and (b) are met: The Fund does not hold Mortgage assets that relate to property development. (c) is not met: The Fund holds direct Mortgages with LVRs in excess of 80% where lender's Mortgage insurance is in place. For additional disclosure on this benchmark, please refer to page 9.
Benchmark 7: Distribution practices	
The responsible entity will not pay current distributions from fund borrowings.	**This benchmark is met.** For additional disclosure on this benchmark, please refer to page 13.
Benchmark 8: Withdrawal arrangements	
Liquid funds For liquid funds: (a) the maximum period allowed for in the fund's constitution for the payment of withdrawal requests is 90 days or less; (b) the responsible entity will pay withdrawal requests within the period allowed for in the fund's constitution; and (c) the responsible entity only permits members to withdraw at any time on request if at least 80% (by value) of the fund property is: (i) 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 (ii) assets that the responsible entity can reasonably expect to realise for market value within 10 business days.	**This benchmark is not met.** (a), (b) and (c) are not met: (a) In normal circumstances, money can be withdrawn at completion of the 90-day fixed term. (b) In accordance with the Fund's constitution the Fund has up to 12 months to satisfy a withdrawal request. (c) As the Fund is a mortgage fund whereby up to 90% of its assets may be invested in Mortgages, Mortgage Backed Securities or government loans and securities, Sandhurst does not reasonably expect to be able to realise the entire portfolio for market value within 10 Business Days. For additional disclosure on this benchmark, please refer to page 14. This Fund is liquid and therefore the non-liquid scheme benchmark is not applicable.

Additional information on ASIC Benchmarks and Disclosure Principles

Liquidity

As at 31 March 2020 the Fund had cash or cash equivalents of $342,507,153 or 23.6% of the value of total assets.

Sandhurst maintains cash flow estimates for the next 12 months and ensures that at all times the Fund has cash or cash equivalents sufficient to meet the projected cash needs over the next 12 months.

Sandhurst's policy is to manage the maturity of liquid assets within agreed guidelines to ensure a reasonable amount of cash is on hand to meet the short-term payment obligations of the Fund.

Sandhurst:

a) monitors and reviews historical rolling 12 months' cash inflows and outflows on an ongoing basis;

b) prepares cash flow estimates based on historical cashflow data and material liquidity assumptions that demonstrate the Fund's capacity to meet its expenses, liabilities and other cash flow needs for the next 12 months based on normal operating conditions;

c) updates the cash flow estimates at least every three months to reflect any material changes and consider whether Benchmark 1 is still met. The board of Sandhurst approves updated cash flow estimate; and

d) stress tests the cash flow estimate against material assumptions underlying its cash flow estimate.

Sandhurst does not reasonably expect there to be any changes to the Fund's expenses, liabilities and other cash flow needs that will adversely affect the current and future liquidity of the Fund.

The key risks that may affect the liquidity of the Fund are:

- Mortgages may not be realised in a timely manner or at face value;
- there may be a market shock event which causes the actual withdrawal to differ significantly to the forecasts; and
- the counterparty to an asset sale may default or may offer a price which is below the carrying value of the security property.

The Fund also holds investments in term deposits and Mortgage Backed Securities which produce income, and also provides another mechanism which can be used to manage liquidity over the medium to long term.

At least 10% of the value of the Fund's assets will be held in cash or cash equivalent assets.

Loan portfolio and diversification

Number and value of Mortgages

The Fund had 1,043 Mortgages totaling $533,447,148. The total number of mortgagors was 960.

Mortgages by class of activity

The following table represents the actual composition of the Fund's Mortgages by class of activity:

Activity	Amount ($)	No. of Mortgages	% by $
Rural	12,813,456	102	2.4%
Rural Residential	0	0	0.0%
Hotel/Motel	1,304,590	2	0.2%
Industrial	14,499,543	22	2.7%
Owner Occupied Residential	42,412,025	403	8.0%
Residential Investment	37,305,483	116	7.0%
Commercial	425,112,051	398	79.7%
Total	**533,447,148**	**1,043**	**100.0%**

Mortgages by geographic region

The following table represents the Fund's Mortgage portfolio by geographic region:

Geographical profile	Amount ($)	No. of Mortgages	% by $
Victoria			
Inner City	34,950,021	13	6.6%
Metro	143,145,334	193	26.9%
Non-metro	122,858,910	244	23.0%
Australian Capital Territory			
Metro	1,983,716	19	0.4%
New South Wales			
Inner City	241,616	1	0.0%
Metro	85,012,583	97	15.9%
Non-metro	22,831,197	101	4.3%
Northern Territory			
Metro	3,769,772	5	0.7%
Non-metro	319,712	1	0.1%
Queensland			
Metro	31,926,080	41	6.0%
Non-metro	19,341,042	153	3.6%
South Australia			
Inner City	8,131,958	14	1.5%
Metro	31,175,962	73	5.8%
Non-metro	7,872,715	24	1.5%
Tasmania			
Inner City	142	1	0.0%
Metro	1,101,195	9	0.2%
Non-metro	478,559	7	0.1%
Western Australia			
Inner City	10,577,822	8	2.0%
Metro	6,551,863	31	1.2%
Non-metro	1,176,949	8	0.2%
Total	**533,447,148**	**1,043**	**100.0%**

Mortgages in arrears

There were 26 Mortgages totalling $15,025,947 in arrears greater than 30 days. This represents 2.82% of the total Mortgage portfolio by dollar value and 2.49% by number. The total Mortgages in arrears as a % of the total assets is 1.04%

Days in Arrears*	Principal ($)	Principal ($) in arrears as % of total Mortgage Portfolio	Payments in arrears ($)	No. of Mortgages	Number in arrears as % of total Mortgage Portfolio
30 - 60 days	735,841	0.14%	9,232	5	0.48%
60 - 90 days	138,560	0.03%	1,165	1	0.10%
Over 90 days	14,151,546	2.65%	1,750,838	20	1.92%
Total	**15,025,947**	**2.82%**	**1,761,235**	**26**	**2.49%**

*In Sandhurst's lending policy the terms default and arrears have the same meaning.
Sandhurst works in conjunction with the Bank's Mortgage Help Centre to manage Mortgages that are in arrears.

Security type

All of the 1,043 Mortgages held by the Fund were secured by way of first registered mortgage over Australian real property. No Mortgages were secured by second ranking mortgage or were unsecured.

Largest borrower(s)

The total Mortgage loan monies lent to the 10 largest borrowers^ in the Fund was $152,738,913.

^ Borrower is calculated at an aggregate level, taking into account credit exposures combined due to a common link either through ownership, control, management, cash flow, or security.

This represents:

- 2.78% of the number of total Mortgage loans in the portfolio;
- 28.63% of the total value of Mortgages in the portfolio; and
- 10.54% of the Fund's total assets.

The total Mortgage portfolio holds 1,043 loans valued at $533,447,148.

The largest borrower had 1 Mortgage of $50,000,000 representing 9.37% of the total value of mortgages and 3.45% of the Fund's total assets.

The Fund's largest single asset was $50,000,000 representing 9.37% of the total value of Mortgages in the portfolio and 3.45% of the Fund's total assets.

Undrawn Mortgage Commitments

The Fund had 18 Mortgages totalling $52,470,000 that were approved, but not yet advanced. Undrawn mortgage commitments are funded from available liquidity in the Fund.

Maturity Profile

The following table represents the actual composition of the Fund's Mortgages by maturity:

Maturity Profile	Amount ($)	No. of Mortgages	% by $
0-<6 months	73,774,271	141	13.8%
6-<12 months	40,474,069	41	7.6%
1-<2 years	85,840,943	84	16.1%
2-<3 years	90,896,500	77	17.0%
3-<4 years	67,480,003	49	12.6%
4-<5 years	15,255,145	32	2.9%
5-<10 years	68,357,222	164	12.8%
10-<15 years	46,819,052	216	8.8%
15-<20 years	43,056,926	236	8.1%
20-<25 years	1,493,017	3	0.3%
25-<30 years	0	0	0.0%
Total	**533,447,148**	**1,043**	**100.0%**

Mortgage Loan to Valuation Ratios

The following table represents the actual composition of the Fund's LVR.

Loan to valuation ratio (LVR)	Amount ($)	No. of Mortgages	% by $
<30%	31,076,876	409	5.8%
30-<40%	68,551,549	159	12.9%
40-<50%	151,071,835	176	28.3%
50-<60%	128,884,585	149	24.2%
60-<70%	145,148,860	134	27.2%
70-<80%	4,247,563	10	0.8%
80-<90%	4,180,382	4	0.8%
90-<100%	229,350	1	0.0%
>100%	56,148	1	0.0%
Total	**533,447,148**	**1,043**	**100.0%**

Residential Mortgages with a LVR greater than two-thirds at the time of advance are required to have lender's mortgage insurance in place. The weighted average LVR was 50.8%.

Interest rates on Mortgages

The following table represents the actual composition of the Fund's interest rates on Mortgages.

Mortgage Split by Interest Rate	Amount ($)	No. of Mortgages	% by $
< or = 4.00%	236,324,467	607	44.4%
4.01%-4.50%	104,027,402	129	19.5%
4.51%-5.00%	89,878,754	155	16.8%
5.01%-5.50%	3,936,794	10	0.7%
5.51%-6.00%	12,342,957	47	2.3%
6.01%-6.50%	13,355,036	23	2.5%
6.51%-7.00%	10,993,513	18	2.1%
7.01%-7.50%	54,612,688	28	10.2%
7.51%-8.00%	7,975,537	26	1.5%
>8.00%	0	0	0.0%
Total	**533,447,148**	**1,043**	**100.0%**

Capitalised Interest

The Fund had 3 Mortgages where interest had been capitalised, totalling $17,979.58.

Derivatives

Sandhurst uses derivatives for hedging purposes, to help manage the interest rate risk of the Fund. Sandhurst generally hedges asset and liability exposures greater than $1,000,000 for net gaps of 12 months or longer and reviews the portfolio at least monthly to determine if further interest rate hedging is required.

Sandhurst does not intend to use derivatives to gear the Fund.

Non-Mortgage assets

In addition to Mortgages, the authorised investments of the Fund include the following asset classes:

- Mortgage Backed Securities (excluding other unlisted mortgage schemes);
- Australian Government securities (or securities issued by another entity backed by an Australian Government entity) or loan to an Australian Government entity (or other entity backed by an Australian Government entity);
- term deposits; and
- cash and cash equivalent assets.

The total value of non-mortgage assets is $917,341,350.

Fund Investment and diversification

Sandhurst's policy on diversification of assets is to ensure that adverse results from one security or class of securities will not have an unduly detrimental effect on the entire investment portfolio of the Fund. This policy applies to non-Mortgage assets and Mortgages.

Mortgage Backed Securities

The Fund sources Mortgage Backed Securities from various institutions (including the Bank). The Fund assesses the credit risks associated with each Mortgage Backed Security and invests only where there is strong credit characteristics. The Fund will only invest in Mortgage Backed Securities that are either assigned an internal investment grade rating or are rated investment grade by one of Standard & Poor's, Moody's, Fitch or Australia Ratings. By investing only in investment grade Mortgage Backed Securities the risk to the Fund is lessened as the Fund will receive interest and principal from the Mortgage Backed Securities ahead of holders of lower rated tranches.

Additionally, the Fund will only invest in Mortgage Backed Securities where the underlying loans have a maximum LVR of 95%.

The Fund had 1 Mortgage totalling $56,148 where its LVR moved to greater than 95% during the reporting period. This Mortgage is being managed in accordance with the internal Asset Management Policy to recover the overdue amount.

For those loans that have a LVR greater than 80% they usually would have lenders mortgage insurance. The Fund will also consider:

- Mortgage pool characteristics including but not limited to geographical distribution, concentrations of interest only and investor loans;
- servicer processes, underwriting and redemption policies;
- insurance on some or all of the Mortgages or other form of credit guarantees; and
- the capital structure, sources and degrees of subordination of the securities.

Purchased Mortgages

From time to time, Sandhurst may purchase Mortgages from various institutions (including the Bank).

These purchases are governed by a formal agreement and are conducted on commercial, arms-length terms.

When Sandhurst undertake a purchase of Mortgages from various institutions, Sandhurst will complete due diligence on the underwriting practices of the institution determining the method used to determine whether a borrower has capacity to service a Mortgage.

In most cases this assessment is based on a credit scoring model, which will take into account numerous factors.

Purchased Mortgages must meet strict eligibility criteria (including board approval) and are subject to a thorough due diligence process including ensuring the underlying Mortgages meet the criteria of:

- LVR in accordance with the maximum LVR table;
- first registered security;
- an assessment of credit risk;
- diversification of the loans meet the Fund's need; and
- Mortgages are performing with arrears no greater than 30 days. Sandhurst monitors the performance of these portfolios on an ongoing basis.

Directly Originated Mortgages

Sandhurst has a conservative lending approach and aims to provide capital stability and to avoid losses. Sandhurst adopts the below key principles in the approval and management of all Mortgages.

Sandhurst has an investment limitation in place that at the time of lending the maximum Mortgage loan size is limited to 5% of the value of the total assets of the Fund.

The Fund may also invest up to 15% of the Fund's assets in low doc Mortgages. See below for more information about low doc Mortgages.

Lending criteria and borrower's capacity to service and repay

All direct Mortgage applications are carefully considered by a specialist lending team and are subject to Sandhurst board approved delegated lending authorities.

The maximum LVRs for the Fund's direct Mortgage types, applied at the time of advance, are listed below.

Maximum LVRs	
Commercial	66.6%
Commercial (specialised security)	50%
Industrial	55%
Rural	40%
Residential (without Lenders Mortgage Insurance)	66.6%^
Residential (with Lenders Mortgage Insurance)	95%

^ Residential property Mortgages in excess of two-thirds of the valuation of the mortgaged property at the time of advance are or will be insured by an approved mortgage insurer.

Full doc Mortgages

Sandhurst applies strict lending criteria and fully evaluates the borrower's financial stability and ability to service the Mortgage. There is no maximum loan amount for any one borrower subject to, at the time of lending, the maximum mortgage loan size being limited to 5% of the total assets of the Fund. All Mortgages greater than $15 million require approval from at least three directors. The assessment guidelines include but are not limited to the consideration of:

- recent financial statements and/or tax returns;
- the borrower's credit history;
- quality of the underlying security; and
- past trading history and business background.

Low doc Mortgages

A low doc Mortgage is a Mortgage to a borrower who does not provide the standard supporting Mortgage application documentation and therefore carries higher risk. It does not mean the income comes from a non-traditional source. Sandhurst manages this risk by applying the following lending criteria:

- Maximum LVR of 66%. The applicable LVR is dependent on the Mortgage type e.g. rural or commercial special purpose.
- Sandhurst only accepts commercial low doc Mortgages, through selected approved partners.
- Sandhurst requires a first registered Mortgage as well as certification of financial stability from the borrower.
- The maximum loan amount for a low doc Mortgage is $2,000,000.

Securities

There is no requirement for the mortgaged property to be income producing for either full doc or low doc Mortgages. However, for full doc Mortgages, the capability of servicing total loan commitments from current income is expected to be proven. For low doc Mortgages, the borrower must declare they are capable of servicing total loan commitments.

Sandhurst will not invest in Mortgages that it regards as speculative in nature or lend or take security over development projects.

Mortgage approval

All direct Mortgage applications are carefully considered by a specialist lending team. Mortgage approvals are subject to Sandhurst board approved delegated lending authorities.

Administration

Sandhurst and its agents have dedicated teams and systems in place to manage the Mortgage portfolio. This includes systems that provide timely information to assist with the management of the collection of principal, interest and any arrears.

Investment in other unlisted mortgage schemes

The Fund does not invest in other unlisted mortgage schemes.

Related party transactions

Nothing in the Fund's constitution prevents Sandhurst as the responsible entity of the Fund from:

- dealing with itself, as the responsible entity of the Fund or in any other capacity, or with a member of the Bendigo and Adelaide Bank Group or Associated Company or any investor; and
- being interested in any contract or transaction with itself, as the responsible entity for the Fund or in any other capacity, or with a member of the Bendigo and Adelaide Bank Group, Associated Company or investor or retaining profits or benefits derived from any such contract or transaction.

Sandhurst has a process for managing conflicts of interest and related party transactions which ensures that all transactions entered into by Sandhurst are identified and assessed for any conflicts of interest. This process also ensures that all related party transactions are reasonable and are conducted in the normal course of business on an arm's length basis, under commercial terms and conditions. As such, investor approval is not sought for these transactions.

Sandhurst has appointed an Audit Risk and Compliance Committee, whose role includes, amongst other things, providing assistance and advice to the Sandhurst board in managing conflicts of interest and related party transactions.

The table below sets out related party arrangements the Fund has in place. All related party transactions are made on commercial and arm's length terms (i.e. they are on no more favourable terms than a non-related party). Any fees payable to a related party is, in Sandhurst's opinion, reasonable remuneration.

Transaction Type	**Related party**	**Value of financial benefit** (as at financial year ended 30 September 2019)	**Nature of relationship**
Fund investments with related parties	Bendigo and Adelaide Bank Limited	The Fund has $110,529,640 invested.	The Fund has funds on deposit with the Bank. The value of the financial benefit shows the market value of funds on deposit with the Bank.
Mortgage management service fees	Bendigo and Adelaide Bank Limited (Parent) and Rural Bank Limited (subsidiary of Parent)	The Fund paid a service fee of $794,938.	As part of its asset acquisition strategy, the Fund may from time to time purchase pools of Mortgages via equitable assignment from entities within the Bendigo and Adelaide Bank Group. The Fund pays management fees for Mortgage management services in relation to these purchased Mortgages.
Mortgage origination and management fees	National Mortgage Market Corporation Limited (subsidiary of Parent) or other related party[1]	The Fund paid a management fee of $463,890.	Mortgage origination and Mortgage management fees paid to National Mortgage Market Corporation Limited for Mortgage origination.

[1] The mortgage origination and management fees have been included as a part of the management costs of the Fund. The related party entity which provides mortgage origination and management services may change from time to time.

Directors of Sandhurst or directors of the Bank (or their immediate family) may obtain a Mortgage from the Fund. Any such transactions are conducted on no more favourable terms than a non-related party. The Fund does not lend money to Sandhurst, or any company in the Bendigo and Adelaide Bank Group or any Associated Company of the Bank.

From time to time related parties may invest in the Fund. Any such transactions are conducted on no more favourable terms than a non- related party.

In addition, the Bank provides advisory and administrative services to Sandhurst e.g. personnel, distribution, IT, payroll and legal services. Any fees paid to the Bank for these services are paid by Sandhurst from its own resources and not out of the assets of the Fund.

Sandhurst has also entered into distribution arrangements with Community Bank branches and franchisees. Under these arrangements, Sandhurst may pay a trailing commission of up to 0.35% p.a. on monthly average balances of investors introduced. The trailing commission arrangements are on arm's length terms and only paid where it is permitted by law (in particular, under the conflicted remuneration provisions of the Corporations Act) and do not impact returns to investors in the Fund.

Sandhurst may also pay ongoing commissions of up to 0.50% p.a. on Mortgage balances, for loans that are originated by Community Bank branches and franchisees. Such ongoing commissions are paid by Sandhurst and do not impact returns to investors in the Fund.

Please refer to the “Fees and Other Costs” section on page 19 of the PDS for further information about adviser remuneration and how these payments may be limited by law.

The risks with related party transactions is that the related party, for example a borrower or service provider, has not been assessed with the same rigor and independence and may not be monitored as robustly as an external party would be assessed and monitored, and the party does not perform as expected, which may adversely affect the Fund.

Valuation policy

The objective of the Valuation Policy (available on our website) is to ensure that a consistent framework is applied to property valuations. The valuation policy applies to direct Mortgages.

The Valuation Policy is required to ensure that the Fund’s financial position is correctly stated.

Properties are valued on an ‘as is’ basis. Sandhurst does not lend or take security over development projects. Security properties are valued by an independent registered valuer.

Most often, valuers will be a member of the Bank’s panel of valuers. Use of the panel ensures that there is sufficient rotation of valuers. Valuations from non-panel valuers may be accepted but must be specifically approved by Sandhurst management (e.g. instructions may be given to a valuer local to the area in which the security property is located, thus utilising the valuer’s local knowledge and expertise).

The valuer must be registered with the Australian Property Institute and the valuer’s professional indemnity policy is to be received, ensuring sufficient cover is held. The completed valuation report is to include a warranty stating that the report complies with all relevant industry standards and codes.

Properties must have a formal valuation dated no more than 3 months prior to credit consideration unless the approving mortgage officers are satisfied that reliance can still be placed on the value ascribed.

Under the Mortgages, Sandhurst reserves the right to obtain future up-to-date valuations of the property or properties offered as security at the borrower’s expense.

Sandhurst may exercise this option at its discretion for whatever reason during the term of a Mortgage.

However, the standard practice is not to obtain up-to-date valuations during Mortgage terms where the Mortgage is performing satisfactorily and there is no considered deterioration in circumstances specific to that Mortgage or the secured property.

Events that may require a new valuation, include the following:

- there is material deterioration in the primary source of payment and/or repayments fall 90 days in arrears;
- there is material deterioration of the condition of the security property since last valuation; or
- property values have generally declined and the customer’s security property requires early revaluation.

When a Mortgage presents for renewal or rollover, a revaluation is generally required if the existing valuation is greater than 7 years old unless the performance of the Mortgage and indications of the value of the property are satisfactory to Sandhurst.

Any further lending for existing customers where the security is held by Sandhurst will normally be supported by a valuation of not more than 3 months old.

As part of the valuation report the valuer must certify that they:

- have no interest (financial or otherwise) in the property being valued, or with borrowers;
- are independent to the credit transaction; and
- confirm that the valuation has been prepared for mortgage lending purposes.

The above-mentioned requirements help Sandhurst in managing any valuer conflicts of interest.

The valuation practices for properties securing loans purchased under a receivables purchase agreement are governed by the terms of the loan and the lenders’ policies and procedures.

Valuations will only be relied upon if conducted in accordance with the Valuation Policy.

Distribution practices

All the Fund's distributable income is sourced from income earned on the assets held in the relevant distribution period.

At the beginning of each quarter, Sandhurst announces an Indicative Rate of return, as an indication of the likely return, to be paid at the end of the quarter (net of fees and costs). Sandhurst may change the Indicative Rate for the quarter at any time (for example, due to unexpected market conditions) and will publish the revised Indicative Rate on its website sandhursttrustees.com.au/rates.

The actual rate paid at the end of the quarter may be higher or lower than the Indicative Rate, depending on the performance of the Fund.

The key factors that would have the most material impact on forecast distributions are:

- Interest rate movements;
- Default loans; and
- Asset allocation.

Interest rate movements

The distributable income is highly correlated with movements in market interest rates. If there are any significant movements in market rates between announcing the Indicative Rate and determining the actual rate at the end of the quarter, it may result in a positive or negative impact on the actual rate paid to investors.

Interest rate volatility limits are in place as a measure to manage interest rate volatility. Every 1% decrease in the official cash rate that was not forecast when setting the Indicative Rate can result in a 0.21% p.a. difference between the Indicative Rate and actual return paid.

Default loans

There is a risk that if the Fund suffers a capital loss (e.g. where a borrower defaults and the secured properties or the income of the Fund does not cover the loaned amount) then:

- it could result in the distributable income being impacted and consequently the actual rate paid at the end of the quarter may be lower than the Indicative Rate; and
- it could also result in the value of the assets of the Fund falling and consequently an investor may not receive the full value of the amount invested at the time of withdrawal.

It is not possible to accurately predict a future credit loss that may or may not occur. Sandhurst may change the Indicative Rate for the quarter during the quarter (but before the end of that quarter).

The Fund's sensitivity to credit losses during a quarter is 0.11%p.a. reduction in the distribution returns for every $400,000 written off during the quarter that was previously not forecast in setting the Indicative Rate.

Asset Allocation

Distributable income is impacted by the asset allocation of the Fund. If the asset allocation of the Fund changes significantly during a quarter, it is likely that these changes will have an impact on the Fund's distributable income.

This could be positive or negative, depending on the change.

The Fund's sensitivity to changes in asset allocation from higher earning loans to lower earning cash and cash equivalent assets is approximately 0.02% p.a. for a $10m asset allocation variance from the forecast.

The Fund does not retain any material excess returns earned by the Fund as all income after deducting expenses is distributed to investors quarterly.

Withdrawal arrangements

It is important that investors understand realistic timeframes for satisfying withdrawal requests from the Fund as well as the risks that withdrawals from the Fund could be frozen as required under the Corporations Act.

As at 31 March 2020, the Fund is treated as a liquid investment under the Corporations Act.

When the Fund is liquid, an investor's initial investment and each subsequent contribution is fixed for 90 days and is then available for withdrawal under normal circumstances. This means for the first 90 days after each contribution an investor does not have access to that contribution amount.

Following the 90-day period, the investor may apply to withdraw those funds at any time. We will aim to process any withdrawal request as soon as practicable (usually on the same day).

Investors can exercise their withdrawal rights and access their money by using the Bank's related banking facilities, submitting a withdrawal request by mail or visiting any Bendigo Bank branch.

There is a risk that withdrawal proceeds will not be paid within a reasonable period after the initial 90-day investment term. Sandhurst will aim to satisfy withdrawal requests as soon as practicable. However, under the Fund's constitution, Sandhurst has up to 12 months to satisfy withdrawal requests and is not obliged to satisfy any withdrawal requests within a shorter period. Sandhurst may also delay or refuse withdrawal requests where it is in the best interests of investors as a whole to do so.

Where the Fund ceases to be liquid under the Corporations Act, investors may only withdraw their investments subject to a withdrawal offer made by Sandhurst. Sandhurst is not obliged to make withdrawal offers under the Corporations Act if the Fund is illiquid.

In managing withdrawal requests Sandhurst balances the maturity of the Fund's assets with the maturity of the Fund's liabilities in the short-term by managing the Fund's cash and cash equivalent assets as detailed in the "Liquidity" section of this Report. The Fund currently holds sufficient assets that are readily realisable to meet forecast future withdrawal requests.

Withdrawals are funded from the Fund's assets. The investment policy is to hold at least 10% of the Funds' assets in liquid assets, which are used to fund withdrawal requests within the Fund. Sandhurst undertakes cashflow forecasting on a quarterly basis to actively manage the Fund's liquidity.

For information on how to withdraw funds, please refer to the "Accessing your money" section on page 23 of the PDS.

Risk Factors

There are a number of risks associated with the Fund, which are further described in the "Risks of investing in the Fund" section on page 7 of the PDS. Liquidity risk is the key risk that can impact an investor's ability to withdraw from the Fund. Mortgages are relatively illiquid when compared to some other asset classes and delays can occur in converting these investments into cash. Sandhurst actively manages liquidity risk by holding a percentage of the total assets of the Fund in liquid investments. There is a risk that the Fund could suffer a capital loss. Sandhurst manages this risk by adopting conservative investment policies, applying strict lending criteria and only lending to a maximum LVR of two-thirds of the security value except for residential Mortgages where lender's mortgage insurance is provided.

Minimum Investment Balance

If the current value of your investment falls below the minimum investment balance of $2,000, Sandhurst may at its discretion redeem your interests in the Fund and pay the proceeds to you.

For further information, contact our Customer Service Centre on 1800 634 969 or visit our website: www.sandhursttrustees.com.au