

31 December 2020

Australian Securities and Investments Commission Regulatory Guide RG 45 Benchmark and Disclosures Principles

The Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 45, 'Mortgage schemes: Improving disclosure for retail investors' (**RG 45**) sets out benchmarks and disclosure principles for unlisted mortgage schemes, against which the responsible entity of the scheme must report. If a mortgage scheme does not meet any benchmark, the responsible entity must give details of why that benchmark is not being met.

There are 5 benchmarks and 5 disclosure principles that apply to the RF Eclipse Select Credit Fund (**Fund**). These reflect the information that ASIC considers key to enable retail investors to analyse the risks of investing and continuing to hold interests in unlisted contributory mortgage schemes, such as the Fund.

This report shows the status of the Fund in respect of the benchmarks set and the disclosure principles adopted by ASIC. This information has been prepared by RF Eclipse Limited ACN 089 265 270, AFSL 238546 (**RF Eclipse**) the responsible entity of the Fund.

To the extent that this information is advice, it is general advice only. It does not take into account the objectives, financial situation or needs of any investor or prospective investor. The current Product Disclosure Statement (**PDS**) dated 19 December 2019 for the Fund should be read in full prior to making any decision to invest.

When accessing this information on-line, a copy of the information may be printed for personal use only. Alternatively, a copy can be forwarded on request. This information should be read in conjunction with the PDS which defines some of the terms and also provides more detailed information.

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This information is current as at 31 December 2020 (or as specified in the particular item). It will be updated as soon as practicable after any material adverse change and, in any event, semi-annually. Updated information will appear on RF Eclipse's website at www.rfeclipse.com

Benchmarks

Benchmark 1: Liquidity (applicable to pooled mortgage schemes only)

This benchmark does not apply to the Fund.

Benchmark 2: Scheme Borrowing

Details of the Benchmark

RF Eclipse does not have current borrowings and does not intend to borrow on behalf of the Fund.

Meeting the Benchmark

RF Eclipse meets this benchmark

For additional disclosure on this benchmark see Disclosure Principle 2: *Scheme borrowing* below.

Benchmark 3: Loan Portfolio and Diversification (applicable to pooled mortgage schemes only)

This benchmark does not apply to the Fund.

Benchmark 4: Related party transactions

Details of the Benchmark

RF Eclipse does not lend to related parties of RF Eclipse or to the Fund's investment manager.

Meeting the Benchmark

RF Eclipse does not meet this benchmark

RF Eclipse has not historically made loans to a person which is a related party of RF Eclipse, RF Capital or their related entities or associates (including employees, associates, agents, officers and other individuals) and with exception of the loan referred to below, will continue with this practice. Members are advised that during February 2020 RF Eclipse lent to a borrower who is treated as a related party of RF Capital. The loan was made at an LVR of 31.25% and for a sum that represents 1.46% of the value of the Fund as at 31 December 2020 and was fully disclosed in the relevant Syndicate PDS. RF Eclipse applied to it the same lending criteria as it does to non-related party loans, but additionally addressed any potential conflicts of interest.

For additional disclosure on this benchmark see Disclosure Principle 4: *Related party transactions* below.

Benchmark 5: Valuation Policy

Details of the Benchmark

In relation to valuations for the Fund's Mortgage Investments and their security property, the board of RF Eclipse 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) valuer rotation and diversity;
- (e) in relation to the security property for a loan, an independent valuation to be obtained:
 - (i) before the issue of a loan and on renewal:
 - for development property, both on an 'as is' and 'as if complete' basis; and
 - for all other property, on an 'as is' basis; and

Meeting the Benchmark

RF Eclipse does not meet the Benchmark.

RF Eclipse meets those aspects of the benchmark in paragraphs (a), (b), (c), (d) and (e)(ii).

With respect of paragraph (e)(i) there are limited circumstances in which a valuation is not required before the issue or renewal of a loan, as described below.

- (ii) within two months after the directors form the view that there is a likelihood that a decrease in the value of the security property may have caused a material breach of the loan covenant.

RF Eclipse does not meet this benchmark for the following reasons:

1. A current Valuer General's assessment may be accepted where the loan to valuation ratio (**LVR**) does not exceed 30%. If so, this will be stated in the relevant Syndicate PDS.
RF Eclipse considers that this is an acceptable practice as that assessment, made for rating and taxation purposes, is of the unimproved land value of the Security Property, and does not include the value of any home or other structures and improvements.
2. RF Eclipse may not obtain a new valuation on the extension of a loan facility with a further term of 12 months or less. The cost is not warranted in all cases and RF Eclipse is satisfied that the following alternative and additional practices are adequate. Each renewal is assessed on a case by case basis and RF Eclipse will order an updated valuation if:
 - the latest valuation was obtained more than two years ago;
 - there is a decline in the market that may impact on the value of the Security Property and the LVR (including but not limited to where this may have caused a material breach of a loan covenant); or
 - a Syndicate Member transfers their interest in the Syndicate.

For additional disclosure on this benchmark, see Disclosure Principle 5: *Valuation Policy* below.

Benchmark 6: Lending principles – loan to valuation ratios

Details of the Benchmark	Meeting the Benchmark
As the Fund directly holds mortgage assets:	<i>RF Eclipse meets this benchmark</i>
(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.	

The Fund's constitution states that the LVR on any first registered security must not exceed **65.0%** of its independent value determined on an 'as is' basis and an 'as if complete' basis for Construction Loans.

The maximum LVR on any second registered mortgage, including for Construction Loans must not, when taken with the amount advanced on the first registered mortgage and any equal ranking securities, exceed **80.0%** of its independent value determined on an 'as is' basis and an 'as if complete' basis for Construction Loans.

For additional disclosure on this benchmark see Disclosure Principle 6: *Lending principles – Loan to valuation ratios* below.

Benchmark 7: Distribution practices

Details of the Benchmark	Meeting the Benchmark
RF Eclipse will not pay current distributions from scheme borrowings.	<i>RF Eclipse meets this benchmark</i>

For additional disclosure on this benchmark see Disclosure Principle 7: *Distribution practices* below.

Benchmark 8: Withdrawal arrangements – non liquid schemes

Details of the Benchmark

For non-liquid schemes, the responsible entity intends to make withdrawal offers to investors at least quarterly.

Meeting the Benchmark

RF Eclipse does not meet the benchmark

However, as is stated in RG 45.71, the benchmark can be considered to be inapplicable as RF Eclipse has disclosed in the PDS that investors have no ability to withdraw from the Syndicate until the Mortgage Investment to which the loan relates has been repaid.

For additional disclosure on this benchmark, see Disclosure Principle 8: *Withdrawal arrangements* below.

Disclosure Principles

Disclosure Principle 1: Liquidity (*applicable to pooled mortgage schemes only*)

This disclosure principle does not apply to the Fund.

Disclosure Principle 2: Scheme borrowing

If the Fund has borrowings, the responsible entity should disclose a number of matters including those relating to:

- the total debts due, their maturity profile, undrawn credit facility and whether refinancing or sale of assets is likely during various periods;
- why RF Eclipse has borrowed the money, including whether the borrowed funds will be used to fund distributions or withdrawal requests;
- any material loan covenant breaches;
- the fact that the amounts owing to lenders and other creditors rank before an investor's interests in the Fund; and
- the risks associated with the Fund's borrowings and credit maturity profile.

RF Eclipse confirms that the Fund does not have current borrowings and does not intend to borrow on behalf of the Fund.

Disclosure Principle 3: Loan portfolio and diversification (*applicable to pooled mortgage schemes only*)

This disclosure principle does not apply to the Fund.

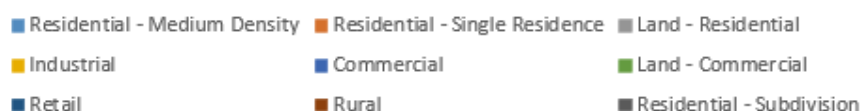
While disclosure as to the various Mortgage Investments made by the Fund is not required by this principle, RF Eclipse has provided the following information.

Portfolio Summary

	Totals (\$)	Construction (\$)	Development (\$)	Investment (\$)	Residual Stock (\$)
Maximum loan size (approved limit)	15,000,000	5,042,000	15,000,000	10,000,000	7,250,513
Minimum loan size (approved amount)	59,000	239,000	456,000	59,000	229,550
Average loan size (drawn amount)	2,170,131	1,853,318	5,472,167	1,790,735	1,950,496
Number of loans	63	6	6	42	9
Weighted average LVR ¹	53.3%	54.0%	50.3%	53.9%	56.0%
Weighted average return to investors ²	6.9%	7.0%	7.0%	6.7%	7.1%
Investor funds invested (a)	136,718,252	11,119,910	32,833,000	75,210,880	17,554,462
Funds in trust (b)	29,069,419				
Assets under management (a+b)	165,787,670				

1. Based on approved limit and "on completion" valuation
2. Weighted average annual rate of return for Mortgage Investments drawn and excluding interest earned on funds in trust

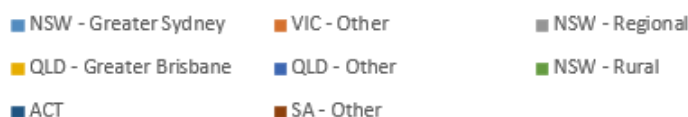
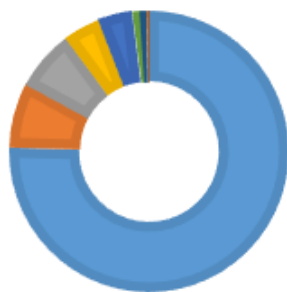
Investment by sector



	Facility Limit ¹ (\$)	% of Total Facility Limit ¹	Number of Loans	% of Total Loans	Weighted Average LVR ²
Residential - Medium Density	13,188,910	9.6%	6	9.5%	54.8%
Residential - Single Residence	31,179,000	22.8%	24	38.1%	51.5%
Land - Residential	28,036,914	20.5%	12	19.0%	51.4%
Industrial	4,887,000	3.6%	2	3.2%	65.0%
Commercial	17,793,000	13.0%	7	11.1%	55.1%
Land - Commercial	25,817,000	18.9%	3	4.8%	51.9%
Retail	3,568,880	2.6%	5	7.9%	52.6%
Rural	2,025,000	1.5%	2	3.2%	32.4%
Residential - Subdivision	10,222,548	7.5%	2	3.2%	61.4%
Total	136,718,252	100%	63	100%	53.3%

1. The total balance of the Facility Limit comprises loan funds advanced to borrowers
2. Based on approved limit and "on completion" valuation

Investment by region



	Facility Limit ¹ (\$)	% of Total Facility Limit ¹	Number of Loans	% of Total Loans	Weighted Average LVR ²
NSW - Greater Sydney	103,127,340	75.4%	45	71.4%	53.5%
VIC - Other	10,222,548	7.5%	2	3.2%	61.4%
NSW - Regional	9,543,000	7.0%	6	9.5%	45.3%
QLD - Greater Brisbane	5,867,000	4.3%	3	4.8%	52.9%
QLD - Other	5,286,364	3.9%	3	4.8%	54.0%
NSW - Rural	1,275,000	0.9%	1	1.6%	32.7%
ACT	1,012,000	0.7%	2	3.2%	55.9%
SA - Other	385,000	0.3%	1	1.6%	55.0%
Total	136,718,252	100.0%	63	100.0%	53.3%

1. The total balance of the Facility Limit comprises loan funds advanced to borrowers

2. Based on approved limit and 'on completion' valuation"

Loans in default

The RF Eclipse Credit Committee continually monitors the level of Mortgage Investments that are in default and reviews the defaults on a weekly basis. A summary of defaults is disclosed in quarterly reports circulated to the Board of Directors and the Risk and Compliance Sub-Committee.

Default may be interest arrears for non-payment of monthly interest for a period of more than 30 days or principal default due to non-payment of principal on the maturity date. Where a loan is in interest arrears or principal default, RF Eclipse has a range of options including the enforcement of the security and sale of the security property.

Principal default can be for a range of reasons including, but not limited to, non-payment of principal on the maturity date despite the borrower continuing to meet monthly interest payments.

As at 31 January 2021, the Fund had:

- 61 Mortgage Investments;
- 3 loans that were in interest arrears for more than 30 days. These loans represented 3.76% of the value of investor funds invested and 4.92% of the total number of Mortgage Investments in the Fund; and
- 6 loans that were in principal default for more than 30 days. These loans represented 5.81% of the value of investor funds invested and 9.84% of the total number of Mortgage Investments in the Fund. 1 of the loans that is in interest arrears is also in principal default and is included in the total number of loans in principal default. The other 5 loans that are in principal default are not in interest arrears.

In respect to the loan that is in both interest and principal default, the Responsible Entity obtained an order for default judgment and possession of the security property. The Responsible Entity proceeded to sell the security property and, following the sale, the principal amount of \$335,000 remains outstanding. The Responsible Entity has continued recovery action against the Guarantor. This loan represents 0.25% of the value of investor funds invested and 1.64% of the total number of Mortgage Investments in the Fund.

Fund Assets other than mortgage loans

At 31 December 2020, the total assets of the Fund were as follows:

Nature of Asset	Value (\$)	Proportion of Total
Cash & cash equivalents	35,631,714	20.6%
Trade & other receivables	539,767	0.3%
Investor funds invested	136,718,252	79.1%
Total	172,754,390	100%

Ranking of securities

All loans were secured by first registered mortgages to at least the minimum loan to valuation ratio for that loan.

Borrowers and lending

There has been no change in the general profile of borrowers from that described in the PDS, nor of the loan approval procedures adopted by the RF Eclipse Credit Committee.

Credit worthiness of borrowers

There has been no change in the procedures adopted by the RF Eclipse Credit Committee as to the manner or extent to which it assess the credit worthiness of a borrower from that described in the PDS.

Types of securities

There is no change in the types of securities on which RF Eclipse will lend. There is no requirement that the security be income producing.

Loan documentation

There has been no change in the type of loan documentation from that described in the PDS.

Investment in other unlisted mortgage funds

RF Eclipse does not invest in other mortgage funds. Accordingly, it has no policy as to whether such a scheme must itself meet the benchmarks or apply the disclosure principles.

Disclosure Principle 4: Related party transaction

If the responsible entity enters into related party transactions, RF Eclipse should disclose details of those transactions including:

- the value of the financial benefit;
- the nature of the relationship (i.e. the identity of the related party and the nature of the
- arrangements between the parties, in addition to how the parties are related for the purposes of the Corporations Act 2001 or ASX Listing Rules – for group structures, the nature of these relationships should be disclosed for all group entities);
- whether the arrangement is on 'arm's length' terms, is reasonable remuneration, some other exception applies, or ASIC has granted relief;
- whether scheme member approval for the transaction has been sought and, if so, when (e.g. if member approval was obtained before the issue of interests in the scheme);
- the risks associated with the related party arrangement; and
- the policies and procedures that RF Eclipse has in place for entering into related party transactions, including how compliance with these policies and procedures is monitored.

With the exception of the single loan disclosed in relation to Benchmark 4: *Related party transactions* the Fund will not make any loan to any related party of the Fund. This includes the Directors and shareholders of RF Eclipse, RF Group or any entity associated with any of them, together with their respective spouses or employees. As part of its Management of Conflicts of Interest Policy, no borrowing is permitted by a related party of the Fund. From time to time RF Eclipse, RF Group or their associates (including associated staff and other individuals) may (in various capacities) deal in transactions or interests identical to those described in the PDS and may invest in the Fund or any Syndicate, and as such will derive interest income in the same way as any other member of the Syndicate or the Fund.

The policy of RF Eclipse as to how it manages any potential conflict of interest that may arise in relation to any related party investment in a Mortgage Investment or any other related party transaction is described in section 10.7 of the PDS.

Disclosure Principle 5: Valuation policy

The responsible entity must disclose:

- where investors may access the Fund's valuation policy;
- the processes that the directors employ to form a view on the value of the security property;
- the frequency of valuations; and
- any material inconsistencies between any current valuations over security property and the Fund's valuation policy.

Valuation Policy

The Valuation Policy adopted by RF Eclipse is available by request or can be downloaded from RF Eclipse's website at www.rfecclipse.com.

Valuation Processes

The processes that the board employs to form a view on the value of the security property are described in the PDS. A formal valuation is obtained from an independent valuer who meets the criteria set out in the Valuation Policy. In accordance with the Valuation Policy, the Credit Committee may adopt an alternative method of estimating the value of a security property and will disclose that alternative method in the relevant Syndicate PDS. Upon signing the Syndicate Application Form, each Syndicate Member agrees to adopt that value.

Diversity and rotation of valuers

Under its Valuation Policy, RF Eclipse maintains a panel of valuers who are independent, experienced and qualified to perform valuations on Security Property. No valuer may provide more than three consecutive valuations of any single Security Property, other than for a Construction Loan. No valuer may conduct more than one-third of the total valuation work for the Fund based on either the total number of loans or by value of funds under management at the time of the valuation.

This policy as to rotation and diversity of valuers recognises that it may not be possible at any particular time to achieve the preferred one-third position and the overriding requirement that the valuation meets the competency, independence, experience, specialisation and professional indemnity insurance criteria adopted by RF Eclipse together with the ability of the Fund to rely on the valuation as having been provided for the purpose of the loan.

Frequency of valuations

The valuation of the Security Property must not be more than six months old when the particular Mortgage Investment is made or a Member is placed in a Syndicate unless an alternative method of estimating the value of the property has been disclosed in the Syndicate PDS.

When a Mortgage Investment is renewed, RF Eclipse assesses on a case by case basis whether an updated valuation is required. For further information on the Valuation Policy adopted by RF Eclipse, refer to Section 4.8 in the PDS and to Benchmark 5: *Valuation policy* above.

Material inconsistencies

As at 31 December 2020 there were no material inconsistencies between any current valuation and RF Eclipse's Valuation Policy.

Disclosure Principle 6: Lending principles – loan to valuation ratios

As the Fund will directly hold mortgage assets the responsible entity must disclose:

- (a) the maximum and weighted average loan to valuation ratios for the Fund as at the date of reporting; and
- (b) where funds are lent for property development:
 - the criteria against which the funds are drawn down;
 - the percentage (by value) of the completion of any property that is under development as at the date of reporting;
 - the loan to valuation ratio of each property development loan as at the date of reporting.

Mortgage Investments are held by Syndicate Members in each Syndicate, rather than by the Fund itself. The LVR for a Mortgage Investment is provided in the Syndicate PDS. Please also refer to the information provided in the Portfolio summary in Disclosure principle 3 : *Loan portfolio and diversification* above.

Disclosure Principle 7: Distribution practices

The responsible entity makes distributions to investors from the Fund. The responsible entity should therefore disclose:

- the source of the current and forecast distributions (e.g. from income earned in the relevant distribution period, operating cash flow, financing facility, capital, application money);
- if the distribution is not solely sourced from income received in the relevant distribution period, the reasons for making those distributions and the risks associated with such distributions;
- if the distribution is sourced other than from income, whether this is sustainable over the next 12 months;
- when the responsible entity will pay distributions and the frequency of payment of distributions.

Monthly interest paid by the borrower in respect of the particular Mortgage Investment is distributed to the Syndicate Members in their respective proportions. If the income received from the borrower is insufficient in any monthly period to enable a distribution of interest to be made in full or in part, interest is distributed to Syndicate Members only to the extent that the income has actually been received from the borrower.

Disclosure Principle 8: Withdrawal arrangements

The responsible entity should disclose:

- the Fund's withdrawal policy and any rights that RF Eclipse has to change the policy;
- the ability of investors to withdraw from the Fund when it is liquid;
- the ability of investors to withdraw from the Fund when it is non-liquid;
- any significant risk factors or limitations that may affect the ability of investors to withdraw from the Fund;
- how investors can exercise their withdrawal rights, including any conditions on exercising these rights;
- the approach to rollovers and renewals, including whether the 'default' is that investments in the Fund are automatically rolled over or renewed;
- if the withdrawals from the Fund 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;
- the maximum withdrawal period that applies to the payment of withdrawal requests when the Fund is liquid;
- any rights RF Eclipse has to refuse or suspend withdrawal requests; and
- the policy of the Fund on balancing the maturity of its assets with the maturity of its liabilities and the ability of its members to withdraw (e.g. if the Fund has a policy of ensuring that sufficient assets are held in readily realisable investments to meet future withdrawal requests, RF Eclipse should state this in its PDS, provide details of the source of the realisable investment and report against this in its ongoing disclosure).

If the Fund promotes a fixed redemption unit price for investments (e.g. \$1 per unit), RF Eclipse must clearly disclose details of the circumstances in which a lower amount may be payable, details of how that amount will be determined and the impact of a default under the Fund's mortgage assets on investors (e.g. on investor distributions and the unit price).

Members should note:

- a Member may request to withdraw any Holding Monies that have not been committed to a Syndicate by submitting a withdrawal request in such form required by RF Eclipse;
- if a Member has committed to invest in a Mortgage Investment, their Holding Monies will remain committed to that Mortgage Investment for 60 days from the date the monies were committed. If the Mortgage Investment is not settled within 60 days, the Holding Monies may then be allocated to another selected Mortgage Investment or withdrawn;
- Syndicate Members may not withdraw their investment in a Syndicate until the loan has been repaid or the Security Property realised, the proceeds are available for distribution and the Syndicate is terminated; and
- any request by the borrower for an extension or variation to the term of a Mortgage Investment must be agreed to by the Syndicate Members. A Syndicate Member is under no obligation to agree to the extension or variation and may request the withdrawal of their investment from the Syndicate.

Please refer to the PDS for further information.

Issued: 25 February 2021