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2021 ANNUAL UPDATE
SCHRODERS RF SELECT CREDIT FUND ARSN 54 089 265 270 (FORMERLY KNOWN AS RF ECLIPSE SELECT CREDIT FUND)

Schroders RF Limited is pleased to present the financial statements for the 12 months to 30 June 2021 (Financial Year) for the Schroders RF Select Credit Fund (Fund).

The financial statements are available on our website at www.schrodersrf.com

Portfolio overview

At 30 June 2021, the Fund held $168.84 million of assets under management representing:

- 60 Mortgage Investments with total investors' funds invested $151.11 million; and
- $17.73 million of cash in trust.

For the Financial Year, Members received a weighted average return of 6.8% per annum across the whole portfolio, with individual Members receiving between 4.95% and 8.5% per annum depending upon the nature of their specific Mortgage Investment. This return was achieved while holding a conservative weighted loan to valuation ratio (LVR) of 52.85% across the portfolio.

COVID-19 and the Delta variant

As the pandemic persisted into the 2021 financial year, the Credit Committee continued to adopt the more conservative lending model that was first introduced at the commencement of the pandemic. Additional measures and enhanced due diligence processes continued to be applied as a response to the market uncertainties.

All loans were constantly monitored to identify any potential risks or early signs of distress particularly as parts of the country continued to be subjected to lockdowns to reduce mobility and virus transmission.

During this period, and the extended lockdown for the Greater Sydney area, no requests for 'loan repayment holidays' were made by Borrowers; however transaction flow, valuer access to properties and the time taken to document new transactions were all impacted.

To ensure workforce protection, all staff again worked remotely for long periods where staff remained focused on customer outcomes and business operations were maintained. Staff have now returned to normal office attendance and continue to adhere to workforce protection measures.

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Schroders RF Limited ABN 54 089 265 270 AFSL 238546
as Responsible Entity for
Schroders RF Select Credit Fund ARSN 090 994 326 and
Schroders RF Diversified Credit Fund ARSN 606 591 100

Member returns

The Fund's continuing objective is to provide Members with stable and recurring income with low volatility while preserving Members' capital.

The RBA cash rate continued to be at a historic low which, together with other economic uncertainties, resulted in additional pressures on interest rates. While there generally was a decrease in the interest rates offered to Members, the average return for the financial year was 6.8% per annum across the whole portfolio.

The RBA has indicated that it will not increase the cash rate until inflation is sustainably within the 2 to 3% target range. It is not expected that this condition will be met before 2024 and low interest rates will continue to be with us for some time.

During the financial year an amount was written off for the residual portion of a construction loan in Sydney. On the recommendation of the Credit Committee and the Board that there was no likelihood of recovery from the Guarantor, the remaining balance of the impaired loan was written off and unfortunately the Members in the Syndicate experienced a capital loss. This loan was originated in 2017 and the default and loss are specific to the circumstances of the Borrower and Security Property and not as a result of changing conditions due to the pandemic.

There are no other impaired loans in the Fund at the time of this update.

Real Estate market conditions

Residential markets across the country experienced very strong growth during the financial year with demand to purchase at elevated levels. As a result of restrictions and the inability to travel, household savings have reached levels not seen for many decades and there has been a substantial increase in home renovations. It is anticipated that the residential market will continue to be strong, however supply may be constrained with a decrease in active listings.

Apartment prices have been slower to see this same momentum, however boutique developments in prime locations remain popular.

The industrial, logistics and storage sector also experienced strong growth with an increase in demand for quality well-located sites, which was partially driven by the growth in e-commence due to the lengthy lockdowns.

This increase in demand was not limited to capital cities with regional and sub-regional areas also experiencing growth in the residential market and increased activity for purchases of shopping centres, service stations and development sites.

On completion of projects, presale contracts continued to settle and loans are being repaid in a timely manner.

Loan pipeline

We have seen an increase in new loan applications and expect this trend to continue over the coming months. During the last year, we expanded our Origination Team to include very experienced Executives in Queensland and Victoria. We are now in a position to present a more varied flow of transactions suitable for Member and Investor consideration.

However, we remain cautious in the current environment. We continue to adopt a conservative lending model when assessing potential transactions and take into account the ongoing economic uncertainty and the potential impact of a surge in active cases following the lifting of restrictions and increased mobility.

The Credit Team and Credit Committee have focused on ensuring that potential construction loan transactions have a suitable interest and timing buffer in place regarding the completion of the project and a suitable contingency for potential cost and time overruns. There is also additional focus on the borrower implementing realistic timeframes to achieve the sale of assets, particularly where this is the primary source of repayment of the debt.

Competition for funding is strong and the challenge continues to be striking the correct balance between LVR, interest rates and risk assessment while remaining competitive with other non-bank lenders and market participants.

Economic outlook

Economic conditions in Australia appear to be recovering however there continues to be a high degree of uncertainty, particularly with unemployment, high government debt as a result of pandemic support programs and a downturn in tax revenues.

The recent lockdowns have seen a surge in online expenditure and adaptations to working remotely and it remains unclear how retail outlets and offices in traditional locations will be impacted in the short to medium horizon.

Migration and tourism will continue to be impacted until high vaccination coverage is achieved and the remaining restrictions lifted.

Joint Venture and Board changes

On 1 July 2021 we welcomed Sam Hallinan and Murray Coble to the Board. These appointments followed the acquisition by Schroders of 50.1% of Schroders RF and the retirement of Dr Bob Edgar and James McNally as non-executive directors. I would like to thank Bob and James for their significant contributions and leadership and wish them well for the future.

We are excited to welcome Schroders as a shareholder. Schroders has an outstanding and distinguished global pedigree in asset and investment management and their experience, together with the real estate pedigree of the Roberts Group and RF Eclipse team, position Schroders RF as a strong participant in the real estate debt market. The combination of the Schroders and Roberts teams will enable further expansion of the business and the ability to deliver new investment opportunities to Members and Investors.

The new Board is very respectful of the past origins of the business and is committed to its future success. I am honoured to be charged with continuing to lead the business and to have the continued support and assistance of the existing management and team members who also transitioned to the Schroders RF joint venture.

Looking ahead

The past year has been challenging, both from a business and a personal perspective. We did not expect that the restrictions we experienced in April 2020 would continue to affect us in 2021. As I write this update, the extended lockdown has been lifted and we are slowly and cautiously returning to the new 'normal'.

While we adapt to this uniquely challenging environment, we will continue to apply the same measured and conservative approach to lending to satisfy the Fund's objectives in the year ahead.

Once again, I thank Members for their continued support.

Yours sincerely,

Michael Vella

Chief Executive Officer
Schroders RF Limited

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