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2022 ANNUAL UPDATE

SCHRODERS RF SELECT CREDIT FUND ARSN 54 089 265 270

Schroders RF Limited is pleased to present the financial statements for the 12 months to 30 June 2022 (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 2022, the Fund held $176.93 million of assets under management representing:

- 59 Mortgage Investments with total investors' funds invested $162.21 million; and
- $14.72 million of cash in trust.

For the Financial Year, Members received a weighted average return of 6.0% per annum across the whole portfolio, with individual Members receiving between 5.50% and 6.30% 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 48.9% across the portfolio.

Member returns

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

While the RBA had previously indicated that it would not increase the cash rate until 2024, the RBA implemented consecutive cash rate increases in the June 2022 quarter due to inflationary pressures at both the domestic and global level. This saw an increase in interest rates payable by Borrowers and, in turn, an increase in the returns paid to Members for new loan opportunities.

The RBA expects inflation to peak later this year and there will be further increases in the interest rates over the months ahead. Schroders RF will continue to factor potential increases in the cash rate into Borrower pricing and the returns offered to Members.

Real Estate market conditions

Residential markets across the country experienced very strong growth during the financial year with demand to purchase at elevated levels. The increase in interest rates did see an easing of conditions in the established housing market with developers reporting slightly reduced foot traffic and interested parties taking longer to commit to a purchase. Apartment prices have been slower to decline and boutique developments in prime locations remain popular.

Pleasingly, we have not seen any evidence of non-completion of presales or any failure to settle purchase contracts.

The industrial, logistics and storage sector also experienced continued strong growth with an increase in demand for quality well-located sites. ‘E-commerce’ has driven very strong demand for warehouse space as consumers continued to embrace home delivery for both perishable and non-perishable items as a means of satisfying direct needs.

The 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.

The rising interest rates have resulted in a fall in buyer confidence and a decline in housing prices in most cities and regions after the earlier large increases. There remains a scarcity of stock for both rental and owner occupation and the increase in migration and international student numbers to pre-pandemic levels will continue to put pressure on housing pricing and availability.

Loan pipeline

2022 saw an increase in new loan applications and these trends are anticipated to continue over the coming months. Rising interest rates will see some developers temporarily place projects on hold until conditions and pricing stabilise.

We remain cautious in the current environment and continue to adopt a conservative lending model when assessing potential transactions. In assessing potential construction loans, the Credit Team and Credit Committee ensure there are appropriate interest and timing buffers for completion of the project, together with the retention of 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. Weather remains a key consideration when considering timeframes for the delivery of projects. Very wet conditions from late 2021 have continued in NSW and QLD through the first half of 2022, with some 75 working days lost on construction sites since January 1, 2022. The majority of construction projects in these states are 90-120 days behind. Predictions are that this may continue for the balance of 2022, so, in consideration of project proposed timing it is another factor to consider.

Competition for funding is strong and there continues to be the challenge of adopting a conservative approach and remaining competitive with other non-bank lenders and market participants.

Key Hires

In May 2022, Schroders RF Limited appointed Yossi Kraemer as head of distribution to drive distribution and fund strategies across the Schroders RF business. Mr Kraemer has over 25 years’ experience in global real estate finance and capital markets with extensive experience in real estate structured products and capital raising. He most recently worked at Qualitas where he led the group’s Institutional Capital strategy and fund creation role for almost a decade.

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New Product Disclosure Statement

On 29 September 2022 an updated Product Disclosure Statement (PDS) was issued to comply with a new fees and costs disclosure regime. The updated PDS is available on our website at www.schrodersrf.com . The fees and costs section in the Syndicate PDS document has also been updated to comply with the disclosure regime.

COVID and emerging variants

The impacts of COVID and variants continued to be felt in the 2022 financial year. While the Omicron variant resulted in high levels of staff absenteeism, the strain had limited impact on output and employment both of which are back above pre-pandemic levels. Beyond the impact of the border closure, there are few signs of COVID having a permanent impact on labour supply and productivity. Nevertheless, the potential for new variants continues to pose a downside risk to the economy.

Data Breaches

SRF is committed to the protection of personal privacy and information and takes numerous steps to protect your information and to ensure compliance with applicable data protection laws. Our Privacy Policy is available on our website at www.schrodersrf.com

We will continue to implement controls for high-risk processes to minimise the risk of fraud or the use of compromised data as a result of the recent Optus data breach.

Economic outlook

The Australian economy continued to grow solidly however increases in interest rates has seen an easing in the established housing market alongside a softening in household demand for credit. Supply constraints and elevated demand pressures are expected to persist through 2022 with headline inflation forecast to peak above 7 percent.

Australia is close to full employment and the tightness in the labour market is driving an acceleration in wages growth however consumer price inflation has continued to outstrip wages. The increase in the migration cap and tax changes to aid pensioner participation in the workforce are projected to help alleviate labour shortages however increased migration could see significant upward pressures on rents and house prices.

The outlook for global economic growth has deteriorated and poses a key uncertainty. Economic ramifications from the Ukraine-Russia conflict will continue into 2023 with supply chain linkages impacted and adding to the post-COVID supply pressures. Leading recession indicators in North America and Europe are increasingly signaling a future downturn, as rising interest rates combine with soaring inflation and limited savings buffers for households.

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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

Looking ahead

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 and Investors for their continued support.

Yours sincerely,

Michael Vella

Chief Executive Officer
Schroders RF Limited
30 September 2022

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