SENIOR TRUST MANAGEMENT LIMITED

RISK AND COMPLIANCE FRAMEWORK

1 Purpose

1.1 Senior Trust Management Limited (**Senior Trust)** uses an overarching Risk and Compliance Framework (**Framework**) to protect assets, ensure the integrity and reliability of its information, secure compliance with laws, policies and procedures, and ensure the performance of its business objectives.

1.2 This Framework also sets out Senior Trust's commitment to managing risks and provides the framework within which the Board and it's outsource entities (if applicable) are expected to identify and manage risk and compliance. It sets out the procedures Senior Trust will use for the effective identification and management of risks.

1.3 The Framework is established, reviewed, and regularly monitored by the Board of Directors. It is the responsibility of the Directors to ensure the Framework is effective.

2 Compliance

Definition of Compliance

2.1 Compliance is making sure that all relevant laws, regulations, industry codes and standards, internal policies and procedures are adhered to, and that principles of good governance and accepted community ethical standards are met by Senior Trust for the benefit of Senior Trust's investors.

2.2 The Senior Trust Board is committed to:

2.2.1 ensuring that all reasonable measures are taken to maintain an effective compliance environment through which legislative obligations and stakeholder commitments are fully met, including for Senior Trust's investors; and

2.2.2 actively preventing, identifying and responding to breaches of obligations arising under all relevant laws, regulations, industry codes and standards applying to Senior Trust's business.

2.3 For compliance to be effective, all levels of Senior Trust and it's outsource entities (if any) must understand their obligations and meet the requirements of this Framework. The risk of non-compliance has potential far-reaching implications and therefore non- compliance with this Framework must be treated seriously.

Framework Design

2.3.1 The following principles have been adopted when designing Senior Trust's Compliance Framework,

2.3.2 define Senior Trust's risk appetite;

2.3.3 allocation of resources and the optimal structure for Senior Trust to manage risk and compliance;

2.3.4 define roles and responsibilities for managing risk and compliance; and

2.3.5 establish internal and external communication and reporting mechanisms.

Identifying and Assessing Obligations

2.4 The Board coordinates the identification and assessment of new laws, regulations, industry codes and standards, and assesses the potential impacts and ensures that required changes to the applicable systems and processes are implemented to achieve compliance.

2.5 Relevant staff and outsource entities (if any) must have an understanding of the obligations impacting their processes and ensure that changes to processes and systems do not adversely impact Senior Trust’s ability to comply with the obligations.

2.6 The Board must assess the potential impact of material obligations on Senior Trust’s business using the risk assessment process and identify the controls which ensure compliance is achieved.

Framework implementation

2.7 Implementation of the Framework is an ongoing activity, with the Board providing ongoing guidance to embed compliance and risk management awareness and practices into Senior Trust's processes, culture and decision making.

2.8 As at the date of this document, the components of the Compliance Framework are as follows:

2.8.1 Conflict of Interest and Related Party Transactions Policy.

2.8.2 Code of Ethics.

2.8.3 Compliance Sheets.

2.8.4 Complaints Policy.

2.8.5 Fit and Proper Policy.

2.8.6 Privacy Policy.

2.8.7 Board Charter.

2.8.8 Training Policy.

2.8.9 Compliance Assurance Program

2.8.10 AML Compliance

2.8.11 AML Risk Assessment

2.8.12 Material Events

2.8.13 Environmental and Sustainability

2.8.14 Diversity and Inclusion

2.8.15 Health and Safety

2.8.16 Document Disposal and Retention

2.8.17 Business Continuity Plan

2.8.18 Outsourcing

2.8.19 Marketing and Advertising

3 Risk

Definition of Risk

3.1 Risk is any event or factor which creates uncertainty about the ability of Senior Trust to achieve its business objectives.

Risk Areas

3.2 Senior Trust has categorised the sources of risk which may have an impact on Senior Trust's ability to achieve its business objectives into the following six key categories:

3.2.1 Credit risk;

3.2.2 Liquidity risk;

3.2.3 Concentration risk;

3.2.4 Operational risk;

3.2.5 Security position risk;

3.2.6 Development risk.

3.3 In addition, it has risks associated with the specific business activities undertaken by Senior Trust including, behavioural risk, regulatory risk and outsource entity risk.

3.4 An ability to identify which category a risk will fall into will be crucial to appropriately manage the risk. Senior Trust has defined each of these risk categories and the way in which those particular risk categories can be managed.

Credit Risk

3.5 Credit risk is the risk that a party to a contract with the Manager will not be able to meet its obligations under the contract. The Manager will be exposed to credit risk through financial contracts with any of the following parties:

3.5.1 Securities issuers;

3.5.2 Debtors;

3.5.3 Borrowers;

3.5.4 Customers; and

3.5.5 Guarantors.

3.6 Risk management tools:

3.6.1 A credit policy which sets out an approval process to ensure there is diversification of credit exposures and a set range within Senior Trust can be exposed to each type of credit exposure; and focussing on lending to operators with a track record of proven performance and who have a material stake in the entity.

3.6.2 Undertaking extensive due diligence including assessing credit risk and the nature of any prior ranking securities.

3.6.3 Restricting the term of loans to the Maturity Date of the Fund where practicable, and ensuring any loans comply with the Fund's lending criteria.

3.6.4 Closely monitoring the performance of the entity and loan repayments.

3.6.5 Refinancing the term of the loan, or enforcing our loan, if necessary. Refinancing a loan carries its own risks in that the possibility of future default increases.

Liquidity Risk

3.7 Liquidity risk is the risk that the Manager will not have access to cash at the time it is required to satisfy any of its liabilities. The Manager will be subject to liquidity risk where:

(a) An exceptional operating cost or unexpected event arises; and/or

(b) Cash is available through investments held, but the Manager is restricted from accessing those investments

3.8 Risk management tools:

3.8.1 having access to sufficient cash if needed to assist with cash flow demands of making new loans.

3.8.2 ensuring that operators have consistent and quality cash flows so that they can meet their obligations.

3.8.3 ongoing monitoring of Senior Trust's liquidity position with comprehensive processes in place for monitoring.

3.8.4 a referable policy which sets out the Manager's liquidity position and ongoing objectives in respect of liquidity.

Concentration Risk

3.9 Assets will be concentrated in a small number of loans, in a specific sector of the Retirement Village and Aged Care industry. This means that a failure or unfavourable performance of any one or more individual loans, an industry-wide downturn or a downturn of the residential property market generally are likely to have a significant adverse impact

3.10 Risk management tools:

3.10.1 focussing on investing in operators with a track record of proven performance and who have a material stake in the entity.

3.10.2 focussing on investing in retirement and aged care operators situated in locations with proven demographic demand.

Operational Risk

3.11 Operational risk includes risks arising from failure to adhere to processes, procedures and controls set by the Manager and external events outside of the control of the Manager. Additionally, a people and capacity risk that key Directors and senior managers may leave or make inappropriate decisions that may affect financial performance.

3.12 Risk management tools:

3.12.1 appropriate communication and training in respect of processes, procedures and rules.

3.12.2 systems to identify where there are failures in the operations;

3.12.3 monitoring of Board and employees of an outsource entity (if applicable) adherence to processes and procedures.

3.12.4 appointment of independent Directors with relevant specific skills.

3.12.5 professional development across a range of competencies for Directors and applicable employees of outsource entities (where relevant)

3.12.6 processes and resources to deal with any deficiencies in information systems.

3.12.7 the inducements offered to skilled and experienced Directors and senior managers.

3.12.8 appointment of independent Directors with relevant specific skills.

3.12.9 independent professional development for Directors and senior managers

3.13 In addition, there are a number of other risks to be managed including:

3.13.1 Balance Sheet Risk which includes, but is not limited to, investment and asset-liability management risk

3.13.2 Marketing risks which are effective but adhere to regulatory compliance in all respects

3.13.3 Regulatory risks including ensuring all requirements are met (including adherence to SIPO)

3.13.4 Audit risk

3.13.5 Quotation risk in the event that the Fund does not get approval or loses approval from NZX to quote the Units on the NZX Main Board.

Security Position Risk

3.14 Security position risk is the risk that a loan ranks behind money owed to other investors in a liquidation or another insolvency event.

3.15 Risk management tools:

3.15.1 We carefully assess the nature and level of security taken over the Retirement Village or Aged Care Facility to ensure there is sufficient capital available to meet the rights of all security holders and we will only take a security position that we consider sufficiently protects our Unitholders' interests.

3.15.2 We lend to retirement and aged care operators that have a material stake in the business which means there is less risk of there being insufficient funding in the business to repay a loan and have access to sufficient Financial resources to be called.

3.15.3 Extensive due diligence including assessing credit risk and the nature of any prior ranking securities.

In a registered retirement village, the fact that the statutory supervisor holds the first ranking security helps to mitigate against any oppressive and arbitrary behaviour by a first mortgagee such as a bank against lower ranking security holders.

Development Risk

3.16 Development risk is the risk that a new business or property under development is more likely to fail or than an existing business with a proven track record. This could be significant for the Funds where they lend to retirement and aged care operators whose facilities are in the process of being developed and renovated. This type of funding is riskier and complex from a lending perspective than lending to the operator of a completed retirement village or aged care facility. The key risks are the ability of the operator to manage the building project in a timely manner, construction issues arising and failure to meet projected sales targets

3.17 The steps Senior Trust takes to manage this risk include:

3.17.1 appointment of Independent Directors with relevant specific skills.

3.17.2 independent professional development for Directors and applicable employees of outsource entities (where relevant)

3.17.3 engaging an effective outsource entity with experience in monitoring developments.

3.17.4 access to industry expertise to call on if required.

3.17.5 requiring strong evidence of market support before agreeing to lend, and detailed and timely marketing reports to assess the selling environment and the number of sales made against the target.

3.17.6 reflecting the additional risks the Funds' assume through lending to such an operator in the interest rate charged on the loan.

3.17.7 Significant on going monitoring of the Development against Plan and establishing timely reporting requirements by the Borrower

4 Risk assessment

4.1 Risk assessments must be conducted at least once every year, and when significant changes are made to the structure, business activities or objectives of Senior Trust. A Board level risk assessments review will be conducted at least quarterly.

4.2 It is the policy of Senior Trust that its overarching Risk and Compliance Framework and review evaluations:

4.2.1 be free from bias.

4.2.2 permit reasonably consistent qualitative and quantitative measurements of Senior Trust's internal control system.

4.2.3 are sufficiently robust so that relevant factors that would alter a conclusion about the effectiveness of Senior Trust's internal controls and those of any outsource entity are not omitted.

4.2.4 use both management and accounting control measures. The internal control measures shall be designed to be detective, preventative, physical, technological, and corrective.

4.2.5 consist of hard controls, like testing, validating, reconciling, and measuring, and soft controls, through policies.

4.3 The risk assessment process must address the following:

4.3.1 Understanding the Manager's business objectives and the reason for the risk assessment process. This will assist later in the risk evaluation process;

4.3.2 Continually seek to identify, assess, and mitigate the risks facing its business. Risk management shall be an integral part of the strategic planning process.

The objective of the Risk Management Policy and process is to:

Provide a framework to manage risk.

Promote risk awareness within the organization.

Protect company assets.

Identify unmitigated risk and implement action plans for mitigation.

4.3.3 Analysing the risks:

a) Broad categories like sound, acceptable or deficient qualitative and quantitative methods may be used to determine relative risk rankings

b) Risk indicators shall be used to identify potential problem areas. This includes detailed financial analysis and trend analysis.

c) How risk is to be identified, ranked, analysed, and mitigated is communicated to appropriate staff and the board.

d) Risk management shall be discussed in senior level management meetings and at board meetings.

e) The company shall identify any risks that might be associated with major changes in staff responsibilities.

f) The company shall identify risks associated with all internal business change including process reengineering or redesign of operating processes.

4.3.4 Compliance Assurance Program:

(a) the Compliance Assurance Program will undertake a comprehensive deep dive design review of the internal control environment and the testing processes to assess whether the internal control environment was appropriately planned and performed, and that the results of any monitoring were appropriately considered.

(b) assessing the likelihood and consequence of each risk and documenting this;

(c) determining whether controls exist, and if so, whether they are adequate; and

(d) determining what the risk would be with and without controls in place;

4.3.5 Evaluating the risk and determining the overall effect of the risk on the ability of Senior Trust to achieve its business objectives.

4.3.6 Risk treatment and options to manage risks (not assessed, sound, acceptable, deficient).

4.3.7 Communication and consultation.

Contingency Plans for Managing Stress Events

4.4 Identification and assessment of potential stress events (being those risks which occur less frequently but would have a significant impact on Senior Trust's business) should occur at the same time as the risk assessment process and should include:

4.4.1 stress events that could materially disrupt Senior Trust's business and have a reasonable probability of occurring;

4.4.2 a process to identify possible future stress situations;

4.4.3 plans to manage stress events in a timely and effective manner;

4.4.4 plans for disaster recovery and business continuation; and

4.4.5 ensuring that the plan is workable.

Link between the Risk Management Programme and Financial Resources Policy

4.5 Senior Trust's financial resources must be managed to allow Senior Trust, at all times, to have adequate financial resources to effectively perform the services for which it has been licensed under the Financial Markets Conduct Act 2013.

Review

4.6 The risk assessment process will be regularly reviewed to:

4.6.1 Identify and analyse new risks; and

4.6.2 Confirm that those previously identified remain relevant

5 Risk Materialisation

It will be the responsibility of the Executive Director to identify, report and remedy risks.

6 Roles and Responsibilities

Governing body responsibilities

6.1 The Board of Senior Trust will be responsible for:

6.1.1 the solvency, financial resources, capital adequacy and liquidity of Senior Trust;

6.1.2 establishing risk tolerances and defining and communicating risk tolerances in a meaningful way;

6.1.3 approving the reporting requirements, policies, procedures and controls of Senior Trust;

6.1.4 monitoring the risk exposures and checking that they are consistent with established risk tolerances;

6.1.5 monitoring Senior Trusts and any outsource entities' compliance with policies and procedures and legal requirements;

6.1.6 Senior Trusts policy on managing conflicts of interest; and

6.1.7 ensuring that any exposures to, and transactions with, related parties are on arm's length terms and conditions.

6.1.8 Engage external auditors with an expertise in compliance assurance to undertake additional testing or assist with the design of the control environment; and

6.1.9 recommend the continuation or termination of agreements with any outsource entities.

Senior Management Responsibilities

6.2 The senior management of the Manager will be responsible for*:*

6.2.1 ensuring that risks taken are within limits set by the Board;

6.2.2 implementing the policies, procedures, controls and reporting mechanisms set out in this risk management programme; and

6.2.3 ensuring that staff report to senior management where any action is undertaken that is contrary to any of the Manager's policies and, depending on materiality, to report this to the Board and take corrective measures.

Key Risk Management Personnel

6.3 The senior management will be responsible initially for managing the risks and determining how the management of such risks may be further delegated as necessary from time to time.

Compliance Assurance Responsibilities

6.4 The compliance assurance programme is designed to:

6.4.1 monitor and evaluate the effectiveness of the internal control environment and the management of risk.

6.4.2 review the current structures and processes that the Board has developed to identify and appraise risk.

6.4.3 identify, review and map the applicable controls and considering the impact if an event occurred.

6.4.4 review the performance of the oversight committee in regard to their effectiveness in monitoring the outsource entities performance and risk management.

6.4.5 engage external auditors, with an expertise in compliance assurance to undertake additional testing or assist with the design of the control environment.

6.4.6 recommend the continuation or termination of the Management Services Agreement

Information Flows

6.5 The Executive Director and Head of Risk and Compliance will be responsible for maintaining information flows to the Board and may delegate these responsibilities to senior management in future.

Risk Tolerance

6.6 The Board is responsible for establishing, defining and communicating risk tolerances. This is the amount of risk the Manager is willing to seek, accept or tolerate in achieving the objectives of its business. The board will set these tolerances in conjunction with its advisors prior to commencing business and incorporate them within this document

7 Documentation and Record Keeping Procedure

The Compliance Schedule is the tool the Company uses to identify, assess, and mitigate risks. This procedure shall result in a prioritised risk list complete with action plans and assign responsibilities to individuals.

8 Review of Framework

8.1 The Framework will be reviewed by the Board

8.1.1 at least every annually and or:

8.1.2 whenever there is a significant change to the business of the Manager.

8.2 The review will include:

8.2.1 a review of the assumptions (including the definitions and risk management tools) underlying the Framework to ensure that they remain appropriate;

8.2.2 an assessment of the rigour and robustness of:

(a) the Framework's methodologies for measuring risk; and

(b) the effectiveness of the Framework's internal controls.

8.3 A report will be provided by senior management to the Board.

<u>Board Approval of Policy</u>

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