Senior Trust Retirement Village Listed Fund

Statement of Investment Policies and Objectives

Executive Summary

This statement of investment policies and objectives (SIPO) defines the investment policies and principles which govern the Senior Trust Retirement Village Listed Fund (Fund), and any Portfolios established under it. The Manager of the Fund is Senior Trust Management Limited (Manager).

This SIPO includes the following:

- Investment Objectives
- Investment Beliefs
- Investment Strategies
- Managers Responsibilities
- Measurement of Asset Performance.

A Glossary of defined terms is set out at the end of this SIPO. The Glossary includes an explanation of the key terms in the context that they are used in this SIPO.

1. Investment Objectives

The objective of the Fund is to deliver a better than bank return on a per annum basis for its unitholders.

In seeking to achieve the above objectives the Fund will make loans secured over Retirement Villages and Aged Care Facilities. The Fund will likely be concentrated in a small number of loans to operators of Retirement Villages and Aged Care Facilities.

If the Manager is unable to source any lending opportunities that meet its lending criteria then the Fund may invest in any debt security issued by a New Zealand registered bank or any other rated institution that has a credit rating of at least BBB from Standard & Poors (or an equivalent rating from another internationally recognised rating agency). The Fund is not permitted to invest in any debt securities issued by Senior Trust Capital Limited.

2. Investment Beliefs

The Manager is of the belief that the retirement village and aged care industry is well regulated and orderly and, due to demographic factors, has strong prospects for sustained growth over an extended period.

The following fundamentals support this belief;

- New Zealand's ageing population;
- The increasing acceptability of communal aged accommodation as evidenced by rising market penetration rates;
- Retirement Villages deliver long term cash flows to the operators of the Retirement Village as opposed to short term speculative gains
- The stability provided by residential assets which have a history of capital growth over the long term.

The Manager's belief is that the key driver of demand for the Fund's loans is the ability to provide long term continuity of funding.

3. Investment Strategies

The Fund invests by way of making secured loans to operators of Retirement Villages and Aged Care Facilities. The Fund's loan book will be concentrated in a small number of high value loans.

The loans will generally be made to privately owned Retirement Villages and Aged Care Facilities which are seeking to refinance, expand existing operations or embark on the development of new facilities.

The Fund is restricted to lending to a maximum, continuous loan to value ratio (**LVR**) of 60% of the assessed value of the security, with the assessment based on a mortgage valuation by an independent registered valuer (approved by the Manager) who assesses the market value of the assets as security for the loan.

In respect of loans to operators of Retirement Village and Aged Care Facilities that are used for development purposes, Work-In-Progress (WIP) reports certified by a Quantity Surveyor will also be provided during a development in order to substantiate an increase in the valuation. The WIP reports provide an assessment of the value of the works completed on-site. WIP will be taken into account when assessing whether the borrower is within the 60% LVR ratio.

The value of Operator's Interests also form part of the LVR calculation.

The Fund will lend to Retirement Villages and Aged Care Facilities that display some or all of the following characteristics and are demonstrated by:

a) Located in areas of proven demand

- Sales record to date.
- Market evidence and demographics statistics.
- Market research.
- Projected build and sales rate is sustainable.
- Realistic development programme.

b) Have stakeholders who have a material investment in the village

- Financial statements, cash equity and shareholders' contribution.
- Reputational worth of guarantors.
- Personal resources of guarantors.
- Level of hands on involvement.

c) Have operators with a proven track record of performance in the industry.

- The Fund will not exclude new entrants into the industry, but will give additional weighting to other characteristics in the event that the loan is to a new entrant.

d) Has input from third party advisors with relevant expertise and skills in the retirement village industry.

- The retirement village industry has a number of unique characteristics and features. The Manager has identified various third party advisors who have competency in the industry. Their participation in a development will be encouraged.

e) Is registered in accordance with the Retirement Villages Act.
    - Registration is not a prerequisite, however weighting will be given to villages which are registered.

The strategy is designed with the intention to deliver unitholders a steady and attractive return relative to the risk profile of their investment. Investments are structured to generate steady cash receipts that will, if contractual obligations are met, ensure maintenance of the Fund's Targeted Distribution Rate.

The Targeted Distribution Rate, of 6% per annum, is the intended percentage before tax return when compared to the Issue Price of each Unit. However the Targeted Distribution Rate is only a target, depending on market conditions, actual distributions may be more or less than the Targeted Distribution Rate. The Fund will maintain a policy of distributing quarterly only income collected in cash after payment of expenses or any other provisions the Manager considers appropriate.

Interest rates charged to the borrowers will be set after taking into account the Targeted Distribution Rate and the Fund's operating costs. The Manager also takes into consideration the risk profile of the borrower, the current rate of interest charged by other lenders to the Retirement Village and Aged Care industry and the level of demand from borrowers who meet the above characteristics.

The structure of the loan will be tailored to the requirements of the borrower. However, the Manager will restrict the term of loans to the Scheduled Maturity Date of the Fund where practicable to assist the Fund in making full repayments to Unitholders on the Scheduled Maturity Date of the Fund. In many instances the Manager will be reliant on the operator of Retirement Villages and Aged Care Facilities being able to refinance the loan with another party in order to repay the Fund's loan before the Schedule Maturity Date of the Fund. Before advancing any loan the Manager will ensure that there are reasonable prospects of the borrower having the ability to repay (by refinancing or otherwise) on or before the Scheduled Maturity Date of the Fund. However, there may be instances where a loan will create illiquidity and at times a mismatch between maturity dates of units and the repayment dates for the Fund's loans.

The Fund avoids capitalisation of interest, which is defined as where interest accrues but the payment of interest is deferred to the end of the loan term.

If it is in the Fund's interest, the Manager may permit subordinated loans made by other parties to the borrower to have a shorter maturity date than loans from the Fund. Any subordinated loan principal repayments will require the consent of the Manager.

The loans that the Fund makes are secured by mortgages over Retirement Village and Aged Care Facility land and/or property. The ranking of the security will depend on the circumstances of each individual loan. In some cases and subject always to the 60% LVR restriction, there may be other parties who have loans and security interests that rank ahead of or equally with the Fund. In particular it may be in the interests of all parties that low cost funding from banks form part of the funding mix for a village.

4. Manager's Responsibilities

The Manager shall:

a) Approve all investment decisions in accordance with the SIPO and disclosures in the offer documents for the Fund
b) Establish and maintain criteria for the measurement of performance of the various loans made by the Fund
c) Regularly review the SIPO in the light of industry and macro-economic conditions
d) Report to the Supervisor of the Fund any material changes in the SIPO or in the loan assets within the Fund
e) Ensure the SIPO policies and procedures remain relevant in respect of prevailing economic conditions.

5. Measurement of Asset Performance

The Fund comprises a small number of loans to privately owned retirement and aged care operators who are seeking to either refinance, expand existing operations or embark on the development of new facilities.

All loan approvals will be subject to the following assessment and must be approved by the Board of the Manager. Loans are accessed against the below Risk Matrix and will not be approved if the score is 18 or over. If the score is greater than 10 but less than 18, then additional risk mitigating factors (such as the provision of increased security) will be required for the loan to be approved.

Risk Matrix:

Probability / Impact	Minimal	Low	Medium	High	Severe
Certain	5	6	7	8	9
Highly Probable	4	5	6	7	8
Probable	3	4	5	6	7
Unlikely	2	3	4	5	6
Highly Unlikely	1	2	3	4	5

Categories of risk which are assessed include;

- Liquidity & Cash flow Risk

To assess whether the borrower has enough access to cash to meet immediate, short-term and long term payment obligations. The Manager will consider the following variables when considering whether the borrower will experience liquidity issues:

Cash reserves, future sales, other sources of cash flows, available credit facilities and cash flow forecasts.

- Management and Operational Risk

To assess whether the management team has the expertise, capability and capacity to manage the operation or development effectively. The Manager will consider the following variables:

Corporate culture, experience, financial controls, strength in depth, governance.

- Security Risk

To consider whether the level of security available in the event of the borrower defaulting on the loan. The Manager will review whether the loan is at risk due to the level of security provided. The following factors will be considered:

Loan to Value Ratio, elements making up the valuation e.g. bare land, resource consents, WIP, sales and conditional sales, extent of lending that ranks in priority to the lending undertaken by the Fund.

Where the Fund is subordinated to the interests of a prior ranking lender, the quantitative risk matrix in respect of security will automatically be deemed to be 9. In order for the loan to be considered for approval, other risk assessment categories will require a correspondingly lower risk threshold in order that the total score is less than 18 points.

On a weekly basis, a loan review will be undertaken where the risk categories stated will be reviewed and scored in accordance with the risk matrix. If the score is 18 or over then the Board will exercise any rights it has under the loan documentation to undertake remedial action, which may include terminating the loan.

In addition to the risk matrix, the performance of development loans will be monitored by some or all of the following;

- regular site inspections
- analysis of quantity surveyor reports
- comparison of actual versus budgeted expenditure
- development delays or issues
- forecast sales and settlement dates being met.

At a minimum, the Board will undertake an annual review of the borrower. This will include an assessment of the most recent independent valuation report from a registered valuer, an analysis of the year end audited financial statements and other information provided by the Borrower.

In addition, a member of the Board will undertake a site visit and provide a formal report to the Board. The review process enables the Manager to identify any deficiencies or credit issues arising and thereby exercise its right to take remedial action if required.

Glossary

Aged Care Facility	Aged Care Facilities may not be registered Retirement Villages but are usually associated with a registered Retirement Village or a facility that intends to register. Aged Care Facilities are licensed by the relevant District Health Board (DHB) and provide care on the basis of an age-related residential care contract with the DHB.
Loan to value ratio or LVR	A loan-to-value ratio (LVR) is a measure of how much the Fund will lend compared to the value of the assets. The calculation Includes all pari passu and prior ranking security (but excludes all fully subordinated indebtedness).
Operator's Interest	Present value attributable to the forecast future net income flows to be generated which the owner is entitled to receive for owning the village
Retirement Village	Means a village owned by an entity which owns real property predominantly intended for the residential use of persons above a defined age, and which must be registered under the Retirement Villages Act if it wishes to sell occupation right agreements. Retirement Villages may include any of the following: • a fully developed Retirement Village; • a partially developed Retirement Village which has further development plans, and includes its associated development or expansion activity; • a Retirement Village development underway; and • Bare land which is intended for the development of a Retirement Village. For the last two categories, the development plans may be such that common facilities or related facilities (such as Aged Care Facilities or hospitals) may be constructed prior to, during or after the Retirement Village element of the development.
Retirement Villages Act	Retirement Villages Act 2003 and its related legislation.
Unitholder	A person for the time being registered in the Unit Register as the holder of a Unit and includes persons jointly registered.
Scheduled Maturity Date of the Fund	The Maturity Date of the Portfolio is 11 March 2021, or any earlier date at the Manager's sole discretion.
Work in Progress	Is the value of sums expended on uncompleted dwellings or supporting infrastructure.