



Eclipse Prudent Mortgage Fund

2017 Annual Update

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as responsible entity for
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Eclipse Prudent Mortgage Corporation Pty Limited (**Eclipse**) is pleased to present the financial statements for the 12 months to 30 June 2017 (**Financial Year**) for the Eclipse Prudent Mortgage Fund (**Fund**).

At 30 June 2017, total funds under management (**FUM**) increased 12.6%, year on year, to \$179.9 million representing 132 Mortgage Investments valued at \$154.6 million and the balance of funds in trust of \$25.2 million plus \$45.1 million undrawn committed loans.

The Fund's objective is to provide Members with stable and recurring income with capital stability and low volatility from Mortgage Investments secured by a registered mortgage over legal interests in real property. The average return to Members for the Financial Year was 8.1% on Mortgage Investments, excluding interest earned on funds in trust, and 7.3% on total FUM.

Interest rates on the Fund's current Mortgage Investments range between 6.50% to 9.00%. These interest rates are determined by prevailing market rates and with regard to the Mortgage Investment. Eclipse offers a diversified portfolio of loans tailored to match risk appetite and individual lending preferences across various real estate sectors including residential, commercial and industrial.

Eclipse has continued to maintain a conservative loan to valuation ratio (**LVR**) of 46.1% which is the average LVR across the portfolio at period end. The Credit Committee has a lending policy that sets out the criteria under which Mortgage Investments are approved. Each borrower and loan application is assessed by adopting a conservative approach to LVRs (up to a maximum of 66.67% of an independent valuation on an 'as is' basis for first registered mortgages) and prudent lending principles to minimise risk to Members.

Portfolio summary

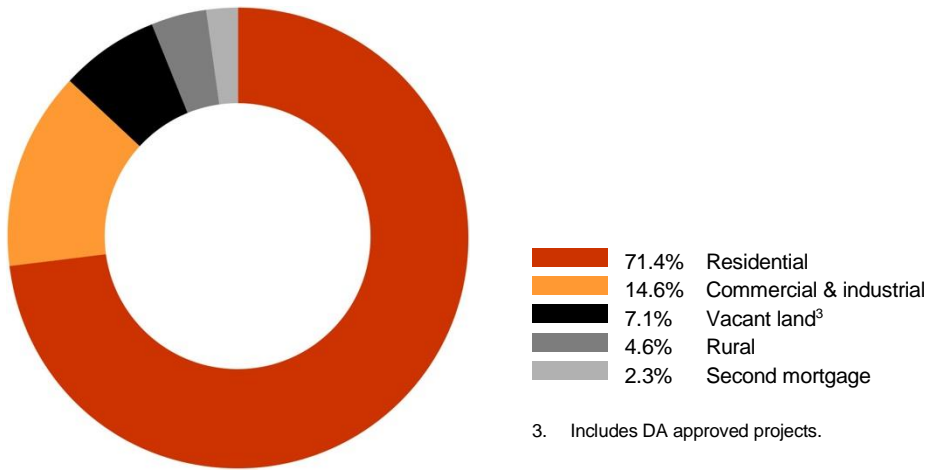
The following table is a portfolio summary of the Fund at 30 June 2017.

	TOTAL	CONSTRUCTION	INVESTMENT
Maximum loan size	\$6.2 million	\$6.2 million	\$4.0 million
Average loan size	\$1.2 million	\$2.0 million	\$0.9 million
Number of loans	132	32	100
Average LVR	46.1%	45.2%	47.7%
Weighted average maturity ¹	7.2 months	5.2 months	7.8 months
Funds in trust	\$25.2 million	–	–
Drawn loans	\$154.6 million	\$63.5 million	\$91.1 million
Undrawn committed loans	\$45.1 million	\$45.1 million	–
Average interest rate ²	7.4%	8.0%	7.2%

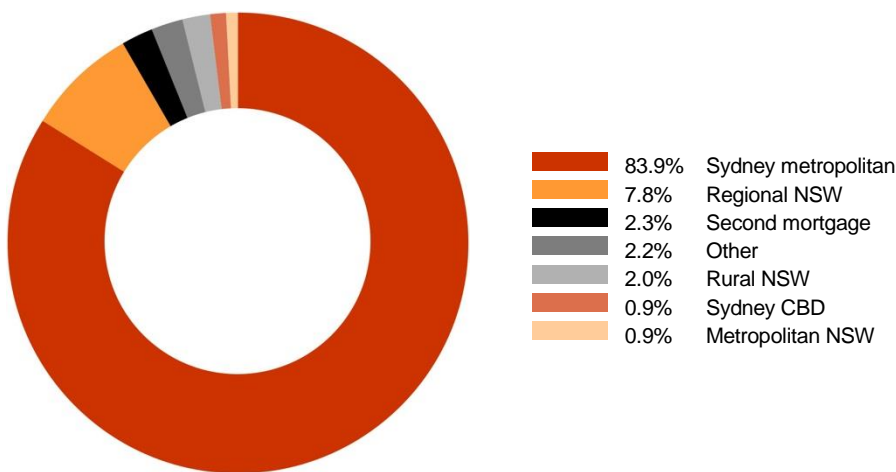
1. Weighted average maturity by drawn amount, excluding loans in principal default.

2. Average annual rate for Mortgage Investments drawn at 30 June 2017 and excluding interest earned on funds in trust.

Investment by sector



Investment by region



The financial statements are available on Eclipse’s website at www.eprudentmortgages.com.au.

Loan pipeline

At the date of this report, the Fund has a \$27.3 million loan pipeline representing investment and construction loan approvals in various stages of pre-settlement due diligence and allocation as well as approximately \$5 million per month of construction progress payments.

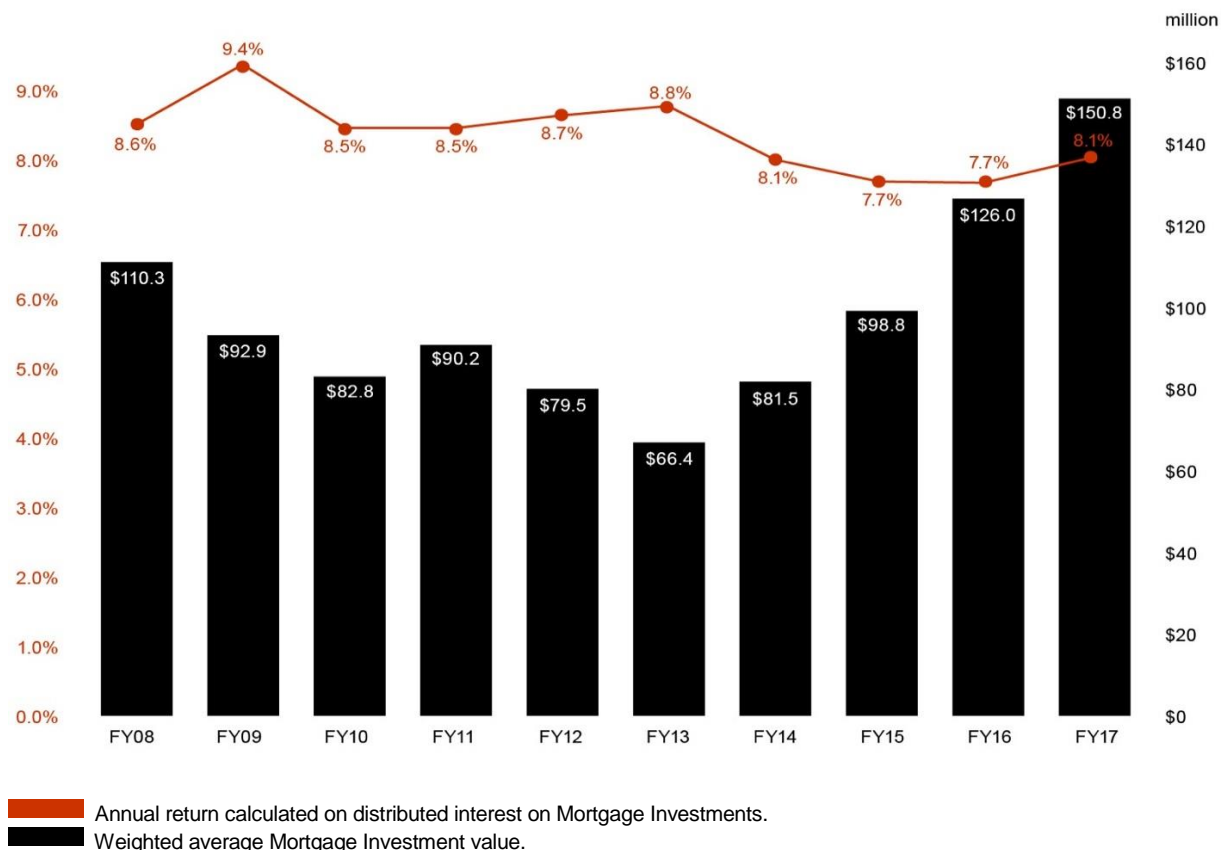
In addition to this, there is a further \$53.9 million of prospective loans in various stages of credit assessment that may come online in the next one to three months which will assist with the allocation and the reduction of the current level of Member funds in trust.

The Fund will continue to apply prudent lending guidelines to new potential loan opportunities that are sourced from established mortgage originators, repeat borrowers, established developers, other industry participant referrals obtained from contacts that senior team members have built up over years of experience and incorporating leads generated from RF Capital and its distribution team.

Strong performance through economic cycles

In the ten years to 30 June 2017, Eclipse has provided over \$1 billion million in commercial mortgages from its established networks and has delivered an average annual return to Members of 8.4% on Mortgage Investments, excluding interest earned on funds in trust and 7.7% on total FUM.

The following chart is a summary of weighted average Mortgage Investments under management and average annual returns to investors from 1 July 2007 to 30 June 2017.



The Fund’s strong performance through economic cycles, including the global financial crisis, is underpinned by a diligent credit assessment process to ensure quality, low risk loans are offered to Members. The average loss, comprising capital loss and income loss, to investors over the last decade was less than 0.3% of FUM.

The 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 Compliance 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, 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. The reported principal default level at 30 June 2017 was artificially inflated due to some legacy data migration issues, where loans formally approved for extension had not yet had their maturity date reset.

At 30 June 2017, the proportion of the Mortgage Investments in principal default in relation to total mortgages under management was 27.8% by value and 25.0% by number of loans. By 31 August 2017, Eclipse had reduced the number of Mortgage Investments in principal default from 33 to 14 loans representing 13.3% of total mortgages under management by value and 12.3% by number of loans.

RF Capital

During the Financial Year the Fund was managed by Eclipse, a leading alternative lender to the real estate market, specialising in financing for residential, commercial, retail, vacant land or industrial properties and/or construction projects located primarily in Australian metropolitan areas.

Eclipse is part of the RF Capital group of entities, an alternative asset manager focusing on real estate, credit and financial markets with investment across Australia, UK/Europe and the Middle East, leveraging 50 years of experience in real estate investment, development, construction and funds management.

Leveraging RF Capital's expertise and access to in-house real estate market research and construction capabilities, Eclipse is well positioned to capitalise on increasing demand for alternative real estate lending. Investors can expect the same prudent approach applied to the management of the Eclipse portfolio, under the direction of RF Capital.

RF Capital is making a significant investment in technology and people to support and enhance Eclipse and its other business units.

Key appointments

Andrew McCasker was appointed Chief Executive Officer in June 2017. Prior to this, Andrew spent four years with NAB as General Manager Private Banking in Asia. He has more than 20 years' experience specialising in property debt origination and structuring across several Australian banks including NAB, CBA, Westpac and BNZA.

In May 2017, Eclipse founder, Brett Scott, formally retired from the business. Eclipse has an excellent track record, which is a testament to the relationships and business acumen of Brett and his team.

Eclipse's credit expertise was strengthened by the appointment of Michael Vella as General Manager Credit and Lending in August 2017. Michael has over 30 years' experience in real estate debt financing, commercial lending, insolvency and loan recovery at ANZ Bank, ANZ Funds Management, AMAL Asset Management, Mirvac Group and PPB Advisory. In his most recent role, Michael was a Director at PPB Advisory within their Real Estate Advisory and Restructuring Team. Michael's appointment provides additional rigour around the credit process to ensure all appropriate risks are mitigated.

Eclipse is pleased to announce the appointment of Fiona Harris as Investor Relations Manager. Commencing at the end of October, Fiona joins us from UBS Australia where she has spent the last three years in compliance, operational risk and client solutions. She has ten years' experience in stakeholder management and transactions at UBS Australia, Westfield Retail Trust and Woolworths Limited. Fiona will build a client focused investor management capability and streamline external communications across the business to enhance interactions with our Members.

Outlook

Real GDP growth of 1.8% per annum, consumer price inflation of 1.9% per annum and a cash rate of 1.5% per annum are all tracking well below historical norms. Abundant capital – both domestic and inbound – are generally pushing Australian cap rates to new cyclical lows.

Overall, the Australian residential housing market continues a relatively durable pricing upswing cycle, supported by robust housing demand and low mortgage interest rates.

There are emerging signs of mortgage interest rate increases coming through by the end of 2017, on the back of higher US cash rates and the associated bond market sell off. There is a likely more substantive cash rate increase from the Reserve Bank from 2018.

The outlook for the residential market is positive and we continue to see good lending opportunities for commercial and residential real estate in cities and regional centres across the East Coast of Australia.

Sydney is expected to moderate steadily over coming years, mainly on the back of weaker housing affordability. Robust demand is broadly in balance with the strong pace of supply. However, apartment supply concentrated around parts of Western Sydney will drive some degree of localised price falls. Beachside amenity (and tighter planning controls) will provide better opportunities for selected suburbs in the North and the East.

Melbourne remains the relatively firmer market in 2017, given stellar demand and somewhat better affordability (compared to Sydney). Apartment supply remains the key risks (and a factor behind the ongoing price correction in the inner ring). Slower inflows of migrant capital are partly driving the fadeout in the East. Outer-ring residential developments are performing well on persistent population growth and housing demand.

Brisbane is finally seeing a more consistent cyclical recovery after a few difficult years. Demand is improving with the turnaround in interstate immigration. Supply remains a risk, particularly in inner-city apartment hot spots. Opportunities are more likely to be found in the mid-ring Northern growth corridor and the established inner-North East locations, but once population and demand growth accelerates a little bit more.

At the regional level, the larger, more diversified economies of New South Wales and Victoria are benefitting from robust population gains, firm activity growth and housing construction booms. After a long period of subdued growth, Queensland is starting to see more convincing signs of cyclical recovery. Meanwhile, Western Australia continues to struggle with the ongoing correction in mining investment and construction. Not surprisingly, these economic trends are aligning up with the realised outcomes in both commercial and residential real estate prices.

Notwithstanding a subdued growth environment, some sectors in Australia are achieving better gains on the back of structural changes to the economy. Indeed, the ongoing shift to online retailing, the robust inflow of foreign tertiary students, the rapidly ageing profile of the Australian population and the increasing pressure on housing affordability will all create considerable and durable demand for real estate in specific segments.

New investment management technology

Work is well underway on the installation of a new investment management system which is anticipated to go live by the end of 2017. Once fully implemented, the new system will not only provide business efficiency and significantly increase the value and volume of loans the team can administer, it will also comprehensively improve account management and change the way the business communicates with its Members.

As a result, Eclipse will be able to provide a richer and fuller experience to investors, consistent with our customer first approach.

Product Disclosure Statement

A new Product Disclosure Statement (**PDS**) is currently being finalised to include product updates, the way in which the Fund operates and enhanced fee disclosures relating to regulatory changes.

Members will be notified when the PDS is in use. At this time, a hard copy of the new PDS will be available by request and can be downloaded from our website www.eprudentmortgages.com.au.

Investor updates

Members can expect to receive updates about lending opportunities as they come online, learn more about key business initiatives and view enhancements to the website.

We look forward to your continued support in the future.

Yours sincerely,



Andrew McCasker
Chief Executive Officer
29 September 2017