



Eclipse Prudent Mortgage Fund

2018 Annual update

Eclipse Prudent Mortgage Corporation Pty Limited (**Eclipse**) is pleased to present the financial statements for the 12 months to 30 June 2018 (**Financial Year**) for the Eclipse Prudent Mortgage Fund (**Fund**).

At 30 June 2018, the Fund held \$183.6 million of assets under management (**AUM**) representing:

- 80 Mortgage Investments with total investors funds invested \$130.4 million;
- \$31.3 million of cash in trust (together \$161.7 million of funds under management (**FUM**)); and
- \$21.9 million undrawn facility limits.

The Fund's continuing objective is to provide Members with stable and recurring income with low volatility while preserving investors' capital. This is achieved through Mortgage Investments secured by registered mortgages over legal interests in real property.

For their Mortgage Investments, Members received weighted average returns of 7.7% across the whole portfolio, with individual Members earning between 6.3% and 9.0% per annum depending upon the nature of their specific Mortgage Investment. We achieved this return whilst also holding a conservative weighted loan to valuation ratio (**LVR**) of 52.2% across the portfolio.

We are most proud of our track record of prudent lending.

We closed the financial year to 30 June 2018 and extended the period without capital losses to over three and a half years.

Strong returns, conservative LVR's and zero losses are the hallmark of the Eclipse lending philosophy and it is with this in mind we have continued to strengthen our internal controls and processes over the past year and to ensure we are well placed to manage our growing loan book.

During the financial year, the market saw a steady decline in residential completions and dwellings under construction, albeit from record highs. We also saw signs that suggested that the housing market peaked in the last quarter of 2017. Auction clearance rates have been on a steady decline since July 2017 and residential prices have been slowly declining across the country but particularly in Sydney and Melbourne.

Considering the market conditions Eclipse took an increasingly conservative view on the outlook of the Australian real estate market at the end of 2017 and continued this into the first quarter of 2018, especially residential property in Sydney and Melbourne. As a result, we have been far more cautious and selective of the loans we believe meet the quality and standard for our investors.

Portfolio summary

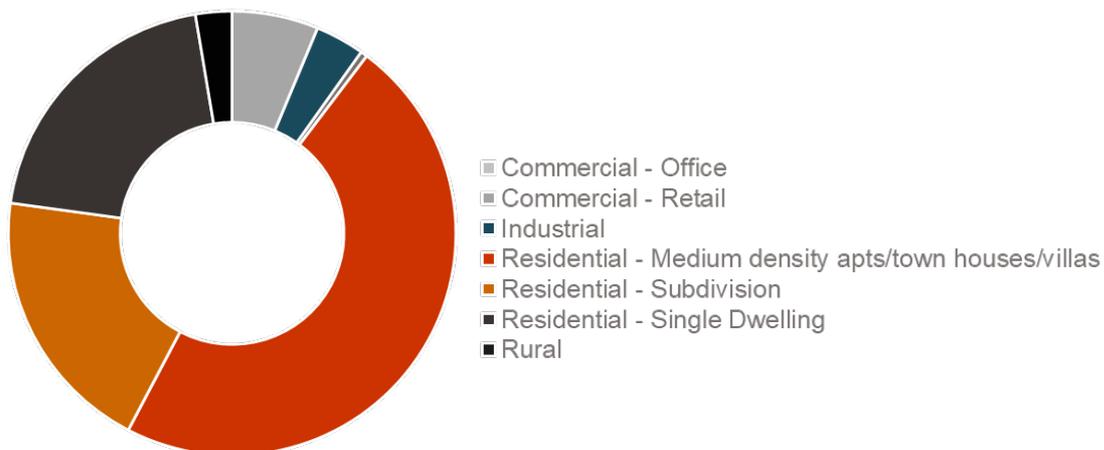
The following table is a portfolio summary of the Fund at 30 June 2018.

	TOTAL	CONSTRUCTION	DEVELOPMENT	INVESTMENT
Maximum loan size (approved)	\$15.2 million	\$15.2 million	\$4.3 million	\$4.5 million
Minimum loan size (approved)	\$50,000	\$333,000	\$50,000	\$95,000

Average loan size (drawn)	\$1.6 million	\$3.0 million	\$1.3 million	\$0.8 million
Number of loans	80	22	35	23
Weighted Average LVR ¹	52.2%	54.8%	48.5%	49.0%
Funds in trust	\$31.3 million			
Investors funds invested ²	\$130.4 million	\$67.1 million	\$43.9 million	\$19.4 million
Total FUM	\$161.7 million			
Undrawn facility limits	\$21.9 million	\$21.3 million	\$630,000	\$28,000
Total AUM	\$183.6 million			
Weighted average interest rate ³	7.7%	8.1%	7.2%	6.8%

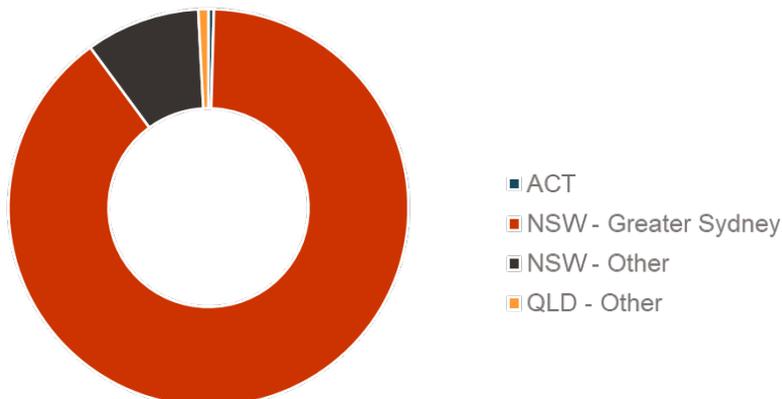
1. Based on approved amount of Mortgage Investment and "on completion" valuation.
2. The total balance of Mortgage investments are \$130,393,500, which comprises of undrawn loan funds of \$6,624,329 and a net balance is \$123,769,171. The amount of \$6,624,329 is cash that is retained by the Responsible Entity, pending a borrower satisfying certain covenants and conditions of the Mortgage, upon which the undrawn loan funds are released (either wholly or partially) to the borrower.
3. Weighted average annual rate for Mortgage Investments drawn at 30 June 2018 and excluding interest earned on funds in trust.

Portfolio diversification by sector



BY SECTOR	VALUE	VALUE	LOANS #	LOANS	WEIGHTED AVERAGE LVR ⁴
Commercial – Office	\$9.5 million	6.2%	4	5.0%	51.7%
Commercial – Retail	\$5.4 million	3.6%	7	8.7%	25.6%
Industrial	\$0.7 million	0.5%	2	2.5%	61.9%
Residential - Medium density apts/town houses/villas	\$72.2 million	47.4%	23	28.7%	55.0%
Residential - Subdivision	\$29.7 million	19.5%	9	11.3%	53.6%
Residential - Single Dwelling	\$30.8 million	20.2%	30	37.5%	50.5%
Rural	\$4.0 million	2.6%	5	6.3%	39.6%
Total⁵	\$152.3 million	100%	80	100%	52.2%

Portfolio diversification by region



BY REGION	VALUE	VALUE	LOANS #	LOANS	WEIGHTED AVERAGE LVR ⁴
ACT	\$0.6 million	0.4%	2	2.5%	51.4%
NSW – Greater Sydney	\$134.3 million	88.2%	61	76.3%	53.9%
NSW – Other	\$16.3 million	10.7%	16	20.0%	39.8%
QLD - Other	\$1.1 million	0.7%	1	1.2%	27.4%
Total⁵	\$152.3 million	100%	80	100%	52.2%

4. Based on approved amount of Mortgage Investment.

5. The total balance of Mortgage investments are \$130,393,500, which comprises of undrawn loan funds of \$6,624,329 and a net balance is \$123,769,171. The amount of \$6,624,329 is cash that is retained by the Responsible Entity, pending a borrower satisfying certain covenants and conditions of the Mortgage, upon which the undrawn loan funds are released (either wholly or partially) to the borrower.

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

Loan pipeline

Despite a slow finish to 2017 and through to the first quarter of 2018, we are pleased with the growing number of quality loans currently being reviewed by Eclipse. At the date of writing of this, the pipeline comprises of approximately \$46.7 million in new loans in both investment and construction, in addition to approximately \$26.84 million in loans settled over the past three months. These prospective loans are in various stages of credit assessment and documentation and are anticipated to be offered as investment opportunities for settlement over the next few months.

Key appointments

In March 2018, Michael Vella was appointed as Chief Executive Officer of Eclipse. Michael joined Eclipse in August 2017 as General Manager Credit & Lending.

Eclipse is also pleased to announce the recent appointments of Mr Steve Mulligan as General Manager Credit & Lending and Mr Richard Lorenzo as General Manager Investor Relations and Portfolios.

Steve joined Eclipse in July 2018. Steve has over 30 years’ experience in Credit and Lending with prior executive management roles in commercial banking and the last 15 years focusing on property and project finance in both Sydney and Melbourne.

Richard also started with Eclipse in July 2018, he joins from the Debt & Capital Advisory group at PricewaterhouseCoopers. His other experience includes General Electric Real Estate and Moody’s Investors Service, an international rating agency.

Outlook

Growth in the Australian economy in the year to June was at its fastest annual pace in nearly six years, when Australia was at the peak of the mining boom. Currently, the cash rate remains at 1.5% where it has been for the past 25 months with the last rate rise in November 2010.

We are seeing the major banks raising rates independently of RBA rate moves and applying stricter lending conditions to both new and existing borrowers. In addition, we are seeing the banks decreasing the number of new interest only loans being approved due to regulatory pressures.

The above is allowing more opportunity to the alternative, non-bank, lending market with strong borrowers who would have previously received lending directly from the big four banks and are now having to source funding from other sources.

While the market remains uncertain as to whether we are at the start of a property downturn, Sydney and Melbourne have experienced only a 1.2% year-on-year decline which is indicating only minor effects on property prices and could point to a market correction versus a significant property downturn.

Foundations for growth

Over the past 12 months two independent non-executive Directors, Dr Robert Edgar and Mr James McNally were appointed. Together with Mr George Kostas, they form the Eclipse Board of Directors. The Board's focus has been on strengthening Eclipse's corporate governance, compliance and operational risk.

With the formation of the majority independent Board of Directors, the recent key appointments in the business along with the experience and skills of the current team, Eclipse has been laying the foundations and preparing for future growth.

In the near term the business will be expanding into the Melbourne and Perth markets, which should see exciting new investments on offer and the opportunity for current investors to further diversify their portfolio.

Investor update

Members can look forward to receiving a new format Interest Payment Advice within the next two months, the update will help with providing additional information regarding both funds held in Mortgage Investments and Holding funds.

We look forward to your continued support.

Yours sincerely,



Michael Vella
Chief Executive Officer
2 October 2018