31 December 2017

Australian Securities and Investments Commission
Regulatory Guide RG 45
Benchmark and Disclosures Principles

The Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 45, 'Mortgage schemes: Improving disclosure for retail investors' (**RG 45**) sets out benchmarks and disclosure principles for unlisted mortgage schemes, against which the responsible entity of the scheme must report. If a mortgage scheme does not meet any benchmark, the responsible entity must give details of why that benchmark is not being met.

There are 5 benchmarks and 6 disclosure principles that apply to the Eclipse Prudent Mortgage Fund (**Fund**). These reflect the information that ASIC considers key to enable retail investors to analyse the risks of investing and continuing to hold interests in unlisted contributory mortgage schemes, such as the Fund.

The information below outlines the risks identified by ASIC and the benchmarks set and disclosure principles adopted by ASIC in respect of those risks. The current status of the Fund in respect of those benchmarks is also explained. This information has been prepared by Eclipse Prudent Mortgage Corporation Limited ACN 089 265 270, AFSL 238546, ACL 238456 (**Eclipse**) the responsible entity of the Fund.

To the extent that this information is advice, it is general advice only. It does not take into account your objectives, financial situation or needs. Investors and prospective investors should read the current Product Disclosure Statement (**PDS**) for the Fund dated 6 October 2017 in full prior to making any decision to invest.

If you are accessing this information on-line, you may print a copy of the information for your personal use only. Alternatively, a copy can be sent to you on request. This information should be read in conjunction with the PDS which defines some of the terms and also provides more detailed information.

Eclipse may be contacted as follows:

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This information is current as at 31 December 2017 (or as specified in the particular item). It will be updated as soon as practicable after any material adverse change and, in any event, semi-annually. Updated information will appear on Eclipse's website at www.eprudentmortgages.com.au .

Benchmarks

Benchmark 1: Liquidity
This benchmark does not apply to the Fund.

Benchmark 2: Scheme borrowing		
Description of the Risk	**Details of the Benchmark**	**Meeting the Benchmark**
Some schemes borrow against the assets of the scheme to fund distributions, redemption requests or scheme operations generally.	Eclipse does not have current borrowings and does not intend to borrow on behalf of the Fund.	***Eclipse meets this benchmark***

For additional disclosure on this benchmark see Disclosure principle 2: *Scheme borrowing* below.

Benchmark 3: Loan portfolio and diversification
This benchmark does not apply to the Fund.

Benchmark 4: Related party transactions		
Description of the Risk	**Details of the Benchmark**	**Meeting the Benchmark**
Some schemes lend to, invest scheme funds in, and transact with, associated companies or businesses.	Eclipse does not lend to related parties of Eclipse or to the Fund’s investment manager.	***Eclipse meets this benchmark***

For additional disclosure on this benchmark see Disclosure principle 4: *Related party transactions* below.

Benchmark 5: Valuation policy		
Description of the Risk	**Details of the Benchmark**	**Meeting the Benchmark**
Robust and objective valuations are needed to ensure that a scheme's financial position is correctly stated. It is important for investor confidence that suitably qualified independent experts perform the valuations, and that the process is transparent. The valuations that schemes rely on are carried out on a variety of bases, with differing assumptions and instructions. These valuations are fundamental to determining how much the scheme may lend.	In relation to valuations for the Fund's Mortgage Investments and their security property, the board of Eclipse requires: (a) a valuer to be a member of an appropriate professional body in the jurisdiction in which the relevant property is located; (b) a valuer to be independent; (c) procedures to be followed for dealing with any conflict of interest; (d) valuer rotation and diversity; (e) in relation to the security property for a loan, an independent valuation to be obtained: (i) before the issue of a loan and on renewal: - for development property, both on an 'as is' and 'as if complete' basis; and - for all other property, on an 'as is' basis; and (ii) within two months after the directors form the view that there is a likelihood that a decrease in the value of the security property may have caused a material breach of the loan covenant.	***Eclipse does not meet the Benchmark.*** Eclipse meets those aspects of the benchmark in paragraphs (a), (b), (c), (d) and (e)(ii). With respect of paragraph (e)(i) there are limited circumstances in which a valuation is not required before the issue or renewal of a loan, as described below.

Eclipse does not meet this benchmark for the following reasons:

1. A current Valuer General's assessment may be accepted where the loan to valuation ratio (**LVR**) does not exceed 30%. If so, this will be stated in the relevant Syndicate PDS.

   Eclipse considers that this is an acceptable practice as that assessment, made for rating and taxation purposes, is of the unimproved value of the security property and is considered by the Board of Eclipse as being generally lower than a valuation obtained for purchase or mortgage purposes.

2. Eclipse may not obtain a new valuation on the renewal of a loan facility with a 12 month or less term. The cost is not warranted in all cases. Eclipse is satisfied that the following alternative and additional practices are adequate. Each renewal is assessed on a case by case basis and Eclipse will order an updated valuation if:

- the existing valuation is nearly two years old
- there is a decline in the market that may impact on the value of the security property and the LVR (including but not limited to where this may have caused a material breach of a loan covenant), or
- a Syndicate Member transfers their interest in the Syndicate.

For additional disclosure on this benchmark, see Disclosure principle 5: *Valuation policy* below.

Benchmark 6: Lending principles – loan to valuation ratios		
Description of the Risk	**Details of the Benchmark**	**Meeting the Benchmark**
Higher loan to valuation ratios is one indicator of how conservative or aggressive a fund's lending practices are. Higher ratios make a fund more vulnerable to risk in that a downturn in market conditions may mean the fund is unable to fully recover the loan. Funding for development activities should only be provided where the development shows satisfactory progress.	As the Fund directly holds mortgage assets: (a) where the loan relates to property development – funds are provided to the borrower in stages based on independent evidence of the progress of the development; (b) where the loan relates to property development – the Fund does not lend more than 70% on the basis of the latest 'as if complete' valuation of property over which security is provided; and (c) in all other cases – the Fund does not lend more than 80% on the basis of the latest market valuation of property over which security is provided.	***Eclipse meets this benchmark***

The maximum LVR on any first registered security must not exceed **65.0**% of its independent value determined on an 'as is' basis and an 'as if complete' basis for construction loans. The maximum LVR on any second registered mortgage, including for construction loans, must not, when taken with the amount advanced on the first registered mortgage and any equal ranking securities exceed **80.0**% of its independent value determined on an 'as is' basis and an 'as if complete' basis for construction loans.

For additional disclosure on this benchmark see Disclosure principle 6: *Lending principles – Loan to valuation ratios* below.

Benchmark 7: Distribution practices		
Description of the Risk	**Details of the Benchmark**	**Meeting the Benchmark**
Where distributions are not sourced solely from scheme income, there is a risk that these distribution practices may not be sustainable over the long term. This risk may be heightened where a scheme promotes a fixed return on investments.	Eclipse will not pay current distributions from scheme borrowings.	***Eclipse meets this benchmark***

For additional disclosure on this benchmark see Disclosure principle 7: *Distribution practices* below.

Benchmark 8: Withdrawal arrangements – non liquid schemes		
Description of the Risk	**Details of the Benchmark**	**Meeting the Benchmark**
Due to the duration of the Mortgage Investments, the Fund operates as a non-liquid managed investment scheme. A Syndicate Member has no right to withdraw from a Syndicate except on termination of the Syndicate.	For non-liquid schemes, the responsible entity intends to make withdrawal offers to investors at least quarterly.	***Eclipse does not meet the benchmark***

However, as is stated in RG 45.71, the benchmark can be considered to be inapplicable as Eclipse has disclosed in the PDS that investors have no ability to withdraw from the Syndicate until the Mortgage Investment to which the loan relates has been repaid.

For additional disclosures on this benchmark see Disclosure principle 8: *Withdrawal arrangements* below.

Disclosure Principles

Disclosure Principle 1: Liquidity
This disclosure principle does not apply to the Fund.

Disclosure Principle 2: Scheme borrowing

If the Fund has borrowings, Eclipse should disclose a number of matters including those relating to:

- the total debts due, their maturity profile, undrawn credit facility and whether refinancing or sale of assets is likely during various periods;
- why Eclipse has borrowed the money, including whether the borrowed funds will be used to fund distributions or withdrawal requests;
- any material loan covenant breaches;
- the fact that the amounts owing to lenders and other creditors rank before an investor's interests in the Fund; and
- the risks associated with the Fund's borrowings and credit maturity profile.

Eclipse confirms that the Fund does not have current borrowings and does not intend to borrow on behalf of the Fund.

Disclosure Principle 3: Loan portfolio and diversification

This disclosure principle does not apply to the Fund.

While disclosure as to the various Mortgage Investments made by the Fund is not required by this principle, Eclipse has provided the following information.

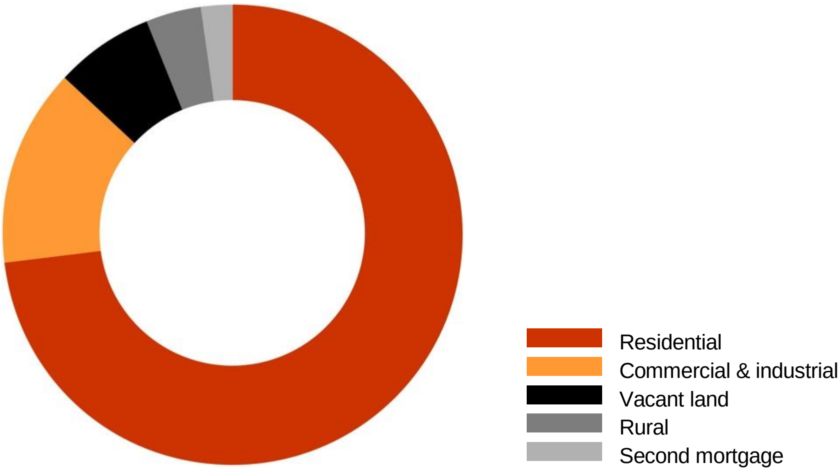
Portfolio summary

The following table is a portfolio summary of the Fund as at 31 December 2017.

	TOTAL	CONSTRUCTION	INVESTMENT
Maximum loan size	$7.6 million	$7.6 million	$3.8 million
Average loan size	$1.4 million	$2.7 million	$0.9 million
Number of loans	97	26	71
Average LVR	46.09%	52.71%	43.7%
Weighted average maturity[1]	6.2 months	4.9 months	7.7 months
Funds in trust Drawn loans Undrawn committed loans	$39.4 million $135.5 million $29.9 million	– $71.4 million $29.9 million	– $54.1 million –
Average interest rate[2]	7.5%	8.0%	7.2%

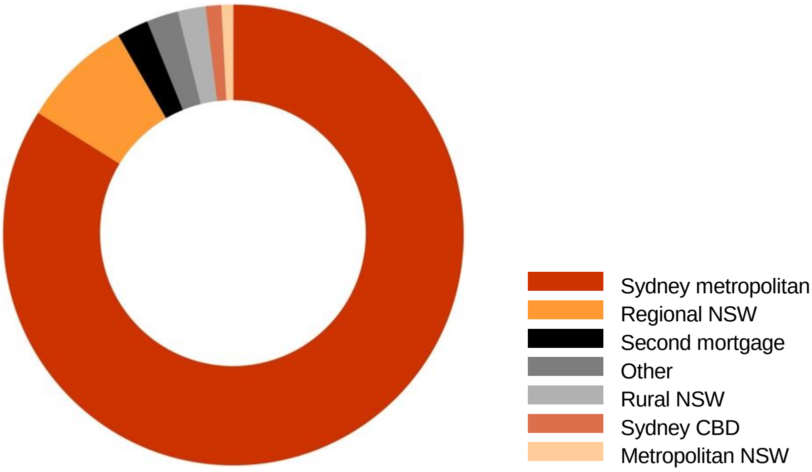
1. Weighted average maturity by drawn amount, excluding loans in principal default.
2. Average annual rate for Mortgage Investments drawn at 31 December 2017 and excluding interest earned on funds in trust.

Investment by sector



SECTOR	VALUE $	VALUE %	LOANS #	LOANS %	AVERAGE LVR
Residential	$99.9 million	73.7%	60	61.8%	52.5%
Commercial & industrial	$18.9 million	13.9%	19	19.6%	44.4%
Vacant land	$7.0 million	5.2%	6	6.2%	36.9%
Rural	$5.8 million	5.0%	7	7.2%	31.6%
Second mortgage	$2.9 million	2.2%	65	5.2%	52.3%
Total	**$135.5 million**	**100%**	**97**	**100%**	**46.1%**

Investment by region



SECTOR	VALUE $	VALUE %	LOANS #	LOANS	AVERAGE LVR
Sydney metropolitan	$116.3 million	85.8%	73	74.3%	34.5%
Regional NSW	$7.4 million	5.5%	6	6.2%	47.6%
Second mortgage	$2.9 million	2.2%	5	5.1%	50.2%
Other	$3.4 million	2.5%	6	6.2%	49.8%
Rural NSW	$3.1 million	2.3%	6	6.2%	27.6%
Sydney CBD	$1.4 million	1.0%	1	1.0%	34.5%
Metropolitan NSW	$1.0 million	0.7%	1	1.0%	51.5%
Total	**$135.5 million**	**100%**	**97**	**100%**	**46.1%**

Loans in default

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.

As at 31 December 2017, the Fund had:

- 97 Mortgage Investments
- 1 loan was in interest arrears for more than 30 days. This loan represents 0.74% of the value of the Fund and 1.03% of the total number of Mortgage Investments in the Fund; and
- 18 loans were in principal default for more than 30 days. These loans represent 12.44% of the value of the Fund and 18.56% of the total number of Mortgage Investments in the Fund. All of these loans were however meeting their interest payments, and therefore there were no loans in both principal and interest default.

Fund Assets other than mortgage loans

At 31 December 2017, the total assets of the Fund were as follows:

NATURE OF ASSET	VALUE	PROPORTION OF TOTAL
Cash & cash equivalents	$39.44 million	22.5%
Trade & other receivables	$0.25 million	0.2%
Financial assets	$135.53 million	77.3%
Total	**$175.22 million**	**100.0%**

Ranking of securities

In accordance with Eclipse's policy, all loans were secured by first registered mortgages to at least the minimum loan to valuation ratio for that loan.

Borrowers and lending

There has been no change in the general profile of borrowers from that described in the PDS, nor of the loan approval procedures adopted by the Eclipse Credit Committee.

Credit worthiness of borrowers

There has been no change in the procedures adopted by the Eclipse Credit Committee as to the manner or extent to which it assesses the credit worthiness of a borrower from that described in the PDS.

Types of securities

There is no change in the types of securities on which Eclipse will lend. There is no requirement that the security be income producing.

Loan documentation

There has been no change in the type of loan documentation from that described in the PDS.

Investment in other unlisted mortgage funds

Eclipse does not invest in other mortgage funds. Accordingly, it has no policy as to whether such a scheme must itself meet the benchmarks or apply the disclosure principles.

Disclosure Principle 4: Related party transactions
If Eclipse enters into related party transactions, Eclipse should disclose details of those transactions including: • the value of the financial benefit; • the nature of the relationship (i.e. the identity of the related party and the nature of the arrangements between the parties, in addition to how the parties are related for the purposes of the *Corporations Act 2001* or ASX Listing Rules—for group structures, the nature of these relationships should be disclosed for all group entities); • whether the arrangement is on 'arm's length' terms, is reasonable remuneration, some other exception applies, or ASIC has granted relief; • whether scheme member approval for the transaction has been sought and, if so, when (e.g. if member approval was obtained before the issue of interests in the scheme); • the risks associated with the related party arrangement; and • the policies and procedures that Eclipse has in place for entering into related party transactions, including how compliance with these policies and procedures is monitored.

The Fund has not made any loan to any related party of the Fund. This includes the Directors and shareholders of Eclipse, RF Capital or any entity associated with any of them together with their respective spouses or employees. As part of its Management of Conflicts of Interest Policy, no borrowing is permitted by a related party of the Fund.

From time to time Eclipse, RF Capital or their associates (including associated staff and other individuals) may (in various capacities) deal in transactions or interests identical to those described in the PDS and may invest in the Fund or any Syndicate, and as such will derive interest income in the same way.

A company within the RF Capital Group (**Service Provider**) has agreed to provide certain services to Eclipse relating to the administration, management and operation of the Fund. Eclipse has agreed to pay the Service Provider a service fee for the provision of these services which includes, but is not limited to, provision of staff, equipment and rent. The service fee is payable by Eclipse from its own fees and is not payable by the Fund or by any investor. While the agreement provides for no set fee, the total amount of the fees charged by the Service Provider will at no time exceed the total amount of fees paid to Eclipse from the Fund.

The Service Provider is associated with the owners of Eclipse, and thus the arrangement, entered into is a related party transaction. The agreement was entered into on arm's length terms. No approval was sought from Members of the Fund (and no such approval was required) before it was entered into.

The risks associated with related party transactions in the nature of such an arrangement with the company include the quality of the services provided and the monitoring and review of those services. These are covered by the terms of the agreement and the provision of the services is reviewed on an annual basis in accordance with the Outsourcing Policy adopted by Eclipse.

The policy of Eclipse as to how it manages any potential conflict of interest that may arise in relation to any related party investment in a Mortgage Investment or any other related party transaction is described in the PDS.

Disclosure Principle 5: Valuation policy
Eclipse must disclose: • where investors may access the Fund's valuation policy; • the processes that the directors employ to form a view on the value of the security property; • the frequency of valuations; and • any material inconsistencies between any current valuations over security property and the Fund's valuation policy.

Valuation Policy

The Valuation Policy adopted by Eclipse is available by request or can be downloaded from Eclipse's website at www.eprudentmortgages.com.au .

Valuation Processes

The processes that the board employs to form a view on the value of the security property are described in the PDS. A formal valuation is obtained from an independent valuer who meets the criteria set out in the Valuation Policy. In accordance with the Valuation Policy, the Credit Committee may adopt an alternative method of estimating the value of a security property and will disclose that alternative method in the relevant Syndicate PDS. Upon signing the Syndicate Application Form, each Syndicate Member agrees to adopt that value.

Diversity and rotation of valuers

Under its Valuation Policy, Eclipse maintains a panel of valuers who are proven to be independent, experienced and qualified to perform valuations on Security Property. No valuer may provide more than three consecutive valuations of any single Security Property, other than for a Construction Loan. No valuer may conduct more than one-third of the total valuation work for the Fund based on either the total number of loans or by value of funds under management at the time of the valuation.

This policy as to rotation and diversity of valuers recognises that it may not be possible at any particular time to achieve the preferred one-third position and the overriding requirement that the valuation meets the competency, independence, experience, specialisation and professional indemnity insurance criteria adopted by Eclipse together with the ability of the Fund to rely on the valuation as having been provided for the purpose of the loan.

Frequency of valuations

The valuation of the Security Property must not be more than six months old when the particular Mortgage Investment is made or a Member is placed in a Syndicate unless an alternative method of estimating the value of the property has been disclosed in the Syndicate PDS.

When a Mortgage Investment is renewed, Eclipse assesses on a case by case basis whether an updated valuation is required. For further information on the Valuation Policy adopted by Eclipse, refer to the PDS.

Material inconsistencies

As at 31 December 2017 there were no material inconsistencies between any current valuation and Eclipse's Valuation Policy.

Disclosure Principle 6: Lending principles – loan to valuation ratios
As the Fund directly holds mortgage assets Eclipse must disclose: (a) the maximum and weighted average loan to valuation ratios for the Fund as at the date of reporting (b) where funds are lent for property development: • the criteria against which the funds are drawn down; • the percentage (by value) of the completion of any property that is under development as at the date of reporting; and • the loan to valuation ratio of each property development loan as at the date of reporting

Mortgage Investments are held by Syndicate Members in each Syndicate, rather than by the Fund itself. The LVR for a Mortgage Investment is provided in the Syndicate PDS.

Disclosure Principle 7: Distribution practices
Eclipse makes distributions to members from the Fund. Eclipse should therefore disclose: (a) the source of the current and forecast distributions (e.g. from income earned in the relevant distribution period, operating cash flow, financing facility, capital, application money) (b) if the distribution is not be solely sourced from income received in the relevant distribution period, the reasons for making those distributions and the risks associated with such distributions (c) if the distribution is sourced other than from income, whether this is sustainable over the next 12 months (d) when Eclipse will pay distributions and the frequency of payment of distributions.

Monthly interest paid by the Borrower in respect of the particular Mortgage Investment is distributed to the Syndicate Members in their respective proportions. If the income received from the Borrower in a particular Mortgage Investment is insufficient in any monthly period to enable a distribution of interest to be made in full or in part, interest is distributed to Syndicate Members only to the extent that the income has actually been received from the Borrower.

Disclosure Principle 8: Withdrawal arrangements

Eclipse should disclose:

- the Fund's withdrawal policy and any rights that Eclipse has to change the policy;
- the ability of investors to withdraw from the Fund when it is liquid;
- the ability of investors to withdraw from the Fund when it is non-liquid;
- any significant risk factors or limitations that may affect the ability of investors to withdraw from the Fund;
- how investors can exercise their withdrawal rights, including any conditions on exercising these rights;
- the approach to rollovers and renewals, including whether the 'default' is that investments in the Trust are automatically rolled over or renewed;
- if the withdrawals from the Fund are to be funded from an external liquidity facility, the material terms of this facility, including any rights the provider has to suspend or cancel the facility;
- the maximum withdrawal period that applies to the payment of withdrawal requests when the Fund is liquid;
- any rights Eclipse has to refuse or suspend withdrawal requests; and
- the policy of the Fund on balancing the maturity of its assets with the maturity of its liabilities and the ability of its members to withdraw (e.g. if the Fund has a policy of ensuring that sufficient assets are held in readily realisable investments to meet future withdrawal requests, Eclipse entity should state this in its PDS, provide details of the source of the realisable investment and report against this in its ongoing disclosure).

If the responsible entity makes representations to investors that they can withdraw from the scheme, there should be disclosure on:

- the grounds (which must be verifiable) for the statement;
- the supporting assumptions (which must not be hypothetical only) for the statement;
- the basis for the statement (which must not be based only on an opinion of the directors of the responsible entity if there are no objective grounds to support that opinion); and
- any significant risk factors that mean that withdrawal requests might not be satisfied within the expected period.

If the PDS contains a statement to the effect that, historically, withdrawal requests have been satisfied within a particular period, this may suggest a link between historical withdrawal periods and withdrawal periods that are likely to apply in the future. The responsible entity should ensure the statement clarifies that investors should not conclude that there is such a link between the historical availability of withdrawals and their future availability.

If the scheme promotes a fixed redemption unit price for investments (e.g. $1 per unit), the responsible entity must clearly disclose details of the circumstances in which a lower amount may be payable, details of how that amount will be determined and the impact of a default under the scheme's mortgage assets on investors (e.g. on investor distributions and the unit price).

The responsible entity should, for a particular investor, disclose the above information to the investor as it relates to the investor's ability to withdraw.

Members should note:

- a Member may request to withdraw any Holding Monies that have not been committed to a Syndicate by submitting a withdrawal request in such form as Eclipse requires from time to time;
- if a Member has accepted the terms of the Mortgage Investment, the Holding Monies will remain committed to the Mortgage Investment for 60 days from the date of acceptance. If the Mortgage Investment is not settled within 60 days, the Holding Monies may be allocated to another Mortgage Investment or withdrawn;
- when Holding Monies are invested in a Mortgage Investment, Members may not withdraw their funds from that Syndicate until the Mortgage Investment has been repaid or the Security Property realised, the proceeds are available for distribution and the Syndicate is terminated; and
- if the term of a Mortgage Investment is to be extended or varied, this must be agreed to by the Syndicate Members.

Please refer to the PDS for further information.