

## ASIC Benchmarks update 31 March 2010

In September 2008 ASIC issued Regulatory Guide 45 – “Mortgage Schemes – improving disclosure for retail investors”, which sets out eight Benchmarks formulated by ASIC to assist investors understand the risks and assess the rewards being offered and whether the investment is suitable for them. The ASIC Guide states that managers of mortgage schemes should disclose whether they follow the Benchmarks and, if not followed, to explain on an ‘if not, why not’ basis.

The table below lists the Benchmarks and whether or not the Equititrust Income Fund (the ‘Fund’) follows them.

Benchmark	Follows the Benchmark
1 Liquidity	No
2 Scheme Borrowing	Yes
3 Portfolio Diversification	Yes
4 Related Party Transactions	Yes
5 Valuation Policy	Yes
6 Lending Principles	Yes
7 Distribution Practices	Yes
8 Withdrawal Arrangements	Yes

The following section addresses each of the Benchmarks with a statement as to whether Equititrust follows the Benchmark, and an explanation as to how we deal with the Benchmark. This is done by identifying the management processes in place to satisfy and mitigate against any operational, financial, credit or business risks that the Fund may experience.

### Benchmark 1

#### Liquidity

Status: No

ASIC Regulatory Guide 45 requires Equititrust Limited, as the responsible entity of the Fund, to have estimates of, and provisions for meeting, projected cash flow requirements over the next three months. The ASIC guideline requires, however, that established undrawn credit lines cannot be taken into account.

Equititrust has prepared cash flow forecasts for the next 3 months that do not rely on use of undrawn credit lines provided to the Fund.

As at 31 March 2010, the Fund had a sufficient level of cash and cash equivalents available to meet its operational cash needs, including income distribution payments to investors.

With the Fund's deferral of withdrawal requests remaining in effect as at 31 March 2010, all investments maturing in the next 3 months are forecast to remain in the Fund, for the purposes of cash flow calculations under this Benchmark.

During normal market conditions, the Responsible Entity aims to maintain a cash balance to meet all future needs, including withdrawal requests.

Equititrust has policies and procedures in place to estimate the Fund's cash flow projections, taking into consideration:

- estimated rollovers of investors' maturing investments;
- payment of loan instalments or loan repayments; and
- cash flows from operating activities.

In determining the level of cash flow required during the period, the cash flow forecast process is subject to a series of estimates and judgements, including:

- the probability of the non-rollover of investors' maturing investments;
- the risk and maturity profile of the mortgage loan portfolio;
- expected borrower draw downs; and
- management's reasonable expectation of future cash flow requirements, based on expected business and operational trends, the property market, and the projected economic and legislative environment.

To complement and support the cash flow estimation process, Equititrust has management systems in place to monitor and review historical cash flow performance, as well as trends over time associated with investors' new investments and the advances of mortgage loans. This analysis evidences the trend in rollovers of investors' investments and turnover within the loan portfolio.

Equititrust's cash flow management systems also includes:

- monitoring liquidity position on a daily basis.
- reviewing weekly forecast cash flow needs for the next quarter.
- reviewing quarterly cash flow needs for the next year.

ASIC's Regulatory Guide 45 also requires the responsible entity to disclose the Fund's policy on balancing the maturity of assets with the maturity of liabilities.

Equititrust's mortgage portfolio comprises loans with varying maturities, generally between 12 and 18 months. They are funded by investments with varying maturities up to 12 months including 'Pending Withdrawal' investments. They are also supported by Equititrust Limited's investment in subordinated capital warranty units in the Fund.

The Fund's liquidity management policy reflects the strategy of funding short- and medium-term mortgage loans with a mix of short-term investor funds, short-term and long-term bank credit lines, and long-term investment held by Equititrust Limited in the Fund.

## Benchmark 2

Scheme borrowing

Status: Yes

ASIC Regulatory Guide 45 states that, where the Fund has borrowed funds, the responsible entity should disclose:

- for each borrowing that will mature in five years or less – the amount owing and the maturity profile in increments of not more than 12 months;
- for borrowings that mature in more than five years – the aggregate amount owing;
- for each credit facility – the aggregate undrawn amount and the maturity profile in increments of no more than 12 months;
- the fact that amounts owing to lenders and other creditors of the Fund rank before an investor's interests in the Fund;
- the purpose for which the funds have been borrowed, including whether they will be used to fund distributions or withdrawal amounts; and
- any information about breaches of loan covenants that is reasonably required by investors.

### Credit Facilities

The constitution of the Fund allows Equititrust to borrow funds on behalf of the Fund. These Bank provided credit facilities have enabled Equititrust to approve and settle loans in a timely manner, where the temporary available cash of the Fund may otherwise be insufficient. When Fund cash is surplus, Equititrust may retire drawings under the credit lines, ensuring the Fund efficiently utilises these facilities.

In effect, this has enabled the Fund to profitably grow its asset base, as the cost of Bank funding has historically been lower than that of the Benchmark Rate offered to investors in Ordinary units.

Lines of credit will generally be used for:

- financing direct mortgages by the Fund;
- providing secured finance to other licensed mortgage fund operators;
- loan partnering, which involves the Fund jointly investing in a direct mortgage with another party;
- Bank guarantees for client borrowers; and
- paying distributions and withdrawals, which assists in managing the cash liquidity of the Fund.

The rights of investors in ordinary units to the income and assets of the Fund rank behind the rights of the providers' credit facilities.

The credit facilities are secured by charges over the assets of the Fund.

As at 31 March 2010, Equititrust, in its capacity as responsible entity of the Fund, had the following finance facilities in place:

a. Provided by Commonwealth Bank of Australia (CBA):

Bank Guarantee Facilities with a limit of \$580,665.00.

All former borrowings under this facility have been permanently repaid.

Security for CBA:

1. First registered mortgage debenture over the assets and undertakings of Equititrust Limited; and
2. Guarantee of \$90 million together with a First Ranking Mortgage Debenture over the Assets and Undertakings of Equititrust Limited as Responsible Entity of Equititrust Income Fund.

Facility Expiry Date: 31 July 2010

Prior to the expiry date of the facility, Equititrust Limited may lodge a cash deposit with CBA of an amount equal to the value of the outstanding guarantees. Some of the guarantees originally provided under this Facility have been released and have reduced utilisation of this Facility. It is expected that the remaining guarantees will progressively be no longer required. Following their subsequent release, the usage of the Facility will be reduced and any associated cash deposit would be progressively released to Fund.

b. Provided by National Australia Bank (NAB):

Approved Limit: \$35 million

Amount Drawn \$35 million

Remaining Limit Available: nil

Security for NAB:

1. Second registered mortgage debenture over the assets and undertakings of Equititrust Limited; and
2. Guarantee of \$35 million together with a Second Ranking Mortgage Debenture over the Assets and Undertakings of Equititrust Limited as Responsible Entity of Equititrust Income Fund.

Facility Expiry Date: 31 July 2010

Equititrust is negotiating with NAB the terms of the renewal for this facility, and expects to reach a satisfactory agreement with NAB regarding the extension or payout of the facility.

### Risk

These finance facilities, or similar facilities, may be varied by Equititrust from time to time to prudently manage the cash flows of the Fund. In utilising external financing, there is a risk that Equititrust may not be able to renew existing credit facilities on similar or no less favourable terms to those it currently receives. In such an event, the Fund might have lower available cash resources and its ability to meet short-term liquidity objectives could be adversely affected. This might require the Fund to deploy a lower proportion of investors' funds in income producing loans and therefore might reduce the yield of the Fund.

Equititrust does not intend that Bank sourced credit facilities would ever exceed 40% of the value of assets of the Fund. As at 31 March 2010, bank sourced credit facilities were 13.4% of the Fund's assets.

### Benchmark 3

Portfolio diversification

Status: Yes

ASIC Regulatory Guide 45 requires Equititrust to disclose details of the current nature of the Fund's investment portfolio, as follows:

- loans by class of activity, by number and value;
- loans by geographical region, by number and value;
- what proportion of loans are in arrears or default, by number and value;
- the nature of the security for loans made (e.g. first or second ranking);
- the proportion of total loan monies lent to the largest borrower, and the 10 largest borrowers;
- loans that have been approved but have funds that have yet to be advanced, and the funding arrangements in place for any of these undrawn loan commitments;
- the maturity profile of all loans, in increments of not more than 12 months;
- loan-to-valuation ratios for loans in percentage ranges;
- interest rates on loans, in percentage ranges;
- loans where interest has been capitalised, by number and value;
- the use of any derivatives; and
- a clear description of the non-loan assets of the Fund including the value of such assets.

## Portfolio at 31 March 2010

The following information, whilst not audited, has been compiled by Equititrust to provide a snapshot of the Fund portfolio as at 31 March 2010.

Cash deposited with banks	\$13,727,840
Net receivables	\$5,405,793
Total Mortgages	\$265,883,500

### Loan Portfolio

Number of loans	51
Number of loans secured by first mortgage	50
Number of loans secured by second mortgages	1
Number of borrowers	32
Average loan-to-value ratio	65.3%
Largest loan as % of total loans	18.8%
Average loan value	\$5,213,401
Average loan interest rate	11.1%

Loans with undrawn loan commitments	5
Total undrawn loan commitments	\$461,173

The anticipated funding source for these loan commitments is cash deposits, with anticipated progress draws over 18 months from 31 March 2010.

Loans with capitalised interest:	32
Value of loans:	\$227,654,979
Share of total loans, by value	86%

Borrowers By Size	Borrower's Total Loans	% of Total Loans
Borrower 1	\$61,531,910	23.1%
Borrower 2-10	\$163,102,589	61.3%
10 Largest	\$224,634,500	84.5%

Interest Rates on Loans (% per annum)	No. of loans	Value of Loans
10.00% to 11.99%	24	\$143,552,952
12.00% to 13.99%	26	\$122,129,798
14.00% +	1	\$200,750
Total	51	\$265,883,500

Equititrust generally provides development loans with terms of 12 to 18 months and the interest accrues during the term.

Loan Maturity	No. of loans	Value of Loans
Past Due	1	\$77,646
Matures within 12 months	51	\$265,805,854
Total	52	\$265,883,500

### Loans by Activity Type

Activity Type	No. of Loans	Value of Loans	% of Total
Commercial / Industrial	9	\$91,271,303	34.3%
Residential	19	47,517,527	17.9%
Rural / Rural Residential	5	24,392,375	9.2%
Commercial Development	3	3,643,720	1.4%
Residential Development	15	99,058,576	37.3%
Total	51	\$265,883,500	100.0%

### Loans by Geographic Region

Geographic Region	No. of Loans	Value of Loans	% of Total
Brisbane / Sunshine Coast	5	\$72,571,742	27.3%
Gold Coast	12	27,472,894	10.3%
QLD Other	16	28,567,464	10.7%
NSW Other	13	91,097,069	34.3%
Sydney	2	12,804,927	4.8%
South Australia	3	33,369,405	12.6%
Total Loans	51	\$265,883,500	100.0%

### Loans by Loan-to-Valuation Ratios

L.V.R.	No. of Loans	Value of Loans	% of Total
0% - 9%	1	\$1,136,151	0.4%
10% - 19%	0	0	0.0%
20% - 29%	1	77,646	0.0%
30% - 39%	4	32,674,615	12.3%
40% - 49%	4	4,862,547	1.8%
50% - 59%	9	24,319,670	9.1%
60% - 69%	13	84,290,810	31.7%
70% - 80%	19	118,522,060	44.6%
Total Loans	51	\$265,883,500	100.0%

### Loans with Interest in arrears

Days in Arrears	No. of Loans	Loan Principal	Interest in arrears
60 to 90 days	0	0	0
90 to 120 days	0	0	0
120+ days	4	\$5,383,495	\$758,981
Total	4	\$5,383,495	\$758,981

Default loans are defined as loans that are greater than 60 days in arrears and/or the loan term has expired and not been extended.

#### Loan diversification

There are no target allocations within the portfolio with respect to loan security type and geography.

#### Lending policy

- All loans are secured by registered mortgages. Before funds are advanced, a valuation or market appraisal is obtained taking into account relevant factors such as the sale price likely to be obtained for the proposed security property, and factors affecting the possible sale of the security property.
- All valuations are obtained only from approved valuers and are no more than six months old at the time of the initial advance.
- Members of the credit committee are expected to research each property they present to the committee.
- If the borrower is a corporate entity, Equititrust undertakes searches of the ASIC register.
- Loans are to be no greater than 80% of the value of the security property.
- Generally, Equititrust's lending policy will restrict the loan to 70% of the security property's value. Facilities that exceed this level require approval from the Credit Committee.
- Each improved security property is to be insured to replacement value.
- Loan applications involving specialised security properties are generally not considered.
- Property investigation is undertaken through land titles registries and other relevant authorities.
- To encourage borrowers to make prompt interest payments we provide a lower interest rate for timely payments.
- Equititrust has implemented procedures under its compliance plan whereby appropriate action is taken against the borrower if they default. Such action may include working with the borrower collaboratively to resolve non-payment or effecting completion (if necessary) and sale of the asset.
- Where appropriate, Equititrust issues a default notice to the borrower and, if this is not satisfied, we exercise our rights under the mortgage, such as exercising power of sale. In this event, the proceeds of sale are usually applied in the following priority:
  - a) towards payment of any liabilities having priority at law;
  - b) in payment of the Fund's capital investment;
  - c) in payment of any accrued income;
  - d) in payment of any of Equititrust's costs and expenses (including legal costs on a full indemnity basis); and
  - e) in accordance with its obligations at law.

This priority schedule aligns Equititrust's interests with those of investors. Specifically, because investors receive priority over Equititrust Limited (as the responsible entity) in the event of a loan default, Equititrust is strongly incentivised to maximise the recovery amount to ensure that both Equititrust and investors are repaid.

#### Maximum loan

At the date of the approval for a loan advance, the maximum single loan limit is not expected to exceed 20% of the total mortgage portfolio value. As at 31 March 2010, the Fund's largest single loan was \$50,045,684, equivalent to 18.8% of the total portfolio value.

It is possible that a loan approved within the 20% internal guideline could, later in time, exceed that guideline simply because of a reduction in the size of the overall loan portfolio. In such an event, Equititrust would use its discretion in deciding whether or not such an event would be grounds for requesting that a Borrower be asked to repay the portion of its Facility that resulted in the excess position.

#### Investment in other unlisted mortgage investment schemes

The Fund has no current investments in other schemes.

The Fund may invest in another unlisted mortgage investment scheme provided that:

- it is registered under Chapter 5C of the Corporations Act;
- it deals only in first mortgages over property of the nature similar to that detailed in this PDS;
- the term of investment does not exceed two years; and
- the Equititrust Credit Committee believes the investment to be in the best interest of investors.

Before making any investment, Equititrust would issue an updated Benchmark disclosure. In any event it is likely that Equititrust would require the other operator to satisfy Benchmarks 1-8.

#### Finance to other unlisted mortgage funds

Before lending to another fund, Equititrust would assess its credit history, management and lending team (including their track record) and obtain a first-ranking equitable mortgage over its assets.

#### Loan partnering / Syndication

Equititrust may itself, or in collaboration with other financiers or banks, partner with such entities in relation to the provision of property loans. The loan assessment criteria and process will be identical to those loans for which the Fund is the sole financier.

Where Equititrust engages in loan partnering, the mortgage documents may be held in the name of a trustee on behalf of the Fund and its loan partner. Also, Equititrust will be at liberty to offer its loan partner (where the loan partner is not Equititrust) a priority mortgage position.

In that instance the Fund's status would be to hold a second ranking mortgage behind that of the loan partner. The Fund's participation in loan partnering will not exceed 20% of the total assets of the Fund.

#### Derivatives

Equititrust uses no derivatives (e.g. futures, options, swaps, forward rate contracts) in relation to any of its operations.

Updates of portfolio information are available via the Equititrust website [www.equititrust.com.au](http://www.equititrust.com.au), or by phoning Equititrust on 1800 63 5527.

#### Benchmark 4

Related party transactions

Status: Yes

ASIC Regulatory Guide 45 states that Equititrust should discuss its approach to transacting with related parties of the Fund including lending or investing Fund money with related parties and Equititrust should disclose these transactions.

Equititrust has a policy of not using Fund money to provide loans to, or make investments in, any related parties. There are no loans undertaken by the Fund to related parties. Related parties can, provided they are on commercial arms length terms:

- invest in the Fund; and/or
- lend monies to Equititrust Limited (if required);and/or
- enter into co-lending arrangements with the Fund.

Entities associated with the directors may, from time to time, provide services to Equititrust. The arrangements for these services are reviewed annually to ensure they remain on commercial arms-length terms.

#### Benchmark 5

Valuation policy

Status: Yes

ASIC Regulatory Guide 45 states that the responsible entity should take the following approach to valuations of property over which the Fund has taken security:

- Properties (real estate) should be valued on an 'as is' and (for development property) also on an 'as if complete' basis.
- The responsible entity should have a clear policy on how

often it obtains valuations, including how recent a valuation has to be when making a new loan.

- The responsible entity should establish a panel of valuers and ensure that no one valuer conducts more than 1/3rd of the Fund's valuation work, calculated by the value of the security properties.

Equititrust's policy in relation to valuations of security properties incorporates the following:

- Properties are valued on an 'as is' basis and, for development property, also on an 'as if complete' basis.
- Valuations in relation to new loans are to be no older than six months at the time of initial advance.
- Equititrust ensures no one valuer conducts more than one third of valuation work for the Fund.
- Equititrust may accept an assignment of the valuation instead of obtaining a valuation directly from a panel valuer, in certain circumstances, subject to our guidelines. These guidelines include ensuring that the valuer is a panel valuer and that the valuer states in writing that the valuation complies with Equititrust's valuation instructions and may be relied upon by Equititrust. Equititrust's Lending Management Team must confirm that these guidelines have been met before an assignment of a valuation is acceptable.

Valuations of security properties are updated at least every three years. In the interim, the Equititrust credit committee reviews all loans at the end of their term to determine whether or not to extend each loan for a further term and whether obtaining an updated valuation is appropriate.

Equititrust reviews the qualifications and experience of each valuer before they are appointed to our panel of valuers. Each panel valuer must be independent of Equititrust and the borrower, be registered (if applicable) to undertake and provide valuations in the relevant state or territory where the security property is located, hold an appropriate level of professional indemnity insurance and have at least two years continuous valuation experience in valuation.

Valuers must also include in their valuation reports a warranty confirming that the report complies with all relevant industry standards and codes.

ASIC Regulatory Guide 45 also states that the Responsible Entity should include information about the valuation of a particular property where a loan secured against the property accounts for more than 5% or more of the total value of the Fund.

	Loan Principal	% of Total Loans	Security Value	LVR	Date of Valuation
Property 1	\$50,045,684	18.8%	\$81,500,000	61.4%	02-Sep-09
Property 2	\$44,134,509	16.6%	\$57,839,495	76.3%	01-May-08
Property 3	\$17,501,052	6.6%	\$53,705,000	32.6%	19-Sep-08
Property 4	\$13,484,092	5.1%	\$18,860,000	71.5%	07-Dec-06

## Benchmark 6

Lending principles – loan-to-value ratios

Status – Yes

ASIC Regulatory Guide 45 states that property development loans should not exceed 70% of 'as if complete' valuations. For non-development loans the maximum LVR should not exceed 80%, based on the latest market valuation.

At 31 March 2010, the Fund had no property development (construction) loans that exceeded 70% of the 'as if complete' value of the security property.

As at 31 March 2010, the Fund had no non-development property loans that exceeded 80% of the latest 'as is' market valuation.

Equititrust has the option under its constitution to lend up to 80% of the value of real estate security property, based upon independent valuation. However, as a rule, lending limits are maintained at a maximum of 70% of the value of the security property. Facilities that exceed this level require approval from Credit Committee.

Fund money may be advanced with respect to second mortgages taken as principal security where the LVR is no greater than 80%.

ASIC Regulatory Guide 45 states that loans provided by the Fund relating to property development should only be provided progressively as works are completed.

Prior to advancing construction funding Equititrust provides all plans, specifications and building contracts to a quantity surveyor who approximates the cost to complete the development. This ensures the borrower has allowed appropriate development costs. Funds are then advanced progressively on a 'cost to complete' basis. The quantity surveyor appointed by Equititrust inspects the development at set stages of construction prior to further loan advances and certifies to Equititrust the cost of completing the development at each stage in writing, [including that the cost to complete is less than or equal to the undrawn amount of the loan facility].

Equititrust withholds the amount of loan funds necessary to complete the development in accordance with the advice received from the quantity surveyor. If the borrower becomes unable to complete the development, Equititrust, based on the advice of the quantity surveyor, should have sufficient funds to complete the development.

## Benchmark 7

Distribution practices

Status – Yes

ASIC Regulatory Guide 45 states that where Equititrust expects the Fund to make distributions to investors, Equititrust should disclose:

- the source of the current distributions;
- the source of any forecast distributions;
- if the current or forecast distribution is not sourced solely from income received in the relevant distribution period, the reasons for making those distributions; and
- if the current distribution or forecast distribution is sourced other than from income, whether this is sustainable over the next 12 months.

The Fund provides investors with income distributions either monthly or annually. The current distribution rate is nominated at the commencement of an investor's investment and is referred to as the Benchmark Rate. For fixed-term investors and Access investors the Benchmark Rate remains fixed for 12 months. The Benchmark Rate is not a warranty or forecast that the investor will receive this rate of distribution for the term of their investment. Distributions rates are variable and may be less than the Benchmark Rate.

The Benchmark Rate is the distribution rate that must be paid monthly to ordinary unit investors, or accrued if not paid monthly, before Equititrust is entitled to be paid its management fees. The Benchmark Rate is, in effect, the monthly performance hurdle rate that must be achieved before management fees may be paid to Equititrust.

The cash flow necessary for payment of the Benchmark Rate is derived from a range of sources including:

- inflows from investors;
- loan repayments from borrowers;
- interest payments from borrowers;
- repayments derived from the sale of completed developments;
- refinancing upon project completion; and
- liquid assets of the fund.

The distribution rate paid by the Fund for the term of the investor's investment will not exceed the Benchmark Rate. Equititrust may, but is not obliged to, contribute money to the Fund to supplement the distributions. If any investor, other than the subordinated Capital Warranty unit investor, does not receive, or have accrued, their Benchmark Rate in a particular month during the term of their investment, Equititrust is not entitled to receive any management fees.

The expenses of the Fund and all expenses incurred by Equititrust Limited on behalf of the Fund are paid in priority to Benchmark Rate payments.

When the monthly income of the Fund is higher than the amount necessary to pay all investors their Benchmark Rates, Equititrust will, after payment of the Benchmark Rates, receive its management fee. Any remaining surplus will be paid to Equititrust Limited, as the holder of the subordinated Capital Warranty Investment units.

ASIC Regulatory Guide 45 states that, where the Fund promotes a particular return, Equititrust should disclose details of the circumstances in which a lower return may be payable, together with details of how that lower return would be determined.

A lower return may be payable:

- if interest payments from borrowers are insufficient to enable income distributions to investors; or
- if there is insufficient cash available due to interest payments from capitalised loans not being realised until the maturity loan; and/or
- if Equititrust does not contribute additional money to the income of the Fund.

In this event, investors would receive income distributions (if any) based on the cash and income available for distribution.

Equititrust does not represent that investors will receive their Benchmark Rate of distribution. As mentioned above, the Benchmark Rate is the hurdle rate that must be achieved before Equititrust is entitled to its management fees.

## Benchmark 8

### Withdrawal arrangements

Status - Yes

ASIC Regulatory Guide 45 requires the responsible entity for the Fund, to disclose:

- the maximum withdrawal period;
- any significant risk factors or limitations that may affect the ability of investors to withdraw from the Fund;
- the approach to rollovers, including whether the 'default' is that investments in the Fund are automatically rolled over; and
- if 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.

### Maximum Withdrawal Period

Under normal operating conditions the Fund constitution allows Equititrust up to 180 days or, in particular circumstances, a further 180 days to pay any valid withdrawal request.

Equititrust has no fixed obligation to satisfy withdrawal requests within, or upon the maturity of, the stated investment periods below. If the Fund does not satisfy the statutory liquidity requirements, investors may only have a limited ability to withdraw, if any.

### Current status

In consideration of the best interests of investors in the Fund, Equititrust has currently deferred the processing and payment of withdrawals. During this period, Equititrust expects, but is not obliged, to make periodic withdrawal offers, subject to available cash and the operational requirements of the Fund.

Monthly income distributions have continued to be paid to investors during the withdrawal deferral period.

ASIC Regulatory Guide 45 requires Equititrust to provide details of whether, and the circumstances of how, a lower unit price may be payable than that relating to a person's original investment.

The price of units in the Fund has historically remained at \$1.00 per Unit. As at 31 March 2010, Equititrust had \$40 million invested in the Fund as a subordinated Capital Warranty Investment. This Capital Warranty Investment acts as a buffer for investors in ordinary units in the event the Fund suffers a loss arising from the operation of the Fund. A loss could arise due to:

- loan defaults by borrowers;
- valuations not accurately reflecting the value of the security property at the time they are undertaken;
- a fall in the value of security property during the term of the loan; and
- diminished value of the security as a result of non-completion of works (in respect of development loans).

In the event of a loss to the Fund, the value of that loss would first be borne by the Equititrust Capital Warranty Investment.

Equititrust may vary the amount of its Capital Warranty Investment in the Fund at any time subject to:

- the terms in the PDS relating to the minimum Capital Warranty Investment amount;
- the consent of its financier/s; and
- the withdrawal rights of other investors.

If Equititrust resigns, or is replaced as manager of the Fund, the subordinated Capital Warranty Investment would convert to an Access Investment.

### Rollovers

The 'default' approach to rollovers is for the principal investment to be rolled over automatically at the maturity date.

### Liquidity Facilities

If withdrawals may be funded from an external liquidity facility, then ASIC Regulatory Guide 45 requires the Responsible Entity to disclose the material terms of this facility, including any rights the provider has to suspend or cancel the facility.

Equititrust may utilise third-party financing to assist in funding withdrawals. If that were to be the case, there is a risk that Equititrust may not be able to renew existing credit facilities on similar or no less favourable terms to those it currently receives. If this occurred, the Fund may have lower available cash resources and its ability to meet short-term liquidity objectives would be affected. This may require the Fund to deploy a lower proportion of investors' funds into income producing loans and therefore also affect overall Fund performance.

If Equititrust (when borrowing on behalf of the Fund) defaulted on any of the credit facilities, then the providers of these facilities would have first right of access to the assets of the Fund in priority to the investors. This would impact on the capacity of Equititrust to meet unpaid and ongoing withdrawal requests.

The provision of external liquidity facilities are subject to the Fund maintaining certain loan covenants, such as a debt-to-total-eligible-assets ratio. If the material covenants are not maintained, this would result in a breach of the facility, in which case the provider of the facility would be entitled to review the facilities, and may decide to do all or any of the following:

- declare that the amount owing as immediately payable;
- appoint a firm of independent accountants, or other experts, to review and report to the banks on the affairs, financial condition and business generally of Equititrust and the Fund;  
or
- re-negotiate the terms of the facility.

As at 31 March 2010, the Fund met all the required loan covenants for the existing external liquidity facilities.