Squirrel Investment Funds

Other Material Information

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Introduction

This is an important document in relation to your investment in the Squirrel Investment Funds (the "Scheme") and should be read together with the Product Disclosure Statement ("PDS"), the Statement of Investment Policy and Objectives ("SIPO") and other documents held on the register at https://disclose-register.companiesoffice.govt.nz ("Disclose Register"). If you are a retail investor, you must be given a copy of the PDS before we can accept your application for Units.

This Other Material Information Document ("Document") has been prepared to meet the requirements of section 57(1)(b)(ii) of the Financial Markets Conduct Act 2013 ("FMC Act") and clause 52 of Schedule 4 of the Financial Markets Conduct Regulations 2014 ("FMC Regulations"). All legislation referred to in this Document can be viewed at www.legislation.govt.nz.

In this Document, 'you' or 'your' refers to a person or entity that invests in the Squirrel Monthly Income Fund (the "Fund"). If you hold units through a wrap platform or similar administration and custodial service, please note the section "Investing through administration and custodial services". 'We', 'us', 'our', 'Manager' or 'FundRock' refers to FundRock NZ Limited as the Manager of the Scheme. When we use the word 'current' or 'currently' in relation to any legislation, regulation, policy, information, activity or practice, we refer to these at the date of this document. Any legislation, regulation, policy, information, activity or practice may be reviewed or changed without us notifying you.

Capitalised terms have the same meaning as in the Master Trust Deed for the Establishment of Managed Investment Schemes (including the relevant Scheme and Fund Establishment Deeds for the Squirrel Investment Funds), unless they are otherwise defined in this Document.

Other information on the Fund

This document relates to the offer of Units in the Fund.

The Fund is constituted within a managed investment scheme called the 'Squirrel Investment Funds', registered under scheme number SCH13142. The Scheme is governed by the Trust Deed dated 1 December 2016, the Scheme Establishment Deed dated 7 May 2021, and the Fund Establishment Deed dated 7 May 2021 (together the "Governing Documents" for the Scheme). The Fund invests in accordance with the SIPO. You can get an electronic copy of the Governing Documents and SIPO from the scheme register on the Disclose website www.companiesoffice.govt.nz/disclose.

Investing through administration and custodial services

The Fund is offered through certain administration and custodial services. These include "wrap platforms". When you invest through an administration and custodial service, you do not hold units in the Fund directly. Instead, your units are held in the name of a custodial entity for the wrap platform on your behalf. This means many of the legal rights attaching to those units are held by that custodial entity rather than by you, and so your ability to exercise those rights is subject to the terms and conditions agreed between you and the provider of the service. You are encouraged to familiarise yourself with those terms and conditions as set out in the service provider's marketing and legal documentation.

Other information on the parties involved

Manager

FundRock is a fund management company specialising in establishing and managing New Zealand-domiciled funds. With a deep understanding of New Zealand's investment management industry, FundRock works with both local and global investment managers to enable investors to

access these specialist managers' investment expertise within funds and solutions that have been tailored for New Zealand's tax and legislative environment.

FundRock was granted a licence to act as the manager of a registered scheme under the FMC Act by the Financial Markets Authority ("FMA") on 25 August 2015. The licence is subject to us maintaining the same or better standard of capability, governance, and compliance as was the case when the FMA assessed our licence application. The licence is subject to the normal conditions imposed under the FMC Act and the FMC Regulations, and the standard conditions imposed by the FMA.

The names and contact details for directors and information on the shareholders of FundRock are available at https://companies-register.companiesoffice.govt.nz/. This information may change from time to time without notice to you.

Investment Manager and Distributor

The current Investment Manager for the Fund is Squirrel Money Limited ("Squirrel"). Further information on Squirrel, including information on Squirrel's directors and senior management, may be found at www.squirrel.co.nz.

Squirrel is responsible for investing the assets of the Fund in compliance with investment guidelines agreed between the Manager and the Investment Manager from time to time. The investment guidelines are set to ensure the Fund remains invested within limits documented in the SIPO.

Squirrel also provides promotion and distribution support to the Fund.

Supervisor

The Supervisor of the Scheme is Public Trust. Public Trust is independent of us.

Public Trust is a statutory corporation and Crown entity established and constituted in New Zealand on 1 March 2002 under the Public Trust Act 2001.

The supervisor is responsible for supervision of FundRock and the Scheme, including:

- Acting on behalf of the Fund's investors in relation to FundRock and any contravention of FundRock's issuer obligations;
- Supervising the performance by FundRock of its functions and the financial position of FundRock and the Scheme; and
- Holding the Fund's assets or ensuring that the assets are held in accordance with applicable legislative requirements.

The Supervisor was granted a licence under section 16(1) of the Financial Markets Supervisors Act 2011 to act as a supervisor in respect of managed funds.

Custodian

Adminis NZ Limited ("Adminis") is the Custodian of the Fund's assets.

As required by the FMC Act, the Custodian is independent of us.

The Fund invests in the Squirrel Wholesale Construction Loan Fund and the Squirrel Wholesale Home Loan Fund ("Underlying Funds" and, jointly with the Squirrel Specialised Income Fund, the "Squirrel Wholesale Funds"), which are part of the Squirrel Wholesale Investment Funds scheme.

The assets of each of the Underlying Funds are held in custody by Squirrel P2P Trustees Limited ("Squirrel Trustee") and Adminis. Squirrel Trustee is a related company of Squirrel.

Squirrel Trustee is the lender of record for loans made through the Squirrel peer-to-peer ("P2P") platform and holds each loan (together with cash, and other associated rights) on bare trust for the relevant investors (including the Underlying Funds).

Adminis acts as custodian for the Underlying Funds appointed by the Independent Trustee, Public Trust, and holds cash and the beneficial interests in the assets held by Squirrel Trustee as described above.

Fund Administrator

FundRock has appointed Adminis as the Fund Administrator for the Fund. Key roles undertaken by Adminis include:

- Registry services – an electronic register for the Fund is kept at Adminis.
- Unit pricing.
- Fund accounting.

Other

Other key parties currently employed by FundRock are:

Party	Role
KPMG	Auditor
MinterEllisonRuddWatts	Legal adviser

Manager and Supervisor's Indemnity

Both we and the Supervisor are entitled to be indemnified out of the Fund. The indemnity covers any personal liability (including Portfolio Investment Entity ("PIE") tax) incurred by or on behalf of the Fund, or any action taken or omitted in connection with the affairs of the Fund (other than in respect of our or the Supervisor's negligence, wilful default or wilful breach of trust). It also covers the costs of any litigation or other proceedings in which such liability has been determined (including legal fees and disbursements). The indemnity ranks in priority to the claims of Investors. It is subject to the limits on permitted indemnities under the FMC Act, which only make the indemnity available in relation to the proper performance of the duties under the FMC Act.

We and the Supervisor, in incurring any debts, liabilities, or obligations, or in taking or omitting any other action for or in connection with the affairs of the Fund, are each deemed to be acting for and on behalf of the Fund and not in our own respective capacities.

Neither the Supervisor nor we (except as otherwise expressly provided in the Governing Documents) are under any personal liability, nor may resort be had to our private property, for the satisfaction of any obligation of the Fund (other than in respect of our or the Supervisor's negligence, wilful default or wilful breach of trust).

Material Contracts

The following material contracts are in place in relation to the Fund:

- On 1 December 2016, we and Public Trust entered into the Master Trust Deed for the Establishment of Managed Investment Schemes. That deed appointed the Supervisor as supervisor, and the Manager, as manager of any schemes established under that deed.
- On 1 December 2016, we entered into a Supervisor Reporting Agreement with Public Trust that sets out the arrangements between us and Public Trust in relation to certain operational matters relating to certain Funds. The Supervisor Reporting Agreement specifies the reporting and information to be provided by us to Public Trust and the requirements for operating the Fund's bank accounts and record-keeping. Nothing in the Supervisor Reporting Agreement limits or alters the powers of Public Trust or our duties under the Governing Documents and applicable law. On 26 January 2022, the Supervisor and FundRock updated the current Supervisor Reporting Agreement to include the Fund.

- On 18 December 2019, we and Adminis entered into an Administration Agreement under which we delegated certain administrative functions in relation to certain Funds to Adminis, including registry, fund accounting, and unit pricing. On 16 July 2021, Adminis and FundRock updated the current agreements to include the Fund.
- On 29 March 2021, we entered into an Investment Management Agreement with Squirrel. Under the agreement, Squirrel is responsible for investment of the assets of the Fund under normal market terms. The Investment Management Agreement was updated on 12 July 2021 to include the Squirrel Wholesale Funds.
- On 29 March 2021, we and Squirrel entered into a Fund Hosting Agreement formalising the framework within which we are engaged by Squirrel to establish and manage the Scheme. Under this agreement we are responsible for issuing, administering, and managing the Scheme, with Squirrel being appointed as the Investment Manager and Distributor of the Fund. The agreement covers broadly the investment management, administration and distribution of the Scheme and the Fund, branding, advertising and the preparation of offer documents. The Fund Hosting Agreement was updated on 12 July 2021 to include the Squirrel Wholesale Funds.
- On 7 May 2021 we and Public Trust entered into the Scheme Establishment Deed for the Squirrel Investment Funds. The deed established the Squirrel Investment Funds scheme.
- On 7 May 2021, we and Public Trust entered into Fund Establishment Deed for the Squirrel Monthly Income Fund.

Disclosure of Interests

A conflict of interest in relation to a fund means a financial or any other interest, a relationship, or any other association of ours, of the investment manager for the Scheme, or of a relevant person that would, or could reasonably be expected to, materially influence our investment decisions or the investment decisions of the investment manager (or both) in respect of a fund.

Below is a summary of conflicts of interest in relation to the Fund that currently exist or may arise in the future:

- Squirrel intends to invest Fund assets into the Underlying Funds. The Underlying Funds will in turn invest in loans via the Squirrel P2P platform. In exchange for administering loans on the Squirrel P2P platform, Squirrel retains a platform service margin. This is the difference between interest paid by a borrower and the interest received by an investor on the Squirrel P2P platform.
- Squirrel may charge borrowers an establishment fee of up to 3% of the loan value which investors (including the Underlying Funds) may not receive.
- When the Underlying Funds used by the Fund obtain scale, Squirrel will need to decide whether or not to allocate a whole loan to the relevant wholesale fund, via the Squirrel P2P wholesale platform, or to the Squirrel P2P retail platform where all P2P investors (including the Underlying Funds) will have the ability to obtain a fractional exposure to that loan
- Parties related to the Fund, including the staff of Squirrel and their families and the staff of FundRock and their families, may from time to time invest in the Fund.

Management of conflicts of interest

The FMC Act imposes statutory controls on related party transactions and conflicts of interest:

- A related party transaction in respect of the Fund may only be done if the details are notified to the Supervisor and we: 1) certify the transaction (or series of transactions) is "permitted"[1] on the basis that the transaction is on arm's length terms, or 2) we obtain the

[1] As per the FMC Act.

Supervisor's consent on the basis that it is in the best interests of investors, or contingent on Special Resolution approval by investors.

- As manager of the Scheme, we are subject to various statutory duties in the performance of our duties as manager, including the requirement to act honestly and in the best interests of investors.
- Where we contract out our functions to other parties, such as the investment management of the Fund to Squirrel, we must ensure the persons to whom we contract those functions perform them to the same standard and subject to the same duties and restrictions as if we were performing them ourselves. These include the statutory duties referred to above. We must also monitor the performance of that function.
- Squirrel, as investment manager of the Fund, must comply with a professional standard of care, i.e. in exercising any powers, or performing any duties as investment manager, they must exercise the care, diligence, and skill that a prudent person engaged in the profession of investment management would exercise in the same circumstances.

We have built these statutory controls into our internal compliance processes and procedures. We have conflicts of interest and related party transactions policies and procedures ("Policies") which extends the statutory duties imposed on us to our staff members.

The Policies define what a conflict of interest is and provide for reporting and disclosure of conflicts of interest to the Board, manager, and directors of FundRock.

Explanation of Key Terms

The information below is a summary of the key provisions of the Governing Documents. For a detailed description of the Fund's and Scheme's governing terms, please refer to the Governing Documents held on the scheme register at https://disclose-register.companiesoffice.govt.nz. If there is any conflict between information in this Document and the terms of the Governing Documents, those of the latter prevail.

Making an application

The application process is described in the PDS.

Issue price

If we accept your application, you will be issued Units in the Fund at the Issue Price. The Issue Price is the Net Asset Value per Unit in the Fund. The Issue Price of a Unit is generally determined on each Business Day ("Valuation Time").

The value of the assets held by the Scheme and the net asset value of the Fund will be determined in accordance with the Scheme's Governing Documents and on a consistently applied basis.

If an application is received and accepted before the cut-off time of the Fund on a Valuation Time, Units will be issued at the Issue Price determined as at the end of that day. If an application is received and accepted at or after the cut-off time on a Valuation Time, Units will be issued at the Issue Price determined as at the end of the following Valuation Time.

The cut-off time for the receipt of applications and cleared funds for the Fund is currently 12pm, New Zealand time.

If a payment is dishonoured or reversed, no Units will be issued in respect of that payment or any Units issued based on that payment will be cancelled.

Charges

Annual fund charges

The Fund's estimated annual fund charges ("Annual Fund Charges"), which includes management fees, are outlined in the PDS for the Scheme. The Annual Fund Charges include fees and costs charged by us, the Supervisor, custodian, fund administrator, investment manager, registrar, and auditor. It may also include professional fees (for example for legal and tax advice). These charges may be directly charged to the Fund, or recovered by us from the Fund.

The GST treatment of each of these components varies. For example, GST is charged at 15% on the audit fee, while custody fees are an exempt supply for the purposes of GST. These percentages vary, and may change in the future, which is why GST has been estimated in the PDS.

The Annual Fund Charges are calculated and accrued daily and reflected in the unit price. The Annual Fund Charges are paid monthly in arrears. We may waive or decrease the Annual Fund Charges without notice. Subject to any maximum amount in the PDS, we may increase the management fee; or provided that any such fee is permitted, we may charge an additional fee not currently being charged by giving you at least three months' notice.

The Annual Fund Charges include any investment management fees deducted within an underlying fund or paid to an underlying investment manager.

Supervisor's other fees

The Supervisor may charge additional fees to the Fund for special services (e.g., on wind up of the Fund).

Initial service fee

While we have no current intention to do so, we may charge an initial service fee determined by us on the issue of any Unit.

Variation to fees

We may, in our absolute discretion, rebate the buy and sell spread or Fund charges (which includes management fees) by agreement with an Investor or a group of Investors.

Manager's termination fees

If the Fund terminates, we may charge the Fund a fee and recover costs and disbursements from the Fund for matters relating to termination. You may ask us how much that fee was following termination. Further information on termination fees recoverable by the Manager or Supervisor are contained in the Governing Documents.

Platform service margin

Squirrel intends investing Fund assets into the Underlying Funds. The Underlying Funds will in turn invest in loans via the Squirrel P2P platform. In exchange for administering loans on the Squirrel P2P platform, Squirrel retains a platform service margin. Platform service margins range from 0.85% p.a. on home loans to 2.50% p.a. on construction loans, depending on each underlying loan's attributes. The estimated Underlying Funds' blended platform service margin is 1.50% per annum. This estimate is a weighted average of service margins for home and construction loans. Service margins are weighted by the expected allocation to each loan type. Platform service margins will reduce potential returns to investors.

Reserve Levy

Squirrel applies a **reserve levy** to each loan repayment which is paid into the applicable reserve fund[2], for the benefit of investors in the event a loan is in arrears or defaults.

Collectively, the Squirrel platform margin and reserve levy are the difference between interest paid by a borrower and the interest received by an investor on the Squirrel P2P platform.

Distributions

We expect to make monthly distributions for the Fund. We expect to pay distributions within 10 business days of each month end. You can elect for your distributions to be reinvested in the Fund. If you do not make a distribution election, the default option is reinvestment.

Amendments to the Governing Documents

We can agree with the Supervisor to change the Governing Documents in certain circumstances, without consulting you. This ability is, however, subject to certain protections (for your benefit) as set out in the Governing Documents.

Altering your investment

We may alter or introduce minimum application amounts, holding amounts, transfer amounts, or redemption amounts for the Fund at any time. We may allow applications, holdings, transfers, or redemptions for less than those minimums at our discretion.

We may decrease or waive the management fee for the Fund at any time without notice.

We can change the SIPO. Before making changes to the SIPO, we will consider if the changes are in your best interests and consult with the Supervisor. We will give notice of changes to investors in the Fund prior to effecting any material changes.

Payment of redemption requests may be suspended or deferred. Details of when this may occur are included in the "Redemption of units" section.

We may resolve to wind up the Fund. In that case, all assets of the Fund will be realised, and the Fund wound up (as explained under the "Insolvency or winding up" section).

If your holding in the Fund falls below the minimum holding amount fixed by us from time to time or if we determine that an adjustment for PIE tax would reduce your holding to below that minimum holding amount, we may redeem your entire holding and pay the net proceeds into your nominated bank account. We will give you at least one month's notice of our intention to do this.

The current minimum holding amount in the Fund is $100.

We may take all steps necessary to ensure the Fund remains eligible to be a PIE. This includes our ability to compulsorily redeem some or all of your Units and pay the net proceeds to your nominated bank account.

Redemption of units

You may request redemption of some or all of your investment at any time.

Minimum redemption amounts

If a Redemption Request would cause your holding in the Fund to fall below the minimum holding amount (as determined by us from time to time) we may treat the Redemption Request as a request to redeem all your Units in the Fund.

[2] See more about this under "*Squirrel Reserve Funds*" below.

If your holding falls below the minimum holding amount or to a level where an adjustment for PIE tax would leave your holding below the minimum holding amount, we may redeem all your Units and pay the proceeds to your nominated bank account.

Redemption price

The Redemption Price of a Unit is determined on each Valuation Time for the Fund. An Investors' Redemption Request will be actioned on a Valuation Time within 30 days of the first business day after receiving your request. Redemptions are processed at the Fund redemption price applicable on the business day after your redemption is received. The cut-off time for the receipt of redemption requests for the Fund is currently 2pm.

The payment of redemption proceeds will normally be made within 10 business days of the Valuation Day on which the Units are redeemed.

Deferral of redemptions

Fund redemptions may be deferred if:

- We receive one or more Redemption Requests, within 60 Business Days, that total more than 10% of Fund Units on issue, and
- We consider deferral to be in the general interests of all Fund investors.

We must notify the Supervisor of our intention to defer redemptions as soon as reasonably practicable.

If redemptions are deferred, in accordance with the Trust Deed, then those Units that have been subject to the redemption deferral may be repurchased or redeemed by instalments at the Valuation Times for a period determined by us, or in total at the end of a period determined by us. In either case, the Redemption Price is to be calculated at the Valuation Time or Valuation Times on which Units are repurchased or redeemed.

Suspension of redemptions

We may suspend redemptions where we in good faith form the opinion that it is not practicable, or would be materially prejudicial to the interests of the Fund Investors, for the Supervisor to realise assets or borrow to permit Unit redemptions.

Particular reasons for suspension mentioned in the Trust Deed are:

- a decision to wind up a Fund,
- financial, political, or economic conditions applying in respect of any financial market or other markets in which Authorised Investments may be sold,
- the threat to a Fund's eligibility for PIE status,
- the nature of any asset or investment Fund,
- the suspension of redemptions in an underlying fund into which a Fund invests, and
- the occurrence or existence of any other circumstance or event.

If redemptions are suspended, we must give notice to all Investors who have made a Redemption Request. If the suspension is for a period of more than two weeks, we must give notice to all Investors in the Fund.

The suspension will continue until:

- we give notice that the suspension is concluded; or
- the expiry of any period stated in the Establishment Deed; or
- six months after the date of the notice; or
- such other date as may be approved by a Special Resolution of Investors.

A Redemption Request may not be suspended for a period exceeding six months after its receipt (or such other date as is approved by Special Resolution of Investors).

When Redemption Requests are suspended, in accordance with the Trust Deed, the Redemption Price payable to Investors will be calculated on the last Business Day of the period of the suspension.

Tax on redemptions

Where Units are redeemed, the tax liability on income allocated to you up to the redemption date will need to be satisfied either by us cancelling Units or by deduction from any distributions. Generally, this will occur by cancellation of Units on redemption.

Right to sell units

You may sell and transfer all or any of your Units (either to an existing Investor or another person) by completing a Transfer Request Form, to be signed by the transferor and transferee. The transfer becomes effective when it is entered in the Register.

We may decline to register any transfer in our absolute discretion and without giving any reasons. Without limiting this discretion, we may decline a transfer due to:

- Non-compliance with any law or the provisions of the Establishment Deed; or
- The transfer resulting in the transferee or the transferor holding less than the minimum holding or more than the maximum holding; or
- The transfer resulting in the Fund becoming ineligible as a PIE or threatening such eligibility.

No transfer of any Units can be registered unless any sums owed in respect of those Units (including any applicable PIE tax, or other duties or any commissions, fees, and charges in respect of the transfer of the Units) have been paid.

Termination of a Fund

The Fund will terminate on the first of the following:

- the date of termination (if any) notified in writing by us and the Supervisor to each Investor of the Fund, which will be at least three months after the date of the notice; or
- 80 years less two days from the date of the Trust Deed; or
- the date on which Investors determine to terminate the Fund by Special Resolution.

Taxation

This section briefly summarises the taxation regime as it currently applies to the Fund. It is intended as a general guide only. There may be changes to the taxation legislation and tax rates in the future which may impact each Investor differently. Investors should always seek independent professional taxation advice for their individual circumstances.

Portfolio Investment Entity

The Fund has elected to be a Portfolio Investment Entity ("PIE").

Under the PIE tax regime, the Fund will allocate its taxable income to Investors and, where applicable, pay tax on allocated income on behalf of Investors for an Investor with a prescribed investor rate ("PIR") of greater than zero. The Fund will undertake any necessary adjustments to an Investor's interests in the Fund to reflect that the Fund pays tax at varying rates on behalf of Investors.

Gains derived from cash and fixed interest investments will generally be taxed on an accruals basis.

Investors will not pay tax on distributions (if any) paid to Investors from the Fund.

You can find out more about PIE's and how they are taxed on the Inland Revenue website (www.ird.govt.nz). Search for 'PIE for Investors'.

General

Investors must advise FundRock of their PIR and IRD number when applying to invest in the Fund and if their PIR changes at any time. If an Investor does not provide their PIR to FundRock, they will automatically be taxed at the maximum default rate of 28%. If an Investor provides a PIR lower than the correct PIR, they may need to pay any tax shortfall, plus interest, and penalties. If the default rate or the PIR advised by the Investor is higher than the correct PIR, then any additional tax paid by the Fund on the Investor's behalf may reduce their income tax liability for that income year and may give rise to a tax refund.

The Commissioner of Inland Revenue can require FundRock to disregard a PIR notified by an Investor if the Commissioner considers the rate to be incorrect. The rate specified by the Commissioner would then apply to that Investor's attributed income.

Taxable income is attributed annually to 31 March, or at any time an Investor redeems all or part of their investment from the Fund.

If there is a tax loss or there are excess tax credits allocated to an Investor for a period, these will generally be available to Investors with a PIR other than 0% in the form of a rebate. The Fund will either re-invest this rebate by purchasing Units in the Fund on an Investor's behalf in respect of annual attributions as at 31 March, or include it in the net proceeds payable to that Investor or applied on their behalf as a result of a full redemption. For non-individual Investors with a 0% PIR, the tax loss or excess credits may be available for offset in that Investor's tax return against other income, with any excess available to carry forward.

Other Risks

The PDS for the Fund describes the key risks associated with investments in the Fund. Further information is provided below. Different investments have different types of risks. We recommend that you seek professional advice before investing in the Fund to understand what risks are associated with this investment, especially in relation to your circumstances.

Asset class risk: The Fund has exposure to fixed and variable rate loans denominated in New Zealand dollars. Therefore, investors are exposed to the risks associated with only having exposure to this economy, market, and currency. Individual investors can look to manage this risk by including other investments in their portfolio.

Fund risk: These are risks specific to the Fund. These risks include that the Fund could terminate; the fees and expenses of the Fund could change; FundRock may be replaced as manager; the Squirrel investment team may change; or that investing in the Fund may lead to a different result than investing in the market directly. FundRock aims to keep fund risk to a minimum by monitoring the Fund and the investments of the Fund at all times and acting in investors' best interests.

Key person risk: This is the risk that key individuals are no longer able to fulfil their obligations in respect of the investment or administration of the Fund. FundRock aims to ensure that all staff are highly qualified and capable of mitigating individual key personnel risk. FundRock will ensure that it has sufficient resources to enable the Fund to continue unaffected should any member of the team be unable to fulfil their obligations.

Regulatory risk: This is the risk that domestic laws or regulations are changed adversely, or that regulatory supervision of transactions and reporting is performed by managers and their custodians at less than an appropriate standard. Regulatory risk is managed by FundRock by regularly and closely reviewing changes in the law and seeking expert legal advice where necessary.

Administration and operational risk: Administration risk is the risk that instructions in relation to your investments in the Fund have not been accurately relayed or processed or that fraudulent instructions are acted upon. FundRock, the Investment Manager, and the Fund Administrator will follow reasonable electronic instructions in good faith. Whilst we cannot always detect fraudulent instructions, we will apply best endeavours to mitigate this risk. Operational risk may arise from human error, error by third parties, communication errors, or technology failures, among other causes.

Investment risk: The underlying investments of the Underlying Funds used by the Fund may fall in value. Squirrel, as Investment Manager, aims to reduce investment risk by limiting exposure to any one investment and with careful analysis of and research into the management of the underlying investment prior to investing. FundRock holds regular meetings with investment managers to ensure that the underlying investments and investment process remains consistent with the investment objectives of the Fund.

Cybersecurity risk: Cybersecurity breaches may allow an unauthorised party to gain access to the Fund's assets, customer data, or proprietary information, or cause the Fund or its service providers to suffer data corruption or lose operational functionality.

Credit decisioning process risk: The risk rating of loans, determined using the credit decisioning process, may not accurately reflect the actual credit risk of the loans concerned.

How risks can affect an investment

The actual or perceived existence of risk may manifest itself in uncertainty, which in turn increases volatility of investment returns. When the collective sentiment of the market is positive, prices rise; when it is negative, prices fall. If specific risks eventuate, a total loss of capital may occur. Each investment will be affected by a different combination of risks.

Because of these risks, it is possible that an Investor may receive back less than the capital invested by the Investor into the Fund. However, the Investor will not be required to pay more money than the amount the Investor invested in the Fund (with the exception of any PIE tax liability that may be incurred).

An Investor's investment in the Fund is not secured against any assets. However, it is expected that the majority of the Fund's loan exposures, via investment in the Underlying Funds, which invest in loans on the Squirrel P2P platform, will be secured.

Squirrel Credit and Lending Policy

Squirrel has a credit policy in place to support lending decisions. This credit policy is signed off by the Squirrel Group Board. Squirrel senior management review the performance of their respective loan portfolio against the credit policy to ensure adherence and provide reporting to their Board and relevant sub-committees.

The information below provides an outline of the credit policy, procedures, and rules that Squirrel applies when originating new loans, into which the Underlying Funds invest and through which the Fund in turn obtains its investment exposure.

Credit decisioning processes

Lending decisions are based on Squirrel's credit policy and structured credit processes and include the following steps:

Identity verification

Squirrel verifies the identities of applicants online using a New Zealand driver's licence or passport and runs checks to ensure potential borrowers are not on a watchlist or have a registered stolen identification.

Credit checks

Squirrel use recognised credit bureaus to provide them with a summary of a potential Borrower's prior credit history and ensure there are no registered credit defaults. Squirrel participates in comprehensive credit reporting, which means they share and receive a borrower's monthly repayment information with all other subscribing credit providers including banks, finance companies, and utilities providers (e.g. phone and power companies). Essentially, this means if an applicant has missed current or past repayments, it should be listed on their credit file and reflected in their credit score.

Credit risk modelling

In combination with the credit check, the credit bureaus provide Squirrel with a credit score which indicates the likelihood of a borrower meeting their repayment obligations based on their previous credit history. Squirrel applies these scores to their internally developed credit risk model to estimate the borrower's probability of default.

Debt servicing ability

A borrower's income and expense information are verified against their last 3 months of bank statement activity or relevant business financial information to ensure they meet minimum debt servicing requirements and have satisfactory bank account conduct.

Risk rating

Approved borrowers are allocated a Borrower Risk Rating based on their strength across each of the criteria outlined above. The Borrower Risk Rating will help determine the level of Reserve Levy (if any) that will apply to the loan and therefore contributes to the overall Borrower Interest Rate. Each loan to which the Fund has exposure will be assigned a Borrower Risk Rating. More information about the risk rating process and statistics about Squirrel's overall loan book performance can be found here: Loan book performance | Squirrel. It is expected that over the medium to long term the experience of the Fund in terms of loan performance will closely mirror that of the overall Squirrel loan book.

Quality of security offered

Any security provided by the borrower is assessed to ensure it is of acceptable quality to meet the requirements of the loan. This may include the requirement to provide a registered valuation or other professional inspections to determine the securities current condition and value.

Pre-Sales

Pre-sales are subject to qualifying criteria including:

- A deposit paid into a solicitor's trust account, and
- an arm's length sale and purchase agreement using the latest version of the REAA template which are to be confirmed in writing by the borrowers' solicitor.

Budget and Feasibility

Predevelopment loans, including for the purchase of vacant land or properties with existing dwellings for the purpose of development, are subject to the borrower having sufficient capital and income to fund any outgoings on the property, interest on the loan, and the costs of obtaining the requisite resource and building consents. Construction loans are subject to an assessment of the project's feasibly considering the proposed product and its pricing point, market conditions, valuations, and exit strategy. The development's budget is assessed together with construction contract, development contributions, financing cost, drawdown schedule, and contingencies to ensure that the project will be completed within budget and the developer's expected margin.

Valuation

Where an existing dwelling is offered as security, either a iVal[3] or registered valuation or equivalent is required. For development projects that are 100% presold (or units in a development have been presold), no valuation is required provided the sale and purchase agreements are less than 3 months old and the project will be completed, with code compliance certificates and titles issued, within the sunset clauses. Developments without presales (and units within a partially presold development that are unsold) require a registered valuation report. Where vacant land is offered as security for a loan, a registered valuation report is required.

Track Record

The prospective borrower's experience managing and successfully completing development projects over a number of years is assessed. Where the developer is engaging a builder, the builder is subject to a similar assessment

Security

All loans in the Underlying Funds will be secured by a registered first mortgage.

Loan Value

For loans secured by first mortgage the maximum loan to value ratio is 80%. A lower maximum LVR may be applied in some situations.

Portfolio diversification

A range of portfolio limits are in place to ensure a responsible geographic, city/provincial, credit quality, and lending segment diversification mix is in place.

Loan terms

Construction Loans have a maximum term of 2 years

Home Loans have a maximum term of 7 years

Process

Loans are predominantly sourced via Squirrel's mortgage advisers, though other origination sources may be used.

All loans submitted follow a designated approval path that may vary between products. Controls are in place to ensure accuracy of loan documentation, loan conditions are met, and the appropriate financial controls are in place relating to the movement of funds. Squirrel uses a small number of solicitors to support their mortgage related activity.

Arrears and default management is described in Squirrel's Credit Policy. Appropriate processes are in place to support customers that are in arrears to get their loan back to a current state. Squirrel has specialist support in place to manage stubborn arrears and loans in default.

Squirrel Reserve Funds

The Fund itself will not have a reserve fund, rather it may benefit from the reserve funds that exist within the Squirrel P2P platform. Squirrel offers three investment classes through its retail P2P platform, each of which has its own reserve fund in place. Reserve funds are funded by a reserve levy and act to reduce the impact of missed payments (arrears) or losses from defaulting borrowers. The Underlying Funds invest in loans that have the protection of a reserve fund.

The reserve fund model effectively socialises lending losses across the entire loan portfolio to which it applies, meaning individual investors do not bear the full credit risk of the individual loan or borrower to which they are matched. The existence of a reserve fund does not provide investors a guarantee nor is it an insurance product. Reserve funds are held by Squirrel P2P

[3] See https://www.valocityglobal.com/en-au/valocity-ival/ for more information.

Trustee Limited as bare trustee for investors in relation to certain loans made on the Squirrel P2P platform.

Insolvency or winding up

You will not be liable to pay money to any person as a result of the insolvency or winding up of the Fund (except as described below).

You will be liable to meet any tax liability attributable to you which exceeds the value of your investment in the Fund (in which case you indemnify the Supervisor for the difference between the value of the Units and the tax liability). A custodian that holds legal title to Units on behalf of underlying investors and elects to be a proxy for PIE investors will, under the terms of the application form, be asked to indemnify us and the Supervisor for any losses, liabilities, costs or expenses arising from any breach (in relation to underlying investors that such custodian is responsible for) of the investor interest size requirements under section HM 15 or the investor membership requirements under section HM 14 of the Income Tax Act 2007, including the losses, liabilities, costs or expenses arising from the Fund losing PIE status.

On insolvency or winding up of the Fund, the assets of the Fund are first applied to meet the claims of any creditors of the Fund (whether preferred, secured or unsecured), which includes the Supervisor's and Manager's claims for fees and expenses. Following this, the remainder of the assets of the Fund will be distributed to Investors in proportion to the number of Units held.

At the date of this document there are no other claims on the assets of the Fund that rank ahead of or equally with the claims of Investors. In certain circumstances, you may receive assets other than cash (e.g. securities in another investment held by the Fund) as part of a wind up.

More information about market indices

Having exercised reasonable endeavors, FundRock has determined that there is neither relevant index nor benchmark for the relevant assets of the Fund, which relies on the provisions of the Financial Markets Conduct Regulations, Schedule 4, clause 99.

The Fund invests in Underlying Funds, which in turn invest in construction and home loans related to properties throughout New Zealand. FundRock is not aware of any market index that covers these assets and meets the regulatory requirements[4]. The Fund also holds cash for liquidity purposes. While there are market indices available for this asset class, FundRock does not believe that an appropriate market index for this asset would be likely to be useful to investors when assessing the performance of the Fund as a whole.

No guarantee

Neither the Supervisor, Manager nor any other person guarantees or provides undertakings in relation to the return of capital invested in the Fund by an Investor, the payment of any return on capital, or provision of any distribution or payment of any money in relation to the Fund, or the performance of the Fund. An Investor's investment is not secured against any assets.

[4] Pursuant to regulations, a market index must be (i) widely recognised and widely used in the financial markets, (ii) administered by a person who is not the manager, investment manager, a party related to them; and (iii) appropriate in terms of assessing movements in the market in relation to the returns from the assets in which a fund invests, directly or indirectly.