

## **BENCHMARK REPORT**

### **ASIC Regulatory Guide 69 Benchmark report update**

Dated: 29 July 2024

Issued by: Turner Securities Ltd ACN 122 088 617 (the "Company")

#### **Benchmarks**

Regulatory Guide 69: Debentures and notes: improving disclosure for retail investors applies to the Company, as an issuer of Secured Notes.

The guide establishes 8 benchmarks which issuers of notes should address in their disclosures on an 'if not, why not' basis. ASIC expects the benchmarks to be followed (as applicable) and if not followed, then explained on an, if not, why not, basis. ASIC has developed the benchmarks to assist investors to understand the risks, assess the rewards being offered and decide whether such an investment is suitable for them.

Details of the benchmarks, as they apply to the Company's Secured Notes are described in the Prospectus.

Investors should consider all benchmarks and other information provided in the current Prospectus and not rely solely on the information contained in this benchmark report or on any one benchmark to make an investment decision.

This report has been prepared as at 30 June 2024 and updates the disclosure contained in the Prospectus.

The Company does not consider anything in this update to be materially adverse to investors.

As at 30 June 2024, the Company satisfy benchmarks 2, 3, 4, 5, 6 and 8 and reasonably consider that it will continue to satisfy those benchmarks on an ongoing basis.

As at 30 June 2024, the Company does not satisfy benchmarks 1 and 7.

## Benchmark 1: Equity ratio

The benchmark requires issuers to maintain a minimum equity capital ratio of 8.00% and when lending funds for property development which are more than a minor part of the issuer's activities – the issuer should maintain a minimum equity capital ratio of 20%. The ratio is defined as:

$$\frac{\text{Total equity}}{\text{Total liabilities} + \text{Total equity}}$$

*Total equity is the money invested by the owners of the Company (the issuer) (i.e. the shareholder's equity in the balance sheet) plus any retained profit. It provides a 'buffer' to the Company in the event of financial difficulties, and it also provides the Company's owners with an incentive to operate prudently and responsibly, which may not exist if there is a low level of equity in the Company.*

As at 30 June 2024, 84.63% of the Company's loan balance is funding property development. This indicates that more than a minor part of the Company's activities is related to property development. The applicable minimum equity ratio under Benchmark 1 is 20.00%. However, this figure will change over time, and historically there have been occasions where property development has not formed a major part of the Company's activities.

As at 30 June 2024, the Company's equity ratio was approximately 4.81% (5.19% as at 30 June 2023), reflecting the initial shareholders capital contributed plus accumulated operating profits.

Benchmark 1 seeks to address concerns that without an appropriate equity capital ratio, an issuer's interests may not be aligned with note holders, and the issuer have less incentive to ensure the prudent management of the business. Further, without sufficient equity, if an investment runs into difficulties, there will be no source of funds to tide the investment over, other than by raising further funds.

Although the Company does not meet this benchmark, the Company addresses this in the following ways.

The Company has \$700,000.00 of Preference Shares on issue. The Preference Shares are repayable at the absolute discretion of the Company and dividends will only be distributed at the absolute discretion of the Company.

The directors closely monitor capital and liquidity, having regard to the Company's obligations under its AFSL and the Trust Deed. Lending for development activities requires that sufficient funds to complete the project must be held by the Loan at all times. Advances are made on a progressive basis, requiring certification by an independent quantity surveyor about the remaining cost to complete the project before drawdowns can be made to pay for works to date.

The Company has a rigorous credit policy in place to reduce the risk of the Company suffering from credit losses, and hence reduce the risk of having to rely on shareholders' equity to meet any financial obligations. Measures under this policy, include taking a conservative approach to lending for property development and ensuring that the Company lends for property development on security of real estate not exceeding 70% of the valuation of the completed development.

The credit policy is informed by the Company's operating history and experience and is reviewed at least annually by the Directors. Accordingly, the Company believes that its current policies ensures that it maintains an appropriate equity capital ratio for its business, and would allow the Company to continue to operate, even if the Company encountered a level of financial difficulty. The Company periodically stress tests its liquidity assumptions by considering the possibility of disruption to cash flows.

The Board regularly undertakes a review of the Company's up to date cash flows and considers the Company's ability to meet its ongoing obligations and to respond to a disruption of cash flows. The Company has also appointed external legal advisers to provide compliance oversight and review the Company's compliance with its policies at least once a year.

In light of the above measures and the Company's operating history, the Company believes that its equity capital ratio is appropriate for its business.

Benchmark 1 was not met by the Company as at 30 June 2024.

## **Benchmark 2: Liquidity**

Liquidity is an important measure of the short-term financial health of a business. Without sufficient liquidity, a company may be unable to meet its short-term financial obligations.

This benchmark requires issuers to have cash flow estimates for the next three months and ensure that at all times they have on hand cash or cash equivalents sufficient to meet their projected cash needs over the next three months.

The Company prepares estimates of cash flows for a rolling three-month period and ensures at all times it holds cash or cash equivalents sufficient to meet projected cash needs for each three-month period.

To assist with liquidity requirements, the practice of the Company is to raise funds for terms that align with the Company's loan portfolio activities. In addition, the Company at all times maintains a minimum of 7.00% of funds raised in a cash liquidity reserve in the form of a Company at-call bank account.

The Company periodically 'stress tests' its liquidity assumptions by considering the possibility of disruption to cash flows, the possibility of ASIC issuing a stop order, thereby preventing any rollover or new issue of Secured Notes and the possibility of a significant reduction in the rate of investor rollovers.

The Company maintains close relationships with Secured Note holders and key alliance partners who refer prospective investors. These close relationships, together with the constant communication with investor's assists the Company with cash flow forecasting.

Further, a pattern of investment maturities and rollovers has been established over years of operations and, while past patterns are not necessarily indicative of future investment patterns, they assist the Company in its cash-flow modelling. Analysis of investor rollover patterns suggests rollover rates exceeding 90% may be expected.

However, the Company would have access to sufficient cash to meet projected cash needs if the percentage of funds rolled-over was less than expected and in particular, if the percentage of funds rolled-over in the next 3 months were 20% lower than the percentage rolled-over in the previous 3 months.

As early redemptions are only considered in special circumstances, the Company does not consider redemptions to be a significant factor which could impact on liquidity.

The Company reviews the maturity profiles of its assets and liabilities on a monthly basis and reports its results to the Trustee. From time to time, in order to maintain a high liquidity ratio, the Company may call on shareholders and/or directors, at their option, for an injection of funds in the form of either share capital, investments or shareholders loans as appropriate.

Benchmark 2 was met by the Company as at 30 June 2024.

### **Benchmark 3: Rollovers**

Benchmark 3 requires issuers to disclose their approach to rollovers, including whether the 'default' is that investments are automatically rolled over.

As detailed in the Prospectus, the Company will notify each investor prior to their investment maturity date (in practice this will occur between two and four weeks from the maturity date) to determine the investor's intention regarding either reinvestment or partial or full repayment of their investment at maturity.

This notification includes details of options for the investor to access the current version of the Prospectus and any updated disclosure reports or notices which have been issued by the Company, to ensure the Investor is able to make an informed decision whether to roll over the investor's Investment.

If the Company does not receive instructions from an investor, the invested amount will be rolled over for an equivalent term and interest payment frequency, but at the new interest rate applicable at the maturity date for that term and interest payment frequency.

Benchmark 3 was met by the Company as at 30 June 2024.

#### **Benchmark 4: Debt Maturity**

The benchmark requires all issuers to disclose:

- an analysis of the maturity profile of interest-bearing liabilities (including debt securities such as secured notes on issue) by term and value; and
- the interest rates, or average interest rates, applicable to their debts.

As at 30 June the Company's debt maturity profile (comprised solely by notes already on issue) was:

- Due within 1 year \$47,883,621, with an average interest rate of 7.51% per annum; and
- Due in 1 to 3 years \$6,895,000, with an average interest rate of 7.78% per annum.

Benchmark 4 was met by the Company as at 30 June 2024.

## Benchmark 5: Loan Portfolio

The benchmark requires issuers who on-lend funds to disclose the current nature of their loan portfolio, as the smaller the number of loans or borrowers in the portfolio, the higher the risk that a single negative event affecting one loan will put the overall portfolio (and investor's money) at risk.

The disclosure should include details as to the number of loans in the loan portfolio and the value of those loans; by number and value, the interest rates applicable to the loans; an analysis of the maturity profile of the loans; loans by class of activity and geographic region; by number and value, the proportion of loans that are in default or arrears; by number and value, the proportion of total loan monies that are lent on a 'secured' basis and the nature of the security; and by number and value, the proportion of total loan monies lent to the largest borrower and 10 largest borrowers.

In addition, issuers should also disclose their policy on these issues and provide clear explanations about their approach to taking security in relation to lending.

The Company's loan portfolio balance as at 30 June 2024 was \$53,747,118 and comprised of 16 loans (summarised in the table below).

The largest single borrowing of \$13,538,281 represents 25.19% of the portfolio.

Regional diversification of the loan portfolio comprises:

STATE	BALANCE	% of TOTAL
SA	\$25,051,263.30	46.61%
WA	\$21,461,478.52	39.93%
QLD	\$4,234,375.72	7.88%
NSW	\$3,000,000.00	5.58%
	<b>\$53,747,117.54</b>	<b>100.00%</b>

## LOAN PORTFOLIO SUMMARY

LOAN	BALANCE	TERM (Mths)	EXPIRY	STATE	LOAN TYPE	SECURITY
4085	\$650,000	15	29-Sep-25	WA	Commercial	Registered 1st Mortgage
4088	\$1,080,000	6	18-Aug-24	SA	Commercial	Registered 1st Mortgage
4099	\$910,000	6	02-Sep-24	SA	Commercial	Registered 1st Mortgage
4102	\$7,193,823	24	20-Dec-24	WA	Commercial	Registered 1st Mortgage
4109	\$3,000,000	15	26-Sep-25	NSW	Commercial	Registered 1st Mortgage
4112	\$4,234,376	18	02-Feb-25	QLD	Commercial	Registered 1st Mortgage
4114	\$1,260,000	2	31-Jul-24	WA	Commercial	Registered 1st Mortgage
4115	\$5,337,380	9	26-Jul-24	SA	Commercial	Registered 1st Mortgage
4116	\$2,969,586	18	29-Apr-25	WA	Commercial	Registered 1st Mortgage
4117	\$1,360,000	2	31-Jul-24	WA	Commercial	Registered 1st Mortgage
4118	\$676,244	15	15-May-25	SA	Commercial	Registered 1st Mortgage
4119	\$143,499	3	15-Jul-24	SA	Commercial	Registered 1st Mortgage
4120	\$13,538,281	5	15-Sep-24	SA	Commercial	Registered 1st Mortgage
4122	\$6,567,604	24	06-May-26	WA	Commercial	Registered 1st Mortgage
4123	\$1,460,466	24	14-May-26	WA	Commercial	Registered 1st Mortgage
4124	\$3,365,860	9	23-Mar-25	SA	Commercial	Registered 1st Mortgage
<b>16</b>	<b>\$53,747,118</b>					

As at 30 June 2024 the Company's loan portfolio has no loan arrears or defaults.

The Company's lending policy is outlined in the Prospectus, including the requirement that the Company only lends when the primary security on offer is a first registered mortgage over real estate in Australia, with security at prudent loan to valuation ratios (see benchmark 8 below) in addition to taking other collateral securities as deemed necessary.

The Company's goal is to maintain a fully diversified loan portfolio, with the objective that, based on a portfolio >\$50 million, a single common property security or common borrower should represent no more than 10% of the portfolio. However, while the loan portfolio remains around \$50 million, the Company's lending activity will be subject to a degree of concentration of lending by borrower and/or geographic region, due to the smaller number of loans written within the portfolio.

The Company maintains a comprehensive and fully documented lending policy and engages independent accredited valuers experienced in this sector of lending, to undertake assessment of the value of security for mortgage lending purposes for all loans approved. The lending mortgage documentation is completed by an external accredited panel of solicitors experienced in this sector of lending.

Benchmark 5 was met by the Company as at 30 June 2024.

**Benchmark 6: Related Party Transactions**

This benchmark requires issuers who on-lend funds to disclose their approach to related party transactions, as there is a risk that they may not be made with the same rigour and independence as commercial, arm's length loans.

The Company's Board policy and the Trust Deed do not permit the Company to advance money to any related entity.

As at 30 June 2024, the Company has not and does not intend to make any loans to related entities.

Benchmark 6 was met by the Company as at 30 June 2024.



## Benchmark 7: Valuations

Information regarding valuations of the property securing the loans made assists Investors to assess the risks associated with an investment.

The benchmark requires an issuer that is involved in or that lends money for property-related activities, to value properties on an 'as is' basis, and for development property on an 'as if complete' basis, ensuring that development properties are re-valued at least every 12 months, unless funds are retained by the issuer and released in stages to cover project completion costs.

Issuers should have a clear policy on how often they obtain valuations, (including how recent a valuation has to be when they make a new loan) and should establish a panel of valuers to ensure that no one valuer conducts more than one-third of the issuer's valuation work. In addition, the appointment of valuers should be with the Trustee's consent.

Issuers should also include information about the valuation of any particular property in the issuer's prospectus where the property accounts for 5% or more of the total value of property assets of the issuer or where a loan secured against the property accounts for 5% or more of the total value of the issuer's loan book (or the loan book of a related party through which the issuer has indirectly left money).

Ensuring that valuations are kept up-to-date and shared among a panel means valuations are more likely to be accurate and independent.

The Company lends money for property-related activities and takes the following approach to valuations:

- Properties are valued on an 'as is' basis, and for property development, also valued on an 'as if complete' basis.
- The Company obtains valuations on a regular basis (generally every 12 months) and valuations of properties for new loans must be dated no older than 12 months at the date of the advance.
- Where loans are advanced for property development, an independent quantity surveyor with appropriate expertise applicable to the size and complexity of the development and geographic spread in which the properties are located, is appointed by the Company to oversee the cost to complete the property development.
- The quantity surveyor undertakes an onsite inspection of the property prior to each drawdown, to provide the Company with certification and authorisation to pay for works to date, together with an assessment of the remaining 'cost to complete'. This process reduces the risk that a property development funded by the Company will not be able to be completed within the approved loan amount.
- To ensure that no one valuer conducts more than one-third of the Company's valuation work, the Company maintains a panel of independent accredited valuers diversified by property valuation expertise and geographic spread in the areas in which the Company's security properties are located; and
- The Trustee has consented to the appointment of the valuers currently on the panel (on the basis of having received confirmation from the Company as to appropriate due diligence enquiries having been made by the Company on the valuers).

The loans referred to in the table below each represent more than 5.00% of the Company's loan book as at 30 June 2024, and in accordance with the benchmark requirements, details of the valuation of the properties which secure the repayment of the loan.

LOAN	BALANCE	% TOTAL LOANS	CURRENT VALUATION	CURRENT VALN DATE
4102	\$7,193,823	13.38%	\$11,250,000	28-Oct-22
4109	\$3,000,000	5.58%	\$4,300,000	02-May-23
4112	\$4,234,376	7.88%	\$9,272,720	21-Jun-23
4115	\$5,337,380	9.93%	\$12,043,800	21-Aug-23
4116	\$2,969,586	5.53%	\$14,318,182	11-May-23
4120	\$13,538,281	25.19%	\$22,857,143	25-Mar-24
4122	\$6,567,604	12.22%	\$24,972,881	06-Feb-24
4124	\$3,365,860	6.26%	\$13,935,500	25-Mar-24
<b>8</b>	<b>\$46,206,909</b>			

ASIC considers the following information should be disclosed:

- The identity of the valuers;
- The original cost of the properties;
- Details of the valuation method; or
- The key assumptions used in the valuation.

The Company has not provided this information as it does not consider this information to be relevant to investors given the nature of the information disclosed regarding the appointment of the valuers and the size and nature of the Company's business. As the Company operates a pooled mortgage business with conservative LVRs on its loans, the Company does not consider the details of the individual valuations provided in respect of each property to be necessary to disclose.

Benchmark 7 was not met by the Company as at 30 June 2024.

### **Benchmark 8: Lending Principles – Loan-to-Valuation Ratios (LVR)**

A high LVR means a loan is more vulnerable to changing market conditions, such as a downturn in the property market. Therefore, the risk of Investors losing money could be higher.

The benchmark requires issuers who on-lend money in relation to property-related activities to maintain a LVR of 70% on the basis of the latest 'as if completed' valuation, where the loan relates to property development and in all other cases 80% on the basis of the latest market valuations. Where the loan relates to property development by a second person, issuers should ensure that funds are only provided to the developer in stages based on external evidence of the progress of the development.

The Company maintains a more conservative LVR policy than outlined in this benchmark as detailed in the Prospectus. The maximum loan to valuation ratio applicable to loans for residential security property is 80%, commercial, retail and industrial is 70%, for vacant land is 60%, and for rural security property is 50%.

Where the loan relates to development activities, an LVR up to 70% of the upon completion value of the development may be approved. All subdivision and construction loans are made on a progressive funding basis, requiring certification by a party independent from the borrower, such as an architect or quantity surveyor, as to the value of work complete prior to funding any progressive construction loan drawings.

Benchmark 8 was met by the Company as at 30 June 2024.