LOYALIZE
FUND MANAGEMENT

LOYALIZE MORTGAGE FUND

ABN 25 233 646 214

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2018

LOYALIZE MORTGAGE FUND

TRUSTEE REPORT
FOR THE YEAR ENDED 30 JUNE 2018

The Directors of the Trustee, Vasco Investment Managers Limited presents their report on the Loyalize Mortgage Fund ('the Fund') for the year ended 30 June 2018.

1. Directors

The names of Directors of the Trustee in office at any time during the financial year are:

Craig Mathew Dunstan	(appointed 6 August 2009)
Fiona Jean Dunstan	(appointed 6 August 2009)
Stephen George Hawkins	(appointed 10 May 2010)
Jonathan William Martin	(appointed 6 August 2009)

The Directors have been in office since the establishment of the Fund to the date of this report unless otherwise stated.

2. Principal Activities

The investment objective of the Fund is to generate income returns for investors by making loans to borrowers for the purchase or development of real estate in Australia, secured by first or second ranking mortgages over real property.

The Fund was established on 22 May 2018 and issued the first units on the commencement date of 15 June 2018. As the Fund commenced operations this financial year, there is no comparative information for the financial year ending 30 June 2017.

3. Operating Results

The operating profit of the Fund for the financial year ending 30 June 2018 was $0.

4. Review of Operations

The Information Memorandum (IM) was issued on 28 May 2018. The Information Memorandum provides specific information about the terms of issue of Investment Option 1 Units and the Loan made from assets of the Investment Option 1 Units.

During the period since inception the Fund issued 3,700,000 units. The first units were issued on 15 June 2018.

A loan of $3,190,000 was drawn down on 18 June 2018. The loan is for the term of 24 months at an interest rate of 9.50% per annum.

A loan of $500,000 was drawn down on 26 June 2018. The loan is for the term of 24 months at an interest rate of 9.50% per annum.

The term 'Investment Option' used in the Information Memorandum equates to Unit Class.

5. Review of Performance

Unitholders are expected to receive the interest return detailed in the Term Sheet related to the unit class in which they have invested.

6. Unit Redemption Prices

Unit redemption prices (quoted ex-distribution and exclusive of exit fees) are shown as follows:

	2018 $
At 30 June	1.00
High during year	1.00
Low during year	1.00

The availability and timing of redemptions is subject to the terms of the Fund's Constitution. Further fees may apply upon redemption.

7. Distributions Paid or Recommended

In accordance with the Information Memorandum of the Fund, distributions are calculated and paid on quarterly basis.

No distributions were declared for this financial year.

8. Applications Held

At 30 June 2018, there were no pending applications.

9. Redemption Arrangements

As detailed in the Fund's Constitution the Trustee is not under any obligation to buy back, purchase or redeem units from unitholders. Consequently, no units were redeemed by the Trustee during the reporting period.

Redemptions, subject to available liquidity, are available each calendar quarter.

10. Options

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options outstanding at the date of this report. The directors and executives of the Trustee hold no options over interests in the Fund.

11. Proceedings on Behalf of the Fund

No person has applied for leave of court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of their proceedings. The Fund was not a party to any such proceedings during the period.

12. Value of Scheme Assets

The Gross Asset Value of the Fund's assets at the end of the reporting period was $3,719,521. The Net Asset Value at the end of the reporting period was $3,700,000.

13. Significant Changes in State of Affairs

Apart from those matters referred to in the previous sections of this Report, there have been no other significant changes to the state of affairs of the Fund during the financial year.

14. After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years other than as disclosed in this report.

15. Future Developments

There are no future developments to report on which are not otherwise disclosed in this report.

16. Indemnifying Officers or Auditor

During or since the end of the financial year, the Trustee has paid insurance premiums to insure each of the aforementioned directors as well as officers of the Trustee against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Trustee, other than conduct involving a willful breach of duty in relation to the Trustee.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Trustee has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Trustee or of any related body corporate against a liability incurred as such an officer or auditor.

17. Fees, Commissions or Other Charges by the Trustee, Investment Manager or Related Parties

Fees of $685 (plus GST) were accrued and paid by the Fund to Vasco Investment Managers Limited for its role as Trustee for the period, of which $38 is claimable by the Fund as RITC.

18. Units held by the Trustee, Investment Manager or Related Parties

As at 30 June 2018, neither the Trustee or Investment Manager or their related parties held units in the Fund.

19. Interests Issued in the Fund

During the financial year 3,700,000 units were issued.

20. Number of Interests on Issue

At 30 June 2018, the number of units on issue in the Fund was 3,700,000.

21. Rounding of Amounts

The Fund is of a kind referred to in the *Australian Securities and Investments Commission's Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191*. Consequently, amounts in the financial statements have been rounded to the nearest dollar in accordance with that legislative instrument, or in certain cases, the nearest thousand dollars.

22. Environmental Regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Signed in accordance with a resolution of the Board of Directors of Vasco Investment Managers Limited by:

Craig Mathew Dunstan

Director

Date: 17 September 2018

LOYALIZE MORTGAGE FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018	2017
		$	$
Revenue and other income			
Bank interest	2 (b)	364	-
Reimbursement from Investment Manager		440	
Total revenue and other income		**804**	**-**
Expenses			
Trustee fees	7	685	-
Other administration expenses	8	119	-
Total expenses		**804**	**-**
Operating profit/(loss) before finance costs attributable to unitholders		**0**	**-**
Finance costs attributable to unitholders			
Distribution to unitholders payable		0	**-**
Total comprehensive income		**0**	**-**

The accompanying notes form part of these financial statements

LOYALIZE MORTGAGE FUND

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Notes	2018	2017
		$	$
Current assets			
Cash and cash equivalents	2 (a)	29,520	-
Sundry debtor		1	-
Total current assets		**29,521**	**-**
Non-current assets			
Investment assets	3 (b)	3,690,000	-
			-
Total non-current assets		**3,690,000**	**-**
Total assets		**3,719,521**	**-**
Liabilities			
Administration expenses payable	4	(39)	-
Sundry creditors		19,560	-
Total liabilities		**19,521**	**-**
Net assets		**3,700,000**	**-**
Represented by:			
Issued units	5 (a)	3,700,000	-
Undistributed profit/(loss) attributable to unitholders	5 (b)	-	-
Net assets attributable to unitholders		**3,700,000**	**-**

The accompanying notes form part of these financial statements

LOYALIZE MORTGAGE FUND

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018

	Notes	2018	2017
		$	$
Cash flows from operating activities			
Bank interest		364	-
Reimbursement from Investment Manager		20,000	
Sundry debtor		(1)	-
Fees paid		(685)	-
Other expenses		(158)	-
Net cash provided by/ (used in) operating activities	9	**19,520**	**-**
Cash flows from investing activities			
Payment for investment assets		(3,690,000)	-
Net cash provided by/ (used in) investing activities		**(3,690,000)**	**-**
Cash flows from financing activities			
Proceeds from units issue		3,700,000	-
Net cash provided by/ (used in) financing activities		**3,700,000**	**-**
Net increase/ (decrease) in cash and cash equivalents		29,520	-
Cash and cash equivalents at the beginning of year		-	-
Cash and cash equivalents at the end of year	2 (a)	**29,520**	**-**

The accompanying notes form part of these financial statements

LOYALIZE MORTGAGE FUND

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or the end of the financial year.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The financial report is for the entity Loyalize Mortgage Fund ('the Fund') as an individual entity. The Fund is an unregistered managed investment scheme established and domiciled in Australia. The Trustee of the Fund is Vasco Investment Managers Limited, and Loyalize Fund Management Pty Ltd is appointed as the Investment Manager of the Fund.

Financial Reporting Framework

The Fund is not a reporting entity, because in the opinion of the directors of the Trustee, there are unlikely to exist users of the financial report who are unable to command the preparation of reports tailored, so as to specifically satisfy all of their information needs. Accordingly, this special purpose financial report has been prepared to satisfy the directors of the Trustee's reporting requirements under *Corporations Act 2001*.

Basis of Preparation

The financial report is a special purpose financial report that has been prepared in accordance with the recognition and measurement requirements of all Australian Accounting Standards (including Australian Accounting Interpretations), and the disclosure requirements of *AASB 101*: *Presentation of Financial Statements*, *AASB 107*: *Statement of cash flows* and *AASB 108*: *Accounting Policies, Changes in Accounting Estimates and Errors*, the *Corporations Act 2001 (Cth)* and the Fund's Constitution.

The functional and presentation currency of the Fund is Australian dollars.

Significant Accounting Policies

(a) Financial instruments

Financial assets and financial liabilities are recognised on the Fund's Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

(i) Measurement

Financial assets and financial liabilities are held at fair value through profit or loss.

Under this approach, financial assets and financial liabilities are generally measured initially at fair value excluding any transaction costs that are directly attributable to acquisition.

Subsequent to initial recognition, all financial instruments are measured at fair value with changes in their fair value recognized in the statement of comprehensive income.

Fair value in an active market

The fair value of financial assets and liabilities traded in active markets are based on their quoted market prices at the reporting date without any deduction for estimate future selling costs. Financial assets are priced at current bid prices on the reporting date, while financial liabilities are priced at current offer prices.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Financial instruments (continued)

Fair value in an inactive or unquoted market

The fair values of financial assets and liabilities that are not traded in an active market are determined through the valuation policy identified in the Information Memorandum for the Fund

(ii) Categorisation

The Fund's investments are categorised as follows:

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

Issued units

The Fund issues units which have a limited life under the Fund's Constitution and are classified as equity in accordance with *AASB 132 Financial Instruments: Presentation* as amended by *AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation*.

Should the terms or conditions of the units change such that they no longer comply with the criteria for classification as equity in the revised *AASB 132*, the units would be reclassified to a financial liability from the date the instrument ceases to meet the criteria. The financial liability would be measured at the instrument's fair value at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the liability at the date of reclassification would be recognised in equity.

Where the Fund buys back any of its units from unitholders, the consideration paid, including any directly attributable incremental costs are recognised as a reduction in equity attributable to the Fund's unitholders.

(b) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST, and accruals are shown exclusive of GST.

(c) Income tax

Under current legislation, the Fund is not liable for income tax provided its taxable income is fully distributed to unitholders.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Critical judgements and significant accounting estimates

The preparation of financial statements requires the directors of the Trustee to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

(e) Comparatives

As the Loyalize Mortgage Fund commenced operations this financial year, there are no comparative numbers for the year ending 30 June 2017.

(f) New accounting standards and interpretations

A number of new accounting standards and interpretation have been published, and are mandatory for at least part of the 30 June 2018 reporting period, having come into effect on the 1 January 2018:

(i) AASB 9 *Financial Instruments*
(ii) AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9*
(iii) AASB 2013-9 *Amendments to Australian Accounting Standards - Conceptual Framework, Materiality and Financial Instruments - Part C*
(iv) AASB 2014-1 *Amendments to Accounting Standards*

Broadly, these new standards require all financial instruments to measured at fair value unless the criteria for amortised cost are met.

The introduction of the standard is not expected to change the measurement basis of any of the Fund's current financial instruments.

(v) AASB 15: *Revenue from contracts with customers*

Broadly, this new standard relates to the recognition of revenue from contracts for goods and services, including construction contracts.

While this standard does not relate to a significant portion of the Fund's holdings, to the extent that it does apply, it is not expected to change the measurement basis of any of the Fund's current financial instruments, or the valuation of the Fund's assets.

There are no other pending standards that are relevant to the Fund in the current or future reporting periods as at the issue date of this report.

NOTE 2: CASH AND CASH EQUIVALENTS

(a) Cash at bank

	2018	2017
	$	$
Macquarie Bank	29,520	-
	29,520	**-**

(b) Bank interest income

Cash on deposit is held in a Macquarie Bank cash management account (AUD). The interest rate paid by Macquarie to 31 December 2017 was 1.40%. From 1 January 2018 the interest rate has been 1.30% pa paid monthly on balances greater than $5,000. The Fund has been able to obtain a higher return from Macquarie amounting to an extra 0.25% pa.

NOTE 3: INVESTMENT ASSETS

(a) Investment income

In accordance with the terms of the Information Memorandum, the target return of the Fund is 9.5% per annum for the first two years (before tax but after deduction of fees and expenses of the Fund and Investment Option).

(b) Investment held

As at 30 June 2018, a total of $3,690,000.00 has been advanced to Kealba Development Pty Ltd for the redevelopment of a former school site located at 27 Driscolls Rd, Kealba, VIC as a new residential community comprising of townhouses (1, 2 and 3 storey) and low-rise apartments (up to 3 storeys) within a landscaped environment (Kealba Development Project).

Some of the key terms of the Kealba Development Project loan outlined in the Information Memorandum are as follows:

- Facility Type: Senior loan
- Facility Security: First ranking mortgage over the secured property
- Facility Limit: $10,000,000
- Facility Term: 2 years from first drawdown with an option to extend by 6 months or terminate 6 months prior to the expiry of the Facility Term
- Interest Rate: 9.5% per annum
- Payment of Interest on Facility: Will be paid quarterly

NOTE 4: ADMINISTRATION EXPENSES PAYABLE

	2018	2017
	$	$
GST payable/(receivable)	(39)	-
	(39)	**-**

NOTE 5: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

(a) Issued units

	2018	2017
	$	$
Opening balance	-	-
Redemptions	-	-
Units issued – applications	3,700,000	-
Units issued – reinvestment of distributions	-	-
Closing balance	**3,700,000**	**-**

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund.

NOTE 5: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

(b) Undistributed profit/(loss) attributable to unitholders

	2018	2017
	$	$
Opening balance	-	-
Operating profit/(loss) before finance costs attributable to unitholders	-	-
Distributions payable	-	-
Closing balance	**-**	**-**

Withholding tax applicable to the distributions payable during the 2018 financial year was $Nil.

Total distributions paid/payable for the financial year were $Nil.

(c) Capital management

The Fund regards total unitholders' interests as its capital. The objective of the Fund is to provide unitholders with income distributions. The Fund aims to achieve this objective mainly through making loans to borrowers for the purchase or development of real estate in Australia, secured by first or second ranking mortgages over real property.

The Fund aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments, including unitholder redemptions. The Investment Manager regularly reviews the performance of the Fund, including asset allocation strategies, investment and risk management.

NOTE 6: PERFORMANCE FEES AND INVESTMENT MANAGEMENT FEES

In accordance with the Information Memorandum of the Fund, the Investment Manager is entitled to an investment management fee outlined in the relevant Supplementary Information Memorandum. With respect to the Kealba Development Project, the Investment Manager is not entitled to an investment management fee.

The Investment Manager is entitled to a performance fee payable out of the assets of the Investment Option equal to all excess returns above the target return (if any). The performance fee is paid out of the assets of the Investment Option as and when income in respect of the Investment Option is received by the Fund.

NOTE 7: TRUSTEE AND ADMINISTRATION FEES

In accordance with the Information Memorandum of the Fund, the Trustee is entitled to receive a one-off establishment fee of $19,500 (plus GST) and an annual fee for acting as trustee of the Fund. The Trustee is entitled to a fee equal to 0.10% per annum of the Fund's GAV, subject to a minimum fee of $25,000 per annum. This fee is calculated and accrued monthly, payable to the Trustee in arrears. In addition, the Trustee also receives an arrears and default management fee of $150 per hour for any arrears and default management activities undertaken.

In accordance with the Information Memorandum of the Fund, the Administration Manager is entitled to receive an administration fee of up to $35,000 (exclusive of GST) per annum, paid monthly in arrears, on a Fund level where the Fund size is below $20 million or the Fund has less than 25 investors. The administration fee will increase to up to $40,000 (exclusive of GST) per annum where the Fund size is greater than $20 million or where there are more than 25 investors.

NOTE 7: TRUSTEE AND ADMINISTRATION FEES (continued)

Administration fees are calculated daily and payable monthly in arrears from acceptance of the first Investor into the Fund and subject to an annual increase of 4% on the 1st of January of each year.

NOTE 8: OTHER ADMINISTRATION EXPENSES

	2018	2017
	$	$
Bank fees	60	-
Other administration expenses	27	-
GST expense (non-claimable)	32	-
	119	**-**

NOTE 9: CASH FLOW INFORMATION

Reconciliation of cash flows from operating activities with profit/ (loss) for the year

	2018	2017
	$	$
Profit/(loss) for the year	-	-
Changes in assets and liabilities:		
(Increase)/decrease in receivables	(1)	-
Increase/ (decrease) in payables	19,521	-
Cash flows from operating activities	**19,520**	**0**

NOTE 10: RELATED PARTY TRANSACTIONS

(a) Trustee

The Trustee of the Loyalize Mortgage Fund is Vasco Investment Managers Limited.

Fees of $685 (plus GST) were accrued and paid by the Fund to Vasco Investment Managers Limited for its role as Trustee for the period, of which $38 is claimable by the Fund as RITC.

(b) Investment Manager

The Investment Manager of Loyalize Mortgage Fund is Loyalize Fund Management Pty Ltd.

The Investment Manager is responsible for payment of the fees of the Trustee and Administration Manager.

The Fund has paid the trustee fee on behalf of the Investment Manager, and will be reimbursed by the Investment Manager.

(c) Administration Manager

The Administration Manager of Loyalize Mortgage Fund is Vasco Funds Management Pty Ltd.

Vasco Funds Management Pty Ltd is a related party of Vasco Investment Managers Limited.

NOTE 10: RELATED PARTY TRANSACTIONS (continued)

(d) Key management personnel

The Fund does not employ personnel in its own right. However, it has an incorporated Trustee, Vasco Investment Managers Limited and an Investment Manager, Loyalize Fund Management Pty Ltd, to manage the activities of the Fund. The directors of the Trustee and Investment Manager are key management personnel of those corporate entities. No compensation is paid directly by the Fund to directors or to any of the key management personnel of the Trustee or Investment Manager. Payments made by the Fund to the Trustee and Investment Manager do not specifically include any amounts attributable to the compensation of key management personnel.

NOTE 12: REMUNERATION OF AUDITORS

For the period ended 30 June 2018 the accounts of the Fund were not subject to audit and accordingly no audit fees were paid.

NOTE 13: CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the period.

NOTE 14: EVENTS SUBSEQUENT TO REPORTING DATE

As at the date of this report, there have been no other events subsequent to the reporting date that require additional disclosure.

NOTE 15: FINANCIAL RISK MANAGEMENT

(a) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund holds investments in property loans, which are not considered to be assets that are readily realisable.

In order to address this risk, the Trustee retains broad discretion to restrict distributions, withdrawals and/or redemptions.

(b) Credit risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Fund. The Fund is exposed to this risk for various financial instruments, for example, placing money at financial institutions or loan interest that is paid in arrears. The Fund’s maximum exposure to credit risk is limited to the carrying amount of financial assets recognized at the reporting date.

The Investment Manager manages the exposure to credit risk on an ongoing basis.

NOTE 16: TRUSTEE DETAILS

The registered office and the principal place of business of the Trustee are:

Vasco Investment Managers Limited

Level 5

488 Bourke Street

Melbourne Victoria 3000

LOYALIZE MORTGAGE FUND

DIRECTORS' DECLARATION

The directors of Vasco Investment Managers Limited, the Trustee, have determined that the Fund is not a reporting entity and that these special purpose financial statements should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The directors of Vasco Investment Managers Limited, the Trustee, declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards as described in Note 1 to the financial statements and the Corporations Regulations 2001; and
   (b) give a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the period ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.
2. In the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors of Vasco Investment Managers Limited by:

Craig Mathew Dunstan

Director

17 September 2018