

# **Provident Capital Monthly Income Fund**

ARSN 134 487 362

## **Benchmark Update**

### **as at 30 November 2012**

# Benchmark Update

## ASIC Benchmarks

This benchmark update is made in relation to Provident Capital Monthly Income Fund ARSN 134 487 362 (**Fund**) as at 30 November 2012.

In May 2012, the Australian Securities and Investments Commission (**ASIC**) updated Regulatory Guide 45: *Mortgage schemes: improving disclosure for retail investors* (**RG 45**) which supersedes the previous version of RG 45 issued in September 2008. RG 45 sets out ASIC's disclosure benchmarks for unlisted mortgage schemes. The benchmarks identify a number of financial measures and business practices to help investors assess the potential risks and rewards attached to their investment. The benchmarks are not mandatory. Rather, issuers are required to disclose whether the benchmarks are satisfied and if not, then why not. In a letter to unitholders dated 12 December 2012, the receivers and managers (**Receivers and Managers**) of Provident Capital Limited ABN 78 082 753 573 (Receivers and Managers Appointed) (In Liquidation) (**Provident Capital**), notified unitholders of the decision to terminate and wind up the Fund. In this benchmark update, reference has been made to the termination and winding up of the Fund where appropriate. Where indicated below, the circumstances of the receivership as well as the termination and wind-up of the Fund have impacted on the Fund's ability to meet all the relevant benchmark criteria.

The product disclosure statement for the Fund was withdrawn on 19 June 2012 and remains withdrawn. As a result, applications for units in the Fund continue to be closed after termination of the Fund and any application moneys received will be refunded. In addition, as a result of the decision to terminate the Fund, no future or outstanding redemption requests will be processed. The timing of any further income distributions from the Fund will depend on how the wind-up process proceeds and the extent to which the remaining assets continue to earn income.

<b>Benchmark Summary</b> (detailed responses follow)	<b>Satisfied</b> YES / NO
<b>1. Liquidity</b>	NO
<b>2. Scheme borrowing</b>	YES
<b>3. Portfolio diversification</b>	NO
<b>4. Related party transactions</b>	YES
<b>5. Valuation policy</b>	NO
<b>6. Loan-to-valuation ratios</b>	YES
<b>7. Distribution practices</b>	YES
<b>8. Withdrawal arrangements</b>	NO

## Ongoing Disclosures

Provident Capital as responsible entity for the Fund, intends to continue to meet its continuous disclosure obligations under RG 45 and the Corporations Act 2001 (Cth) during the process of

winding up the Fund. Updates on the benchmarks and relevant financial information will be lodged on the Provident Capital website [www.providentcapital.com.au/notices](http://www.providentcapital.com.au/notices).

### **Benchmark 1: Liquidity**

This benchmark addresses the measures adopted by the Fund to manage its liquidity, including its cash flow needs.

**The Fund does not satisfy ASIC Benchmark 1**, on the basis that cash flow estimates for the Fund are to be approved by the Receivers and Managers rather than the directors of Provident Capital.

The Fund is expected to maintain cash or cash equivalents sufficient to meet its expenses, liabilities and other cash flow needs over the next 12 months. Depending on how the wind-up process proceeds for the Fund, the final wind-up may be completed earlier than 12 months.

Each month, as part of the Fund's ongoing compliance management processes, an estimate will be made of the Fund's expenses, liabilities and other cash flow needs (including to take into account any material changes) to ensure sufficient cash and cash equivalents are maintained to meet those required cash flow needs. The material assumptions underlying these cash flow estimates include analysis of projected loan discharges, budgeted projections of income and expenses, and anticipated wind-up distributions to unitholders.

In light of the receivership, these estimates will be approved by the Receivers and Managers on the basis that they are in charge of the affairs of Provident Capital, which includes Provident Capital's obligations as responsible entity of the Fund.

At 30 November 2012 the Fund had cash of \$9,328,724, which, together with upcoming loan discharges of \$1,032,646, will be utilised to pay the first wind-up distribution of approximately \$9,460,000 to unitholders on or around 13 December 2012. This first wind-up distribution represents 30 cents for each \$1 unit held.

The Receivers and Managers are continuing to oversee the liquidity of the Fund. As a result of the termination of the Fund, no future or outstanding redemption requests will be processed for the Fund. Accordingly, it will not be necessary to balance the maturity of the Fund's loan assets with potential redemption obligations.

### **Benchmark 2: Scheme borrowing**

This benchmark addresses the Fund's policy on borrowing.

**The Fund satisfies ASIC Benchmark 2.**

Whilst the Fund is permitted under its constitution to borrow and give security for those borrowings, the Fund has not borrowed any money as at the date of this benchmark update and will not borrow any money in the future as the Fund is in the process of being wound up.

### **Benchmark 3: Portfolio diversification**

This benchmark addresses the Fund's lending practices and portfolio risk.

**The Fund does not satisfy ASIC Benchmark 3** on the basis that one loan, which is non-material in value and has a loan-to-value ratio of less than 25%, is not secured by a registered 1st mortgage but instead by caveats registered against the relevant property. In addition, for certain other loans, the security and title documentation is in the process of being transferred from Provident Capital to the Fund.

## Lending Criteria

The Fund will maintain its existing lending criteria in respect of the ongoing management and discharge of loans. However, to the extent that the Fund's lending criteria apply to the assessment and granting of loan applications, this criteria is no longer relevant as the Fund is being wound up and will not be making any further loans.

## Diversification

The loan portfolio has been diversified by having loans secured by property in the residential (metropolitan and non-metropolitan), commercial, industrial and rural use sectors, and located in metropolitan areas, major centres and selected rural areas in the various states and territories of Australia. The status of the Fund loan portfolio diversification will alter in the future as loans are discharged during the winding up of the Fund.

## Other Assets

The Fund aims to maintain in cash or cash equivalents as much of the Fund's assets from time to time as are indicated by the cash flow projections described under Benchmark 1. The income earned on these investments is also part of the Fund's assets.

## Portfolio Structure

The following portfolio limits have been applied for the Fund. The status of the Fund loan portfolio will alter in the future as loans are discharged during the winding up of the Fund.

<i>Limits for secured property types</i>	<i>Type of property mortgaged as security</i>			
	<i>Residential</i>	<i>Commercial</i>	<i>Industrial</i>	<i>Rural</i>
<i>Maximum percentage of whole portfolio</i>	100%	50%	40%	20%

<i>Limits for location of secured properties</i>	<i>NSW</i>	<i>QLD</i>	<i>VIC</i>	<i>WA</i>	<i>SA</i>	<i>ACT</i>	<i>TAS</i>	<i>NT</i>
<i>Maximum percentage of whole portfolio</i>	100%	100%	100%	25%	25%	25%	10%	10%

## Portfolio Data as at 30 November 2012

The following portfolio data is as at 30 November 2012 but will change as loans are discharged during the winding up of the Fund:

Number and value of loans at 30 November 2012 by type of security property:

	<i>Residential</i>	<i>Commercial</i>	<i>Industrial</i>	<i>Rural</i>	<i>Other</i>	<i>Total</i>
No of loans	43	8	4	2	0	57
Value of loans (\$)	16,649,558	3,798,021	829,450	1,024,000	0	22,301,029

Number and value of loans at 30 November 2012 by state and territory:

	NSW	QLD	ACT	VIC	WA	Total
No of loans	20	19	1	11	6	57
Value of loans (\$)	6,793,032	7,975,927	136,900	5,749,271	1,645,899	22,301,029

Other details at 30 November 2012:

Loans in arrears <sup>1</sup>	10 loans in arrears with a value of \$4,440,077 (19.9% by value and 17.5% by number of the loan portfolio).		
Nature of security	All loans (except for one non-material loan which is secured by registered caveats and certain other loans for which the security and title documentation is in the process of being transferred from Provident Capital to the Fund) are secured by at least a registered 1 <sup>st</sup> mortgage over real estate in Australia.		
Undrawn loan commitments	There are no loans which have been approved but which have not yet had funds advanced in relation to them.		
Largest borrower	One loan of \$1,375,000 (6.2% by value and 1.8% by number of the loan portfolio but not more than 5% by value of the total assets of the Fund).		
Ten largest borrowers	10 loans to 10 borrowers aggregating to \$9,703,653 (43.5% by value and 17.5% by number of the loan portfolio).		
Maturity profile <sup>2</sup>		<i>Number</i>	<i>Value</i>
	Not longer than 3 months	24	\$11,020,191
	Longer than 3 but not longer than 12 months	20	\$6,285,957
	Longer than 1 but not longer than 2 years	6	\$2,337,500
	Longer than 2 but not longer than 3 years	1	\$350,900
	Longer than 3 but not longer than 15 years	0	\$0
	Longer than 15 but not longer than 16 years	6	\$2,306,481
	Total	57	\$22,301,029
Loan-to-value ratio range		<i>Number</i>	<i>Value</i>
	Less than 50%	22	\$7,453,581
	50% to 75%	35	\$14,847,448
	More than 75%	0	\$0
	Total	57	\$22,301,029
Interest rate ranges <sup>3</sup>		<i>Number</i>	<i>Value</i>
	Less than 10%	7	\$1,553,156
	10% to 12.5%	35	\$14,144,343
	More than 12.5%	15	\$6,603,530
	Total	57	\$22,301,029

Notes:

1. The Fund considers a loan to be “in arrears” if interest has not been paid or the loan amount not repaid, in each case for at least 30 days after the due date.
2. The maturity profile reflects the maturity date on the loan agreements but is not necessarily reflective of the actual date the loan will be discharged.
3. The interest rate is the reduced rate for timely payments, where applicable.

There are no loans in the Fund where the interest is capitalised and added to the loan amount instead of being paid by periodic interest payments.

The principal non-loan asset of the Fund was cash of \$9,328,724. The Fund does not hold any derivatives nor does it intend to.

#### **Benchmark 4: Related party transactions**

This benchmark addresses the risks associated with related party lending, investments and transactions.

##### **The Fund satisfies ASIC Benchmark 4.**

The Fund does not have any loans to or from related parties nor any investments in related parties, and it is the policy not to have any. It has previously been the case that where the Fund has had sufficient cash reserves, Provident Capital as responsible entity has accepted into the Fund transfers of existing registered 1st mortgage loans made by Provident Capital in its other management capacities. Each such loan transfer was for the loan balance current at the time of the transfer and was required to satisfy the lending criteria of the Fund as if it were a new loan made by the Fund at the time of transfer as well as to meet the Fund's conflict of interest policies. All transfers were made on arm's length commercial terms and so member approval was not required. As the Fund is in the process of being wound up, no new transfers of loans will be made by Provident Capital.

At 30 November 2012 Provident Capital held 116,695 security units (\$116,695) and 11,094 wholesale variable rate units (\$11,094) in the Fund.

#### **Benchmark 5: Valuation policy**

This benchmark, together with benchmark 6, addresses the Fund's property-related lending and valuation practices.

##### **The Fund does not satisfy ASIC Benchmark 5.**

The valuation policy disclosed by the Fund in its most recent benchmark update is no longer applicable since it mainly concerns the process for valuation of the relevant secured properties upon loan application and renewal. As the Fund is being terminated and wound up, no further loans will be made. In addition, the Fund will not permit the rolling over of loans. Provident Capital may provide limited extensions for loans in exceptional circumstances.

In light of the winding up of the Fund, the Receivers and Managers on behalf of Provident Capital will be monitoring the ongoing valuation of the relevant secured properties. In the event that there is a likelihood of a material decrease in the value of the relevant property, the Receivers and Managers will consider whether it is appropriate to seek a new independent valuation of the property.

Details of the valuations of properties where the loan amount exceeds 5% of the loan portfolio are:

<i>Loan Amount</i>	<i>% of Portfolio</i>	<i>Valuation Amount</i>	<i>Valuation Date</i>	<i>Property Location</i>
\$1,375,000	6.2%	\$2,750,000	1/12/2011	QLD
\$1,350,000	6.1%	\$3,500,000	22/02/2012	VIC

### **Benchmark 6: Lending principles – loan-to-valuation ratios**

This benchmark, together with benchmark 5, addresses the Fund's property-related lending and valuation practices.

#### **The Fund satisfies ASIC Benchmark 6.**

The Fund does not hold loans which amount to more than 80% of the value of the relevant secured property, on the basis of the latest market valuation.

Details at 30 November 2012:

<i>Loan to value ratio range</i>	<i>Number</i>	<i>Value</i>
Less than 50%	22	\$7,453,581
50% to 75%	35	\$14,847,448
More than 75%	0	\$0
Total	57	\$22,301,029

As the Fund is being wound up, no further loans will be made.

### **Benchmark 7: Distribution practices**

This benchmark addresses the transparency of the Fund's distribution practices.

#### **The Fund satisfies ASIC Benchmark 7.**

Provident Capital will not pay distributions from Fund borrowings.

As the Fund has been terminated, the constitution provides that the winding up of the Fund must now be completed as soon as practicable. The Receivers and Managers on behalf of Provident Capital propose to conduct an orderly disposal of the Fund's loans in order to maximise the value realised for unitholders. The Fund's constitution provides that after paying or making allowance for actual and anticipated liabilities, the net proceeds from the realisation of the loans will be paid to unitholders on a pro rata basis according to the number of units they hold at termination.

The Receivers and Managers currently expect that an interim payment of net proceeds to unitholders of approximately 30 cents per unit will be made on or around 13 December 2012. However, this amount and date may change depending on how the wind-up process proceeds. The timing and amounts of further payments will also depend on how the loan realisation process proceeds. However, the Receivers and Managers anticipate that further interim payments will be made during the process of winding up the Fund.

The timing of any further income distributions from the Fund will depend on how the wind-up process proceeds and the extent to which the remaining assets continue to earn income. Income distributions may be made at the same time as payments arising from the realisation of the Fund's

assets. Unitholders will receive a tax statement in respect of their income distributions at the end of the financial year.

### Benchmark 8: Withdrawal arrangements

The benchmark addresses our approach to the withdrawal of investments.

**The Fund does not satisfy ASIC Benchmark 8** on the basis that no future redemptions will be paid in relation to the Fund, since it is in the process of being wound up.

The Receivers and Managers on behalf of Provident Capital suspended all redemptions on 12 July 2012, including all subsequent and outstanding redemption requests not yet paid. Accordingly, no redemption requests have been processed since the date of suspension. As a result of the Receivers and Managers decision to terminate the Fund, no future or outstanding redemption requests will be processed. All unitholders who have submitted a redemption request will receive their proportionate share of the Fund's net proceeds in the same manner as all other unitholders.

### Additional Information

The following additional information in relation to the financial position of the Fund has been prepared as at 30 November 2012:

<b>Balance Sheet Category</b>	<b>(Audited) 31 December 2011 \$</b>	<b>(Unaudited) 30 June 2012 \$</b>	<b>(Unaudited) 30 November 2012 \$</b>
Cash & Cash Equivalents	1,174,230	599,098	9,328,724
Loans and Advances after provisions	19,796,753	31,366,452	22,218,674
Loan Interest Receivable	65,901	119,358	313,873
Other Assets	31,145	51,652	19,879
<b>Total Assets</b>	<b>21,068,029</b>	<b>32,136,560</b>	<b>31,881,150</b>
Loan Interest Received in Advance	(771,227)	(355,260)	(70,837)
Undistributed income and Other Payables	(278,738)	(360,764)	(284,786)
<b>Net Assets attributable to Unitholders</b>	<b>20,018,064</b>	<b>31,420,536</b>	<b>31,525,527</b>

To the extent that the above financial information is stated to be unaudited, it is illustrative only and should not be relied on as an accurate or complete statement as to the Fund's financial position. This unaudited information is based on the information available as at 30 June 2012 and 30 November 2012 respectively and various assumptions which may change. This information may be materially affected by changes in the loan profiles as well as broader economic circumstances



which cannot be foreseen. As part of the process of winding up the Fund, Provident Capital will be required to complete and lodge with ASIC a set of final audited wind-up accounts for the Fund. Provident Capital will keep unitholders updated regarding the wind-up process.

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The Receivers and Managers are only acting as agents of Provident Capital in connection with this Benchmark Update. The Receivers and Managers have relied on Provident Capital to provide, and verify the accuracy of, the information contained in this Benchmark Update. Accordingly, recipients of this Benchmark Update acknowledge and agree that the Receivers and Managers will not be personally liable for any errors or omissions. The Receivers and Managers make no representations, warranties or undertakings in relation to the accuracy of the information contained in the Benchmark Update, nor will they have any responsibility for updating or supplementing the information.