



WHOLESALE INVESTORS ONLY

# **INFORMATION MEMORANDUM TO INVEST IN THE NZ Securities First Mortgage Fund**

FIXED RATE OF  
RETURN 8%  
PER ANNUM\*

\*Indicative rate, subject to terms  
and conditions

19 AUGUST 2024



Information Memorandum dated 19th August 2024

For wholesale investors only.

This document does not constitute an offer of financial products.

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# CREDENCE FUND

Provides private investors, family offices and high net worth individuals who meet relevant wholesale investor criteria an investment backed up by first mortgage security.

Credence Fund has been designed to provide wholesale investors with sound risk adjusted financial returns.

Your capital is backed by our loans secured by first ranking mortgage security and a further buffer of shareholder loans that are subordinated to Investors.

Fixed interest  
rate of 8% p.a.  
provided on your  
Credence Fund  
investment



# IMPORTANT NOTICE TO INVESTORS

## WARNING

New Zealand law normally requires people who offer financial products to provide information to investors before they invest. This requires those offering financial products to have disclosed information that is important for investors to make an informed decision.

The usual rules do not apply to this offer because there are exclusions for offers where the amount invested upfront by the investor (plus any other investments the investor has already made in the financial products) is \$750,000 or more. As a result of this exclusion, you may not receive a complete and balanced set of information. You will also have fewer other legal protections for this investment.

Investments of this kind are not suitable for retail investors.

Ask questions, read all documents carefully, and seek independent financial advice before committing yourself.

## OFFER TO WHOLESALE INVESTORS ONLY

This Offer of Units issued by the Fund is not suitable for retail investors. Units in the Fund are offered only to investors who are "wholesale investors" on the basis that they :

- Are an "investment business", "large" or a "government agency", or meet the "investment activity criteria", under clause 3(2) of Schedule 1 to the Financial Markets Conduct Act 2013 (the FMCA); or
- Meet the "eligible investor" criteria under clause (3)(3) (a) of Schedule 1 to the FMCA; or
- Pay a minimum subscription amount of at least \$750,000 for units (which may include subscription amounts previously invested and currently held by you in the Fund) in accordance with clause 3(3)(b) (i) or (ii) of Schedule 1 to the FMCA.

(together, Wholesale Investors).

Applications or any requests for information from persons who do not meet the above criteria will not be accepted.

This Information Memorandum (IM) is not a "regulated offer" to retail investors for the purposes of the FMCA. This IM is not required to, and does not include, all information that is required to be included in a product disclosure statement. Investors are not provided with the protections under the FMCA afforded to investors in registered managed investment products.

This IM has been provided to you on the basis that you fall into at least one of the Wholesale Investor categories. By accepting this IM, you acknowledge and confirm that you are a Wholesale Investor under one of those categories. If this is not the case, or if you are not the intended recipient of this IM, please return this IM to the Manager immediately.

This IM is intended for distribution to persons to whom, under relevant law, it may be lawfully distributed. It

may not be distributed to any other person. It does not constitute an offer or solicitation in any jurisdiction in which such an offer or solicitation is not authorised or lawful, or in which the person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such an offer or solicitation. Neither the Fund, nor any other person associated with the Fund has taken any action that would permit an offering in any jurisdiction where any such action would be required.

## CONFIDENTIALITY & INFORMATION

By accepting delivery of this IM (or otherwise reading or retaining a copy of it), each recipient acknowledges and agrees that this IM and any other information provided by or on behalf of the Fund is private and confidential and may not be disclosed, distributed or reproduced without the express written permission of the Manager.

This IM has been prepared for information purposes and without considering any person's individual investment objectives, financial situation or particular needs. This IM does not give all the details of the operation of the Fund. It is not intended to, and does not, contain all the information that a prospective investor in the Fund may require. No person is authorised to give any information or make any statement relating to the Offer or the Fund that is not contained in this IM or any other communication approved by the Manager. Therefore, no such information or statement may be relied upon as having been authorised by or on behalf of the Manager unless expressly agreed otherwise.

To the maximum extent permitted by law, none of the Manager, the Fund and their respective agents, advisers, directors, officers, shareholders and employees nor any other person or entity named in this IM, warrant or represent the origin, validity, accuracy, completeness or reliability of any statement in this IM or accept responsibility for errors or omissions in the document. Nor do they accept, and they hereby disclaim and exclude, to the maximum extent permitted by law, all liability for losses, claims, damages, demands, costs and expenses of any nature whatsoever, known or unknown (including but not limited to, liability in a contract or in tort (including negligence), in equity Or for breach of statutory or other duty arising in any way out of or in connection with this IM). By accepting delivery of this IM, you waive all and any claims in that regard. No person referred to in this IM guarantees the Fund or its performance, or the returns of or yield on any investment in the Fund. The recipient of this IM is not entitled to rely on any matter in relation to the Offer other than as expressly set out in any formal investment documentation that is executed by the Manager.

The Offer set out in this IM is a fixed rate investment. Neither the Fund nor any of its related entities, Associated Persons or directors, guarantee or make any representations as to the performance, compliance, solvency, or profitability of the entities that receive development or for breach of statutory or other duty arising in any way out of or in connection with this IM). By accepting delivery of this IM, you waive all and any claims in that regard. No person referred to in this IM guarantees the Fund or its performance, or the returns of or yield on any investment in the Fund. The recipient of this IM is not entitled to rely on any matter in relation to the Offer other than as expressly set out in any formal investment documentation that is executed by the Manager.

The Offer set out in this IM is a fixed rate investment. Neither the Fund nor any of its related entities, Associated Persons or directors, guarantee or make any representations as to the performance, compliance, solvency, or profitability of the entities that receive development or construction finance from the Fund.

## WITHDRAWAL OF OFFER:

The Manager reserves the right, in its sole discretion and for any reason whatsoever, to modify, amend or withdraw all or any portion of the Offer or accept or reject in whole or in part any application to invest in the Fund.

## ACCURACY OF INFORMATION

The statements in this IM are made as of the date of the IM. Neither the Manager, the Fund, nor any of those parties' related entities, Associated Persons or directors, are under any obligation to you to provide any update in relation to any change to or inaccuracy of the information in this IM, except as required by law. To the maximum extent permitted by law, no warranties, representations or guarantees are given as to the origin, validity, accuracy, completeness or reliability of any statement in this IM, nor is any liability accepted (and is hereby disclaimed and excluded) in relation to any errors or omissions in the IM, or any losses for losses, claims, damages, demands, costs and expenses of any nature whatsoever arising in any way out of or in connection with this IM.

# LETTER TO INVESTORS



Dear Investors,

It is my pleasure to invite you to become a Unit holder in the NZ Securities First Mortgage Fund.

The capital raised by the Fund is intended to be applied ultimately towards loans that are secured in favour of the lender by first registered mortgages to borrowers who are undertaking property developments and property investments in New Zealand.

The Fund will be managed by Credence NZ Limited (FSP1004509) who are part of the Coconut Finance and JKLK group companies. Coconut Finance has been successfully involved in sourcing funding for property investors and developers for the last 8 years.

**The Fund is targeting to raise \$100 million. Credence NZ Limited (FSP1004509) will provide a subordinated debt contribution of at least 5% of the total assets of the Fund into Credence Nominees Limited (FSP1008275), the entity ultimately making the loans. This capital ranks behind the investor funds. This confirms a strong financial commitment by Credence NZ Limited (FSP1004509) to the success of the Fund.**

The recent changes to the New Zealand banking market and an increased demand by housing developers for residential house development funding has created an opportunity to provide secure first mortgage loans.

The loans will have a simple security structure being a first ranking mortgage and a general security agreement providing security over all of the assets of the borrower (where applicable) and unless otherwise specifically agreed, personal guarantees.

The Information Memorandum contains information about the offer as well as key risks associated with an investment in the Fund. I encourage you to read this Information Memorandum before making an investment decision.

I look forward to welcoming you as an investor.

Yours Sincerely,

Coco Sun

Director - Credence NZ Limited (FSP1004509)

[Credence Fund](#)

# GLOSSARY OF TERMS

A number of terms and abbreviations used in this IM have defined meanings as follows:

**Associated Person** has the meaning given in section 12(1) of the FMCA.

**AML** means all customer due diligence requirements under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.

**Business Day** means a day on which banks are open for general banking business in New Zealand, but excluding Saturday, Sunday and public holiday in New Zealand.

**FMCA** means the Financial Markets Conduct Act 2013.

**IM** means this information memorandum dated [\*] as issued by the Manager.

**Investment Committee** includes the Manager, Credence NZ Limited (FSP1004509), or any other person or entity that the Manager engages to assist it with its investment process.

**Offer** means the Fund's offer of Units in the Fund as set out in this IM.

**Wholesale Investor** means a person who is a "wholesale investor" under one of the categories described on page 3 of this IM (Offer to Wholesale Investors Only)

**Credence Nominees** means *Credence Nominees Limited (FSP1008275)*

**Credence Fund** means *Credence NZ Limited (FSP1004509)*.

**Unit** means each unit in the Fund.

## TERMS OF THE OFFER

<b>Financial Product</b>	Units in the NZ Securities First Mortgage Fund. Investment in the Fund is restricted to certain Wholesale Investors only in accordance with the FMCA.
<b>Issuer Name</b>	Credence Securities Trustee limited
<b>Manage of the Fund</b>	Credence NZ Limited (FSP1004509)
<b>Fund Size</b>	Up to NZD \$100,000,000
<b>Units of Issue</b>	Up to 100,000,000 units
<b>Subscription Price</b>	NZD \$1.00 per unit
<b>Minimum Investment</b>	NZD \$750,000 unless agreed otherwise by the Manager in compliance with the FMCA, securities law generally and having regard to the laws of the jurisdiction applicable to the investor. You can make further voluntary contributions to the Fund at any time. Further contributions must be a minimum of \$100,000 on each occasion.
<b>Fund Purpose</b>	The Fund invests in redeemable preference shares, Credence Fund with proceeds being used to make loans secured over residential property in NZ metropolitan areas with population over \$100,000. A portion of Fund assets may also be kept in liquid financial arrangements to help fund redemptions.
<b>Distribution Rate</b>	Investors will be entitled to receive a fixed rate of return (not compounding). The rate of return will be set by the Manager in its sole discretion before the relevant Units are issued (or any subsequent rollover) and will depend on the size of the investment, term and interest rate market at the relevant time. As at the date of this IM rates of 7.5% per annum are available.
<b>Distribution Payments</b>	Semi-annually in arrear, 20 business days following the Fund's balance date and six months thereafter or as otherwise determined by the Manager, following preparation of unaudited financial statements.
<b>Reporting</b>	Financial reporting available to Investors include: a) Financial statements; b) an Annual Project Report; c) Quarterly reports; and d) Annual tax statements setting out the Investor's share of any estimated income and deductions of the Fund.
<b>Tax</b>	NZ tax residents follows RWT tax rates; Overseas Investors there is only 2% AIL will apply.
<b>Fees</b>	he Fund pays trustee and management fees to the Manager and Trustee. Investors are not required to pay fees to the Fund, the Manager or the Trustee for an investment in Units.
<b>Risks of Investing</b>	General and property-related risks of investment are set out at page 10 this IM.

# INVESTMENT SUMMARY

## OVERVIEW OF THE FUND

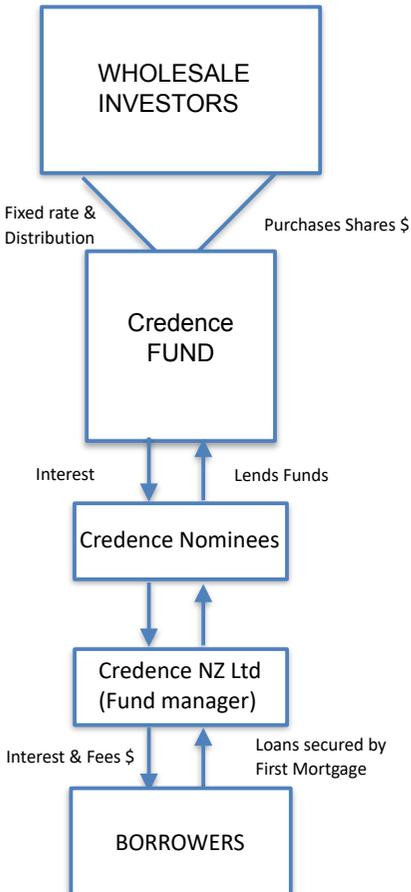
Your investment is Units in the Fund. The Fund is governed by the Governing Document under which the Manager and the Trustee are appointed. Investors' money will be pooled and invested ultimately in loans secured by mortgages, as described below. Only Wholesale Investors are permitted to invest in the Fund.

The Fund is offered solely to Wholesale Investors. The Fund is not a registered managed investment product under the FMCA, and certain requirements of the FMCA do not apply.

## IN SUMMARY

- Wholesale Investors invest into the Fund
- The Fund will subscribe for Shares issued by Credence Fund, which entitle the Fund to receive a fixed rate of Distributions.
- Credence Fund lends all amounts received to Credence Nominees Limited (FSP1008275) (**Credence Nominees**).
- Credence Nominees makes investments into loans secured by Mortgages over residential property in New Zealand metropolitan cities with populations of over 100,000.
- Credence Fund's lending is secured by a General Security Agreement (**GSA**) over Credence Nominees.
- The Manager, CNL, manages the Fund, Credence Fund and Credence Nominees.
- Under the guarantee provided to investors.

*Below is a simplified structure diagram.*



NB: Credence Nominees Limited (FSP1008275) is required to hold equity totaling 5% of total assets of the company.

# LENDING CRITERIA

## GENERAL LOAN CRITERIA

The general loan criteria to be applied in respect of loans made using proceeds from the Fund (through Credence Nominees) is as follows:

- 1) Maximum loan amount of \$3 million.
- 2) Security: the standard security requirement will be:
  - a) Registered first mortgage over residential and commercial properties in New Zealand metropolitan cities with over 100,000 people.
  - b) First ranking GSA over the entity that owns the property (where the Manager determines this is necessary for credit purposes).
  - c) Personal guarantee of the sponsor(s). Other relevant guarantees will be obtained where the Manager determines this is necessary for credit purposes.
  - d) Assignment over material leases, fixtures, agreements etc (where the Manager determines this is necessary for credit purposes).

For development loans the requirements are similar with security also taken over pre-sales and construction contracts.

- 3) Maximum term of 24 months for each Loan.
- 4) Maximum loan to valuation ratio of 70% including all interest and fees based on the market value of the property. The maximum average loan to value ratio across the entire mortgage loan portfolio not to exceed 65%.
- 5) Property to be valued by a registered valuer approved by the Manager.
- 6) The Manager will lend on residential property and land. The Fund's initial primary focus however is lending to develop affordable residential property in the Auckland region.
- 7) No lending to persons employed by Credence NZ Limited (FSP1004509) or Credence Nominees Limited (FSP1008275).
- 8) Any subsequent debt/charges behind Credence Nominees' security are to be fully subordinated.
- 9) For development loans, funds will be advanced on a cost to complete basis on milestone payments once the required work has been completed.

## LOAN DOCUMENTATION

The Fund will appoint external lawyers to ensure that all the relevant documentation and security is completed and executed correctly. This includes a solicitor's certificate confirming all securities including mortgages are registered correctly.

## ONGOING MONITORING

Credence NZ Limited (FSP1004509) prides itself on closely monitoring not just the particular loan but also the client and their other projects. In a number of cases the Credence is advising and assisting the clients' total funding requirements and therefore understands the clients' overall financial position.



# INVESTMENT RISKS

## GENERAL LENDING RISKS

General lending risks include usual credit risks, such as the probability of a borrower making full repayment, on time, and without defaults, and subsequently Credence Nominees' debt recovery options and procedures. Lenders can suffer loss resulting from various events, including through their inability to sell a loan investment or demand early repayment (should the Fund need its funds early or choose to redeem), fraud, early repayment risk, concentration risk and operational risk. A summary of general factors that may affect a borrower's solvency, and accordingly their ability to repay the Fund include, but are not expressly limited to, the following examples and scenarios:

1. Pandemic or Epidemic;
2. Famine;
3. War;
4. Natural disasters;
5. Terrorist attacks;
6. Political turmoil;
7. Changing of local or world economic conditions, including recession;
8. Changes in general market prices for property, listed property shares and other tradable investments, changes in interest rates, investor sentiment, currency exchange rates and inflation;
9. Differences in supply and demand may develop differently within geographical markets;
10. Changes in legislation, taxation, accounting, monetary and fiscal policies, and securities regulation;
11. Credit worthiness, practices, stability, liquidity and integrity of local / global banking and financial systems;
12. Construction material delays and related risks;
13. Performance depends on the expertise and investment decisions of the underlying property developer;
14. Loss of key persons of Credence Fund.

## DEFAULT RISKS

The value of the Units is ultimately determined by the value of the loans secured by the Mortgages which Credence Nominees makes. Changes in the perceived or actual creditworthiness of borrowers, or borrowers' failure to continue to meet their on-going capital and interest payments, may result in you not recovering the full amount of your investment in the Fund. Credence NZ Limited (FSP1004509) however are providing 5% equity into Credence Nominees which reduces this risk.

## LIQUIDITY RISKS

It is expected that loans made by Credence Nominees,

in which the Fund ultimately invests, will primarily be for fixed terms with limited ability for Credence Nominees to demand early repayment. Low liquidity may mean that the Fund is unable to realise its assets, which would affect the ability of the Fund to meet its obligations to make payments when due (for example, withdrawal requests).

The Manager cannot provide any guarantees in relation to the liquidity of the Fund's assets or of an ability to make a withdrawal from the Fund.

This risk is mitigated by actively managing the Fund and Credence Nominees. The Manager will endeavour to limit liquidity risk by:

- Ensuring loan maturities are regular to provide constant cashflow from loans.
- Maintaining a reasonable level of liquid reserves.



# RISK MITIGATION

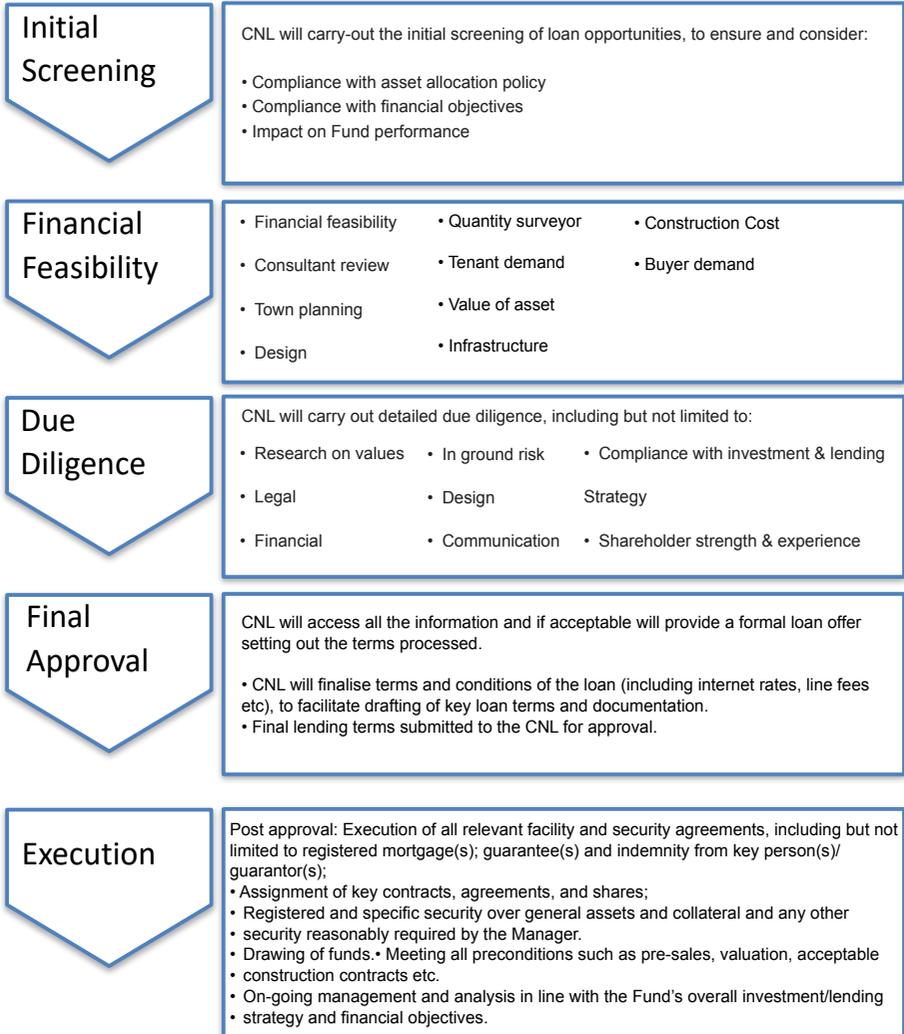
The risks set out above can, in part, be mitigated by:

1. a) **Comprehensive credibility & due diligence by Investment Committee:** Credence has established robust systems over the last few years of lending by Credence-related companies to determine the credibility, profitability and viability of projects, and according the posed risk of a lend. These systems will be adopted by CNL and the Fund.
2. b) **Mortgage Security:** All lending by Credence Nominees will be secured by a registered first mortgage over the relevant project property. Where considered useful, second mortgages may also be taken in addition to the first mortgage.
3. c) **Assignment by way of Security over Pre-Sale Contracts:** Where applicable Credence Nominees' loans will be secured by way of assignment (as security) over all pre-sale contracts which exist in respect of the sale of units to be built and sold at a requisite project.
4. d) **Guarantees, Indemnities & other Security:** To secure repayment of the borrowing, suitable guarantees and indemnities, general and specific security will be taken by Credence Nominees over the borrower and the relevant assets.
5. e) **Investment Committee:** The Manager, through its Investment Committee, will determine the level, suitability and terms of a lend, in order to achieve or exceed the Fund's investment performance targets.
6. f) **Due Diligence:** The Manager will carry out extensive and suitable due diligence prior to the Fund making any financial commitment to a project.
7. g) **Conditions Precedent & Subsequent:** The Manager will ensure that any draw down of funds in respect of any loan by Credence Nominees for a borrower is subject to suitable conditions precedent and if required subsequent, placing onus on the borrower to provide suitable evidence of insurance, equity position, sale projections and cashflow budgets, together with any other detail reasonably required by the Manager. In addition, as an ongoing condition subsequent to all lending, the Manager will carry out suitable on-going management and analysis of the project's progress in line with overall investment/lending strategy and financial objectives.

The description of the risk circumstances in this IM do not take into account the personal circumstances, financial position or investment requirements of any person. It is important, before deciding to invest in the Fund, that investors consider the suitability of the investment in light of the investor's individual risk profile for investment, investment objectives and personal circumstances (including legal, financial and taxation issues).



# THE FUND'S LENDING PROCESS



# Recent Transactions



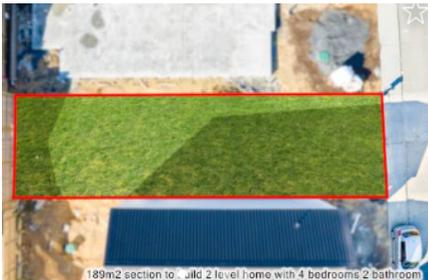
## Bucklands Beach

9% p.a.	12 months	\$2.3m
Interest Rate	Investment Term	Valuation
\$1.45m	63%	1st Mortgage
Loan amount	LVR	Security



## Red Beach

9% p.a.	12 months	\$1.94m
Interest Rate	Investment Term	Valuation
\$1.3m	67%	1st Mortgage
Loan amount	LVR	Security



## Westgate

8.5% p.a.	9 months	\$450,000
Interest Rate	Investment Term	Valuation
\$250,000	65%	1st Mortgage
Loan amount	LVR	Security



## Massey

7.5% p.a.	9 months	\$1,350,000
Interest Rate	Investment Term	Valuation
\$250,000	22%	1st Mortgage
Loan amount	LVR	Security



For inquiries on  
how to invest.  
contact us.

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09-486-0975