CONTINUOUS DISCLOSURE NOTICE

31 December 2015

Australian Unity Select Mortgage Income Fund

The Australian Securities and Investments Commission ('ASIC') has issued a set of benchmarks and disclosure principles, contained in ASIC Regulatory Guide 45 – Mortgage schemes: Improving disclosure for retail investors ('RG45'), to help investors understand and assess unlisted mortgage schemes, such as the Australian Unity Select Mortgage Income Fund ('Fund') ARSN 091 886 789. ASIC distinguishes between "pooled" schemes (where the investment funds are lent out to various borrowers) and "contributory" schemes (where investment funds are lent in relation to a specific property). This Fund is a contributory scheme. Information relevant in the benchmarks, including how the Fund measures against them, is set out in the Benchmarks Section. Information relevant to the disclosure principles is set out in the Disclosure Principles Section.

The information is current as at 31 December 2015 and was issued on 23 February 2016. The financial information in this document is extracted from the Fund's accounting and management records as at 31 December 2015 and is based on unaudited financial records unless stated otherwise.

This document has been prepared by Australian Unity Funds Management Limited ('AUFM') ABN 60 071 497 115, AFS Licence No. 234454 as the Responsible Entity of the Fund and has been provided to keep you informed and to assist you in better understanding the nature of this investment.

Benchmarks Section

ASIC Benchmark	Compliance with the Benchmark	Explanation	Disclosure Principles
Benchmark 1: Liquidity RG 45.34			
For a pooled mortgage scheme, the responsible entity has cash flow estimates for the scheme that: *(a) demonstrate the scheme's capacity to meet its expenses, liabilities and other cash flow needs for the next 12 months;* *(b) are updated at least every three months and reflect any material changes; and* *(c) are approved by the directors of the responsible entity at least every three months.*	Not applicable.	The Fund is not a pooled mortgage scheme.	Disclosure Principle 1 is not applicable. Only applies to a pooled mortgage scheme. Refer to Disclosure Principle 1 for additional disclosures.
Benchmark 2: Scheme borrowing RG 45.42			
The responsible entity does not have current borrowings and does not intend to borrow on behalf of the scheme.	Benchmark met.	Although we are permitted to borrow for the purposes of the Fund, we presently do not have any borrowings and have no intention to borrow.	Disclosure Principle 2 is not applicable as we do not borrow nor intend to borrow.
Benchmark 3: Loan and portfolio diversification RG 45.44			
For a pooled mortgage scheme: *(a) the scheme holds a portfolio of assets diversified by size, borrower, class of borrower activity and geographic region;* *(b) the scheme has no single asset in the scheme portfolio that exceeds 5% of the total scheme assets;* *(c) the scheme has no single borrower who exceeds 5% of the scheme assets; and* *(d) all loans made by the scheme are secured by first mortgages over real property (including registered leasehold title).*	Not applicable.	The Fund is not a pooled mortgage scheme.	Disclosure Principle 3 is not applicable. Only applies to a pooled mortgage scheme. Refer to Disclosure Principle 3 for additional disclosures.
Benchmark 4: Related party transactions RG 45.47			
The responsible entity does not lend to related parties of the responsible entity or to the scheme's investment manager.	Benchmark met.	We do not lend to related parties of AUFM or the Fund's investment manager.	Refer to Disclosure Principle 4 for additional disclosures.

Contact Details

Address
Australian Unity Investments
114 Albert Road
South Melbourne VIC 3205

Website
australianunityinvestments.com.au
Email
investments@australianunity.com.au

Investor Services
T 13 29 39 F 03 8682 5057
Adviser Services
T 1800 649 033 F 03 8682 5057

ASIC Benchmark	Compliance with the Benchmark	Explanation	Disclosure Principles
Benchmark 5: Valuation policy RG 45.50			
In relation to valuations for the scheme's mortgage assets and their security property, the board of the responsible entity requires: *(a) a valuer to be a member of an appropriate professional body in the jurisdiction in which the relevant property is located;* *(b) a valuer to be independent;* *(c) procedures to be followed for dealing with any conflict of interest;* *(d) the rotation and diversity of valuers;* *(e) in relation to security property for a loan, an independent valuation to be obtained:* *(i) before the issue of a loan and on renewal:* *(A) for development property, on both an 'as is' and 'as if complete' basis; and* *(B) for all other property, on an 'as is' basis; and* *(ii) within two months after the directors form a view that there is a likelihood that a decrease in the value of security property may have caused a material breach of a loan covenant.*	Benchmark met.	We have a panel of valuers in each State. The valuers used are members of an appropriate professional body in the jurisdiction in which they perform valuations. The valuers are independent. AUFM maintains a Conflict of Interest Policy. Our valuation policy states that no panel valuer undertakes more than two consecutive valuations on any single property. Furthermore, our panel of valuers are reviewed annually, and from time to time we remove and add new firms. Independent valuations on an 'as is' basis are obtained before the issue of a new loan and on renewal of an existing loan. Independent valuations are also obtained within two months after the directors form a view that there is a likelihood that a decrease in the value of security property may have caused a material breach of a loan covenant. The 'as is' component of the development project valuation is relied upon to ensure that our initial advance against the unimproved value of the development site remains within an acceptable LVR. The 'as if complete' component of the development valuation is relied upon, and read in conjunction with the quantity surveyor's report, to ensure that, upon completion of the project, the sum of all advances made (including interest capitalised) remains within an acceptable LVR.	Refer to Disclosure Principle 5 for additional disclosures.
Benchmark 6: Lending principles - Loan-to-valuation-ratios RG 45.56			
If the scheme directly holds mortgage assets: *(a) where the loan relates to property development—funds are provided to the borrower in stages based on independent evidence of the progress of the development;* *(b) where the loan relates to property development—the scheme does not lend more than 70% on the basis of the latest 'as if complete' valuation of property over which security is provided; and* *(c) in all other cases—the scheme does not lend more than 80% on the basis of the latest market valuation of property over which security is provided.*	Benchmark met.	Our policy for property development loans is set out in the Fund's Product Disclosure Statement ('PDS'). Where the loan relates to property development: We minimise such risk by adopting additional procedures for such loans involving the use of an independent quantity surveyor who certifies the value of all work and certifies the cost to complete of such construction. Funds are provided to the borrower in stages based on independent evidence of the progress of the development. We aim to ensure that the amount un-drawn of the loan is generally equal or more than equal to the cost to complete as certified by our quantity surveyor. Generally our maximum loan to valuation ratio is 70%.	Refer to Disclosure Principle 6 for additional disclosures.
Benchmark 7: Distribution practices RG 45.61			
The responsible entity will not pay current distributions from scheme borrowings.	Benchmark met.	Generally, all distributions are sourced from income. No distributions will be paid from borrowings.	Refer to Disclosure Principle 7 for additional disclosures.
Benchmark 8: Withdrawal arrangements			
The ASIC Benchmark distinguishes between liquid and non-liquid schemes, to reflect the differences to an investor's ability to withdraw. *RG 45.64 Liquid schemes* *A liquid scheme is required to disclose whether it facilitates payment of withdrawal requests within 90 days.* *RG 45.65 Non-liquid schemes* *For non-liquid schemes, the responsible entity intends to make withdrawal offers to investors at least quarterly.*	Benchmark not met.	The Fund itself is not a liquid scheme, as investment into a Syndicate-Fund does not allow a right of withdrawal before the end of its term and the liability of the borrower is repaid in full. However, an investor does have the right to withdraw funds held in the Fund's Cash Account before investment into a particular Syndicate-Fund. The Fund's Constitution allows up to 90 days' to satisfy withdrawal requests from the Fund's Cash Account.	Refer to Disclosure Principle 8 for additional disclosures.

Disclosure Principles Section

ASIC's disclosure principles for mortgage schemes require disclosure of certain information relevant to each principle. The principles are intended to help investors understand the risks and potential rewards associated with these investments. Each disclosure principle is set out below.

Liquidity

Disclosure Principle 1 – Liquidity

The Fund is a contributory mortgage scheme, as such RG 45.72 – RG 45.74 do not apply. Subject to any investment investors may have in the Fund's Cash Account, their entitlement to income or capital is based only on their investment in a specific Syndicate-Fund and they have no right to the income or capital of other Syndicate-Funds. Investors are provided details relating to liquidity in the issue of each Invitation to Invest / Supplementary Product Disclosure Statement ('SPDS').

Fund borrowing

Disclosure Principle 2 – Fund borrowing

The Fund does not currently have any borrowing and does not currently intend to borrow, as such RG 45.75 – RG 45.79 do not apply.

Portfolio diversification

Disclosure Principle 3 – Loan portfolio and diversification

The Fund is a contributory mortgage scheme, as such RG45.80 – RG 45.87 do not apply. Investors of the Fund gain exposure to mortgage loans via Syndicate-Funds. All the loans in the Fund are secured by a registered first mortgage.

Related parties

Disclosure Principle 4 – Related party transactions

As at 31 December 2015 related parties held interests in the Fund of $16.97 million (21.79%) based on net assets.

AUFM may engage related parties to provide services to assist in management of the Fund's portfolio. The arrangements described above were made on commercial terms and conditions and on an arm's length basis. Investor approval is not required for this arrangement as it is made on commercial terms and conditions and on an arm's length basis.

Related party arrangements carry a risk that they could be assessed and reviewed less rigorously than arrangements with other parties.

Australian Unity has policies and guidelines in place to manage the risk of any actual or perceived conflict of interest as a result of a related party transaction. Related party transactions between Australian Unity Group entities are reviewed, approved and monitored by senior management with clearly identified governance policies and guidelines. Decisions in relation to conflicts of interest and related party transactions are documented.

Valuation policy

Disclosure Principle 5 – Valuation policy

Investors can email investments@australianunity.com.au or call 13 29 39 to request a copy of the AUFM's Valuation Policy.

On a quarterly basis Head of Mortgages attests to the directors of AUFM that appropriate valuations are in place for each of the security properties. Management review the independent valuations for properties by size in each mortgage portfolio.

Independent external valuations of properties forming security for mortgage loans are obtained:

- at the time the loan amount is approved, on an 'as is' basis for all security property;
- for existing loan accounts where formal renewal terms are approved and offered, at the time when the existing loan account is renewed ; or
- as soon as practicable, but no later than within two months, after AUFM's management or directors form a view that there is reason to believe that the security property value may have caused a material breach of a loan covenant.

There are no material inconsistencies between any current valuations of the security property and the AUFM's Valuation Policy.

AUFM issues an investor with an Invitation to Invest / SPDS which provides information about the valuation of the property securing a loan in which the investor has, or is being offered, an interest.

Lending principles

Disclosure Principle 6 – Lending principles (LVR)

The maximum and weighted average loan-to-valuation ratio for the Fund as at the date of reporting is:

	% as at 31 December 2015
Maximum LVR	70
Weighted LVR[1]	61

1. Weighted by value of the loans of the Fund.

Where the loan relates to property development we minimise such risk by adopting additional procedures for such loans involving the use of an independent quantity surveyor who certifies the value of all work and certifies the cost to complete of such construction. Funds are provided to the borrower in stages based on independent evidence of the progress of the development. When funds are drawn, we aim to ensure that the amount un-drawn of the loan is generally equal or more than equal to the cost to complete as certified by our quantity surveyor.

At 31 December 2015 there were 11 loans drawn to $41.31 million (with loan limits totalling $61.27 million) provided in relation to properties intended for development. All 11 loans have proceeded as construction loans.

The percentage (by value) of completion of the properties currently under development is as follows:

Borrower	(%) by value of completion
Construction loan 1	0
Construction loan 2	98
Construction loan 3	48
Construction loan 4	75
Construction loan 5	46
Construction loan 6	29
Construction loan 7	65
Construction loan 8	0
Construction loan 9	100
Construction loan 10	9
Construction loan 11	0

At 31 December 2015 the loan cost ratio of each property development loan is provided in the table below:

Borrower	Loan balance available to-cost to complete ratio (%)
Construction loan 1	235
Construction loan 2	206
Construction loan 3	109
Construction loan4	103
Construction loan 5	118
Construction loan 6	120
Construction loan 7	107
Construction loan 8	119
Construction loan 9	N/A
Construction loan 10	112
Construction loan 11	235

Distribution practices

Disclosure Principle 7 – Distribution practices

The interest rate payable to investors and the date the loan is to be repaid are set out in the Invitation to Invest/SPDS. This sets out details of the loan in which investors have invested funds. Generally all distributions are sourced from income received in the relevant distribution period.

Distributions are paid monthly to investors on the 26th of each month. The Fund does not promote a particular return on investment. The rate of interest applicable to a particular loan will be specified in the applicable Invitation to Invest/SPDS.

There are risks associated with investing in a first mortgage loan, such as default risk. Where a borrower fails to make a payment which results in a default, investors may receive a lower return on their investment. There is no guarantee that if you have invested into a Syndicate-Fund that you will receive the return of some or all of your investment.

The Fund does not make distribution forecasts. Borrower default and early repayment are the two significant risk factors that may impact investor returns. Additional risks are set out in the 'Risks of managed investment schemes' section of the PDS.

Withdrawal arrangements

Disclosure Principle 8 – Withdrawal arrangements

The Fund is a contributory mortgage scheme, as such, the withdrawal arrangements for the Fund, in reference to RG 45.104 – RG 45.114 are detailed below.

Once an investor has invested in a Syndicate-Fund the right to withdraw arises only when the first mortgage loan has been paid. The investment term for a Syndicate-Fund is generally 12 to 24 months. On repayment for the first mortgage loan, the Syndicate-Fund investors will receive the return of funds once all secured assets are realised and expenses paid. Investors may then withdraw from the Fund itself or may choose to invest in another Syndicate-Fund.

Prior to investment into a Syndicate-Fund, while an investor's funds are held in the Fund's Cash Account we aim to process such withdrawals within two business days' of receipt of a written request. The Fund's Constitution however, does allow up to 90 days' to satisfy withdrawal requests from the Fund's Cash Account.

The ability to receive the withdrawal amount from a Syndicate-Fund is only likely to be affected if a mortgage loan for the Syndicate-Fund is not repaid by the borrower at the end of the loan term. This would require recovery action to be taken by the Responsible Entity against the mortgagor and any guarantors to the loan. Recovery action would delay investors receiving the return of the investment.

Refer also to the 'Risks of managed investment schemes' section of the PDS.

For further enquiries

Please contact us either by telephone, email or mail as shown on the front of this Continuous Disclosure Notice.

Important information

This investment product is issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. This information is intended only to provide a general update on the investment particulars of this financial product and does not take into account the financial objectives, situation or needs of any particular investor. Information on this investment product can be obtained from our website australianunityinvestments.com.au/smif including the Product Disclosure Statement ('PDS') for the Fund. The information provided here was current at the time of publication only.