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GROUP LIMITED

PRODUCT DISCLOSURE STATEMENT

Offer of Interests in Obsidian Contributory Mortgage Scheme dated 29 April 2021. This Product Disclosure Statement replaces the Product Disclosure Statement issued by Obsidian Group Limited on 24 October 2019.

This document gives you important information about this investment to help you decide whether you want to invest. There is other useful information about this offer on www.business.govt.nz/disclose. Obsidian Group Limited has prepared this document in accordance with the Financial Markets Conduct Act 2013. You can seek advice from a Financial Advice Provider to help you make an investment decision.





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Key Information Summary

What is this?

This is an offer of interests in Obsidian Contributory Mortgage Scheme (the Scheme). Your money will be invested by Obsidian Group Limited (the Manager) in loans secured by mortgages, which you choose to be in your portfolio. The Manager selects the loans you can choose from to include in your portfolio. The Manager also manages and administers the loans in your portfolio and takes fees. The types of loans and fees are described in this document. By investing in this Scheme, you are relying on the investment decisions of the Manager in selecting the loans you can choose from and in determining the interest rates paid on those loans. You will not be provided with information to independently assess the creditworthiness of particular borrowers - the Manager makes this assessment. There is a risk that you may lose some or all of the money you invest.

WARNING

The law normally requires people who offer financial products to give certain specified 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 disclosure rules do not apply to this offer because there is an exemption for offers of investments in the Scheme.

Information about each loan will be set out in a Loan Specific Disclosure Statement (Loan Disclosure) provided to you by the Manager. As a result of the exemption, you will need to read both the Loan Disclosure and this Product Disclosure Statement (PDS) to understand the overall risks and fees that will apply to your loan portfolio. You should also refer to the table provided to you along with the PDS to see the types of loans that have been made by the Scheme recently.

You will also not be able to easily compare an investment in the Scheme with other managed investment schemes.

Additionally, the exemption allows the Manager to only prepare audited financial statements at the Scheme level, and not to have to also prepare individual audited financial statements for each separate loan. The Scheme financial statements include information about all loans in the Scheme collectively, but with some consideration of individual loans (as required by the conditions of this exemption). Not all information in the financial statements will be relevant to your individual portfolio and there will be limited information about individual loans. As a result, you will need to read the financial statements in conjunction with your relevant loan disclosure documents and personalized quarterly reports to understand the overall position in relation to your individual portfolio.

Investment in the Scheme will not be suitable for all retail investors. We suggest you ask questions and read all documents carefully.

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Who manages this scheme?

Obsidian Group Limited (the Manager, we, us or our) is the manager of the Scheme. The Manager's lending activities cover the residential, commercial, rural and mixed-use property sectors and the Manager focuses on lending opportunities which do not meet normal banking criteria. As a licensed managed investment scheme manager, the Manager is required to act in the best interest of Members and not let its interests' conflict with those of Members. For example, personnel of the Manager may have existing relationships with Borrowers (for example some Borrowers may be clients of Albert Alloo & Sons Solicitors). In these circumstances the Manager must ensure it puts Members interests first and when considering lending opportunities focus on whether there is sufficient equity to provide security as well as other criteria. See Section 8 *About Obsidian Group Limited and others involved in the Obsidian Contributory Mortgage Scheme* on page 28 of this document for more information about the Manager.

What are you investing in?

- (a) The Scheme is a contributory mortgage scheme that is registered as an 'other' Managed Investment Scheme under the Financial Markets Conduct Act 2013 (FMCA) and governed by a Governing Document dated 14 June 2018. As an investor (Member, you or your) of the Scheme, you will have an account in which you can hold (through Obsidian Group Nominee Company Limited (the Nominee)) cash and interests in loans (Member Account). You can use the cash you deposit in your Member Account to invest in loans made to selected borrowers (each a Borrower). Members can choose the whole of a particular loan to be in their portfolio or just a proportion of the loan.
- (b) The investment objective of the Scheme is to give Members the opportunity to earn a pre-tax return (but after fees and expenses) of at least 1% per annum higher than the weighted average six-month term deposit rate as published by the Reserve Bank through the Member's loan portfolio. Obsidian will show the average six-month term deposit rate (updated quarterly) on its website (www.obsidiangroup.co.nz). The Scheme's investment strategy is primarily to source investments in loans secured over real property in Otago, Southland, Central Otago, and Canterbury.
- (c) The main assets of the Scheme will be Members' interest in loans secured over real property and cash held in Member Accounts.
- (d) The Scheme will not borrow funds to provide loans. Loans will be funded by Members.

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Key terms of the offer

Description of product Your interest in the Scheme is your Member Account

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Membership criteria You can open a Member Account at any time.
To become a Member of the Scheme, you must complete an application and meet the requirements of the Manager (including providing information to meet requirements under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 and opening a Member account). The decision to accept an application to become a Member of the Scheme is at the sole discretion of the Manager.

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Minimum investment amount
to open a Member Account A minimum investment amount of \$50,000 is required to open a Member Account in the Scheme (however, this may be varied at the Manager's discretion and may change in the future). The Manager does not require the \$50,000 be paid immediately on joining the Scheme. This may be deposited once a Member is ready to invest into their first loan.

The Manager may specify a minimum holding for Member Accounts from time to time, at its discretion. Currently there is no minimum holding.

There is no fixed price other than the minimum investment amount described above.

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Liability to Make Further Payment There is no liability to make further payments in relation to interests in the Scheme.

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How can you get your money out?

Your interest in the Scheme is not redeemable at will. However, you can withdraw all or part of the cash (less fees, tax or expenses) in your Member Account by giving a withdrawal notice in the form or manner prescribed by the Manager. You cannot generally withdraw any amount invested in a current loan, until it is repaid as cash into your Member Account. The Manager may be able to (but does not guarantee to) permit early withdrawal in respect of loan where another Member is willing to substitute and fund the loan. In that event, early withdrawal costs may apply as set out in further detail in section 6 *'What are the fees?'*.

Your investment in the Scheme cannot be sold or transferred to anyone else.

Key drivers of returns

Returns are currently made to Members by way of quarterly interest payments in respect of the loans in a Member's portfolio. The Manager considers that the key current and future aspects of the Scheme that have, or may have, an impact on the performance of a Member's loan portfolio are:

- The interest rates applicable to the loans invested in by a Member: The interest rate payable on a loan may be either fixed or floating at the discretion of the Manager and will be set on the basis of the prevailing market interest rates for similar loans. If the interest rate is a floating interest rate, the Manager may vary the interest rate at its discretion during the term of the investment to align with market conditions in order to ensure the loan funds advanced meet current lending criteria and provide sufficient returns for Members. The Loan Disclosure will state whether the interest rate is fixed or floating; and
- The ability of Borrowers to repay their loans: The strategy the Manager employs to mitigate against defaults and to ensure consistent returns for Members is to lend against secured property that it believes provides a material valuation margin over the value of the loan and to carefully assess the servicing ability of potential Borrowers. Advances will be reviewed immediately on any default and also on renewal of any loan.

See section 2 *'What Obsidian Contributory Mortgage Scheme Invests in'* for further details on the Manager's lending guidelines and for further details on the Key Drivers of Returns.

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Key risks of this investment

Investments in managed investment schemes are risky. You should consider whether the degree of uncertainty associated with investing in individual loans and if their returns are suitable for you. Because each Member chooses the loans to include in their portfolio, the degree of uncertainty regarding returns will vary from Member to Member. The interest rate charged on a loan should reflect the particular risks of the loan. The Manager considers the most significant risk factors that could affect the value of a Member's loan portfolio are:

Property Sector and Economic Risks: A general downturn in the residential, commercial and industrial and rural sector or the property market in Otago, Southland, Central Otago or Canterbury may have an adverse effect on returns to Members by influencing the ability of Borrowers to make payments. If a Borrower defaults and enforcement action is taken, but the sale proceeds are not sufficient to cover in full the invested funds and costs, a Member is likely to receive back less than they invested. This is explained in further detail in 'Borrower Default Risk' below.

Interest rate risk: As described above under 'Key Drivers of Returns', the interest rate is agreed with the Borrower on the basis of the prevailing market interest rates for similar loans. If general market interest rates rise, then the comparative return offered on a fixed interest rate loan through the Scheme may fall as a result, resulting in a lower rate of return to Members compared to other investments. It may also mean that Members invested in a fixed interest rate loan may receive a lower rate of return compared to Members invested in a floating interest rate loan.

Borrower Default Risk: As described above under 'Key Drivers of Returns', a key driver of returns is the ability of Borrowers to repay loans and the Scheme and each loan operates on the basis that a Borrower will be able to repay their loan. If a Borrower becomes unable to meet their payment obligations when due, the Manager may enforce the security held by the Scheme against the Borrower i.e. a mortgagee sale of the property. If enforcement action is taken, there is a risk that there may be a shortfall where the sale proceeds of the security property are not sufficient to cover in full the invested funds and costs incurred by the Manager in enforcing or recovering the repayment of principal interest under the relevant loan. When a Borrower defaults, costs incurred by the Manager, together with any loss of principal and/or interest payments due under the loan arising out of the Borrower's default will be borne by the Members who have an interest in that loan. This may result in a Member receiving a return of lesser value than their initial investment, however in the Manager's view the property would need to sell for significantly less than valuation for this to occur.

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Manager Reliance Risk: The Scheme operates on the basis that Members rely on the Manager's expertise to assess the creditworthiness and the quality of Borrowers when selecting the loans for Members to include in their portfolios. The weight given to the factors considered by the Manager in selecting loans may differ to how a Member would assess the same factors. While certain information the Manager relies on in its assessment will be provided in the Loan Disclosure, Members should be aware that other information such as the Borrower's income and expenses, past credit history and the liabilities and realisable assets of the Borrower will not be made available to Members. Members should also be aware that the Manager both sources the loans for inclusion in portfolios and offers these loans to Members. As described elsewhere in this PDS, the Manager has a duty to act in the best interest of Members in managing the Scheme and has processes in place to manage any conflicts.

Term of Investment and Liquidity Risk: Subject to the terms set out in the Loan Disclosure for each loan, once you have agreed to invest cash in respect of a particular loan you are committed to the investment for the full duration of the loan term (usually 3 years). Once exposed to a loan, your investment is illiquid in nature. It is unlikely you will be able to convert to cash the portion of the principal component of the loan you agreed to fund. You should take this into consideration when deciding to invest.

This summary does not cover all of the risks. You should also read section 5 of the PDS, *'Risks to Returns from Obsidian Contributory Mortgage Scheme'*. The Loan Disclosure for each loan includes the risk information about the particular loan. But you will not be provided with information to independently assess the creditworthiness of particular Borrowers - the Manager makes this assessment.

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What fees will you pay?

The table below summarises the fees and expenses that you will be charged to invest in the Scheme. Further information about how fees are charged is set out in section 6 of this PDS, 'What are the Fees?'. Details of the actual fees which will be charged in respect of loan will be set out in the Loan Disclosure for that loan.

Interest Margin/ Management Fee	<p>The Manager charges an interest margin fee which is typically 12-18% of the interest earned by a Member on each loan funded from the Member Account.</p> <p>The interest margin fee is used by the Manager to pay the ongoing expenses associated with the operation of the Scheme which is why it is also referred to as a management fee. To the extent that the fee is not sufficient to pay the ongoing expenses of the Fund, these expenses will be paid by the Manager and will not be recovered by Members. The interest margin fee may be increased for new investments to cover ongoing expenses.</p>
<hr/>	
Bank Interest Fee	<p>The Manager is entitled to charge a fee generated on money held for a Member from time to time in any interest-bearing account maintained by the Supervisor (or the Nominee). This is currently calculated at the rate of 10% of the interest earned however this may be varied by the Manager from time to time. Any money received prior to investment in a loan will be held in an interest-bearing trust account of the Nominee.</p>
<hr/>	
Early Withdrawal Costs	<p>The Manager may permit a Member to exit a loan before its term, There will be additional costs.</p> <p>Early withdrawal cost will be different depending on the loan the Member is invested in; however, it will typically include the costs of a new valuation, independent solicitor's costs (if required), any other documentation costs, the Managers costs and any further cost that the Manager deems necessary.</p>

The Manager may from time to time, with the prior written approval of the Supervisor, introduce new fees or change existing fees payable under the Scheme, by adding to or amending the description of the fees in the Loan Disclosure for a particular loan.

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How will your investment be taxed?

This scheme is not a portfolio investment entity (PIE). The only tax payable by a Member in respect of a Member's interest in the Scheme is resident withholding tax. The Scheme has been designed on the basis that each Member will be liable for tax in relation to their own Member Account. Members are required to advise the Manager of the rate of resident withholding tax that should be deducted from their interest payments.

Refer to Section 7 of this PDS 'Tax' for further information.

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What Obsidian Contributory Mortgage Scheme Invests in

Key Features of the Scheme

Investment Objective and Strategy

The investment objective is to give Members the opportunity to earn a pre-tax return (but after fees and expenses) of at least 1% per annum higher than the weighted average six-month term deposit rate as published by the Reserve Bank through the Member's loan portfolio. The Manager predominantly selects loans secured by first or second mortgages to achieve this objective. The Manager may invest in a mixture of loans secured by commercial, industrial, residential or rural mortgages. The Manager may also invest in cash and deposits.

The Manager will not select loans for investment unless the following conditions have been met:

1. A registered valuation is obtained confirming the valuer's opinion that the loan-to-value ratio (LVR) is either no more than 66% on a loan secured by a first mortgage or no more than 80% (being typically 66% on first mortgage plus an additional 14% on second mortgage) on a loan secured by a second mortgage.
2. The Borrower meets all requirements under the Anti-Money Laundering and Countering Financing of Terrorism Act 2009.
3. The Board of the Manager has satisfied itself that the proposed investment meets the Scheme's investment strategy and legal requirements as set out in the Statement of Investment Policy and Objectives (SIPO).

The SIPO may only be amended after the Manager has given reasonable prior written notice to the Supervisor and proceeded in consultation with the Supervisor. Any changes to the SIPO will be notified to investors by the Manager and will be available at www.business.govt.nz/disclose.

Scheme Property

Scheme property will consist of interests in loans secured over real property and cash. These will be held by the Nominee for the benefit of Members. The Scheme does not own any of the properties - the properties upon which the Members are advancing loans are owned by individuals, trusts, or companies that have been assessed by the Manager as being suitable to lend money to.

Management of the Scheme

The Scheme is managed by Obsidian Group Limited, a licensed managed investment scheme manager under the FMCA. Key personnel of the Manager are:

CEO of Obsidian Group Limited

Albert Alloo has over 30 years' experience of mortgage lending with Albert Alloo & Sons Solicitors Nominee Company Limited. Albert has extensive experience in this market. Albert is the first point of contact for Members and Borrowers in the Scheme. Albert oversees all aspects of the Scheme and is responsible for all staff members. He also directly reports to the Board on a monthly basis.

Senior Administration Manager of Obsidian Group Limited

Monique McConnon - With her qualifications in mathematics and corporate background, Monique undertakes the day-to-day managing of the Scheme. Monique's corporate background encompasses time at Progressive Enterprises and Mainland Products Limited. This has given Monique a thorough appreciation and understanding of corporate conduct and the day-to-day workings of medium to large businesses, and a further appreciation of how detail is vital for a small to medium sized business to operate.

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Supervisor of the Scheme

Covenant Trustee Services Limited monitors compliance of both the Manager and the Scheme with the Governing Document and the FMCA and fulfils the role of supervisor under the FMCA and the Financial Markets Supervisors Act 2011. Covenant Trustee Services Limited (acting through the Nominee) acts as Custodian.

See section 8, *'About Obsidian Group Limited and others involved in the Obsidian Contributory Mortgage Scheme'* on page 28.

Key drivers of returns

Returns are currently made to Members by way of quarterly interest payments in respect of the loans in a Member's portfolio, however the Manager reserves the right to change the frequency of which interest payments are due (i.e. on a monthly basis). The majority of loans are advanced on an interest only basis without principal being repaid unless by prior agreement with the Board of the Manager.

The Manager considers that the key current and future aspects of the Scheme that have or may have, an impact on the performance of a Member's loan portfolio are the interest rates applicable to the loans invested in by a Member and the ability of Borrowers to repay their loans.

Interest rates: The Manager establishes the interest rate payable on a loan at the time of establishment of the loan with the Borrower. The interest rate payable on a loan may be either fixed (i.e. a fixed rate over the term of the loan) or floating (i.e. a variable rate over the term of the loan) at the discretion of the Manager. The interest rate is agreed with the Borrower on the basis of prevailing market interest rates for similar loans. If the interest rate is a floating interest rate, the Manager may vary the interest rate at its discretion during the term of the investment to align with market conditions in order to ensure the loan funds advanced meet current lending criteria and provide sufficient returns for Members. The Loan Disclosure will state if the interest rate is fixed or floating.

Borrower default: The other key driver of returns is the ability of Borrowers to repay their loans. The strategy the Manager employs to mitigate against defaults and to ensure consistent returns for Members is to lend against secured property that it believes provides a material valuation margin over the value of a loan and to carefully assess the servicing ability of potential borrowers. Advances will be reviewed immediately on any default and also regularly on renewal of any loan. As described under 'Investment Objective and Strategy' above, the Manager has put in place conditions for lending based on the valuation of the secured property. A copy of the registered valuation will be provided with the Loan Disclosure provided to Members.

The Directors of the Manager believe that the model is robust, due to their past involvement with Albert Alloo & Sons Nominee Company Limited, a contributory mortgage lender with a proven track record. Albert Alloo & Sons Nominee Company Limited has been investing client funds in contributory mortgages for over 30 years in the Otago region.

Borrowing

No money has or will be borrowed by the Manager for the purposes of the Scheme.

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Terms of the Offer

Description of product	Your interest in the Scheme is your Member Account.
Membership criteria	<p>To become a Member of the Scheme, you must complete an application and meet the requirements of the Manager (including providing information to meet requirements under the Anti-Money Laundering and opening a Member Account described below). You can open a Member Account at any time. Application forms are available on request from the Manager. The Manager can be contacted at:</p> <p>Obsidian Group Limited 4th Floor, Capitol Building 67 Princes Street Dunedin Email: enquiries@obsidiangroup.co.nz Telephone: 03 425 0642.</p> <p>The decision to accept an application to become a Member of the Scheme is at the sole discretion of the Manager.</p>
Minimum investment amount to open a Member Account	<p>A minimum investment amount of \$50,000 is required to open a Member Account (however, this may be varied at the Manager's discretion and may change in the future). The Manager does not require the \$50,000 to be paid immediately on joining the Scheme. This may be deposited once a Member is ready to invest into their first loan.</p> <p>The Manager may specify a minimum holding for Member Accounts from time to time, at its discretion. Currently there is no minimum holding.</p> <p>There is no fixed price other than the minimum investment amount described above.</p>

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Conditions on Investment

There are conditions attached to all specific loans Members invest in through the Scheme. As each loan investment is different, a separate and unique Loan Disclosure is issued for each loan. The loans will not generally be subject to any financial or other covenants and/or restrictions. We may from time to time require a guarantee or some other security to support the repayment of a loan (see '*How Obsidian Contributory Mortgage Scheme works*').

Conditions on withdrawing your Investments

Although you can request a withdrawal from the Scheme at any time under the Governing Document, this is subject to restrictions.

To withdraw from the Scheme a Member must complete a withdrawal notice, which is available from the Manager. A Member may only withdraw the cash value of its Member Account. An investment in a fixed term loan cannot be withdrawn during the term of the loan unless the Manager arranges repayment solely at its discretion. Because funds invested in loans cannot be redeemed during the term of the loan, Members should not make other commitments for the funds during the term of a loan or until the loan is repaid.

The Manager may also renew loans at its discretion, meaning that the term of the investment (and the restriction on withdrawal) may continue if a Member elects to continue with the investment in that loan for a further term. Any renewal is treated by the Manager and offered to Members in a similar manner to the offer of a new loan. Members do not have to reinvest in a renewal and the renewal can be offered to other Members not currently invested in the loan. If for any reason the loan renewal is unable to be filled with sufficient Member investment, the Manager will seek repayment and if necessary, commence a default procedure against the Borrower.

Liability to Make Further Payment

There is no liability to make further payments in relation to interests in the Scheme.

However, Members may at any time, unless the Manager has closed the offer:

1. pay further amounts into their Member Accounts; or
2. allocate cash in their Member Accounts to available loans.

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Returns Returns are in the form of interest payments. Members are paid interest in their Member Accounts in respect of the loans in their portfolio on quarterly payment dates during the term of the loan. These returns are funded by Borrowers meeting their obligations and making repayments under the terms of their specific loan as set out in the Loan Disclosure for a loan.

Principal on loans is repaid (unless a default occurs) at the end of the term of a loan.

Reporting to Members Members will receive personalised quarterly reports which will provide information on their Loan investments, the rate of return earned on their Loan investments and information on any cash held in their Member Account. Members will also receive an annual report on their Member Loan Portfolio. The annual report will include information on any overdue payments and defaults in respect of loans in the Scheme and the annualised return of the Scheme's total loan portfolio.

Additional information Additional information regarding the Scheme is contained in the Governing Document and the SIPO. Copies of these documents can be obtained from the Disclose Register, on the Manager's website at www.obsidiangroup.co.nz and on request from the Manager. Additional information regarding the terms of a loan will be set out in the Loan Disclosure for that loan.

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How the Obsidian Contributory Mortgage Scheme works

Significant Features of the Scheme

Figures 1 and 2 on page 16 and 17 provide an overview of how the Scheme works and relationships between the parties involved.

Figure 1: Overview of how the Scheme works and the parties involved

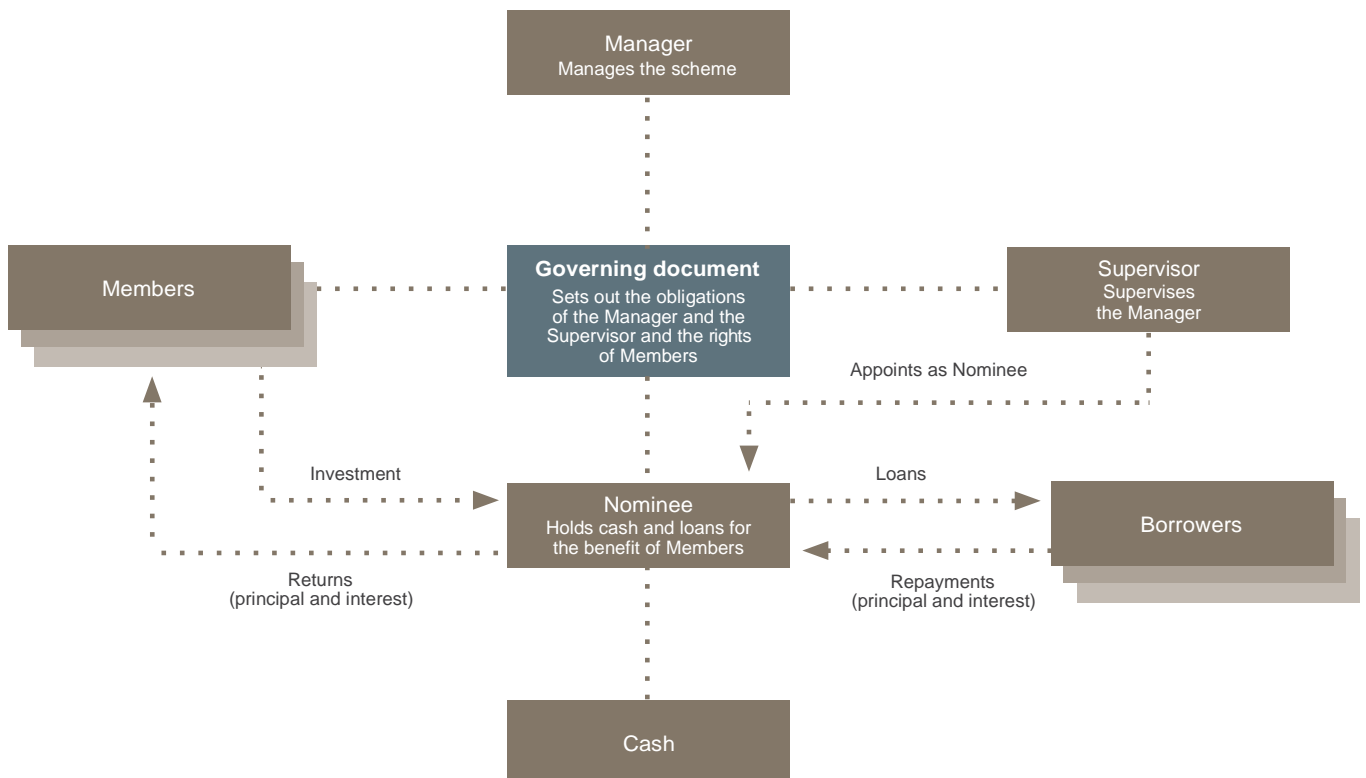
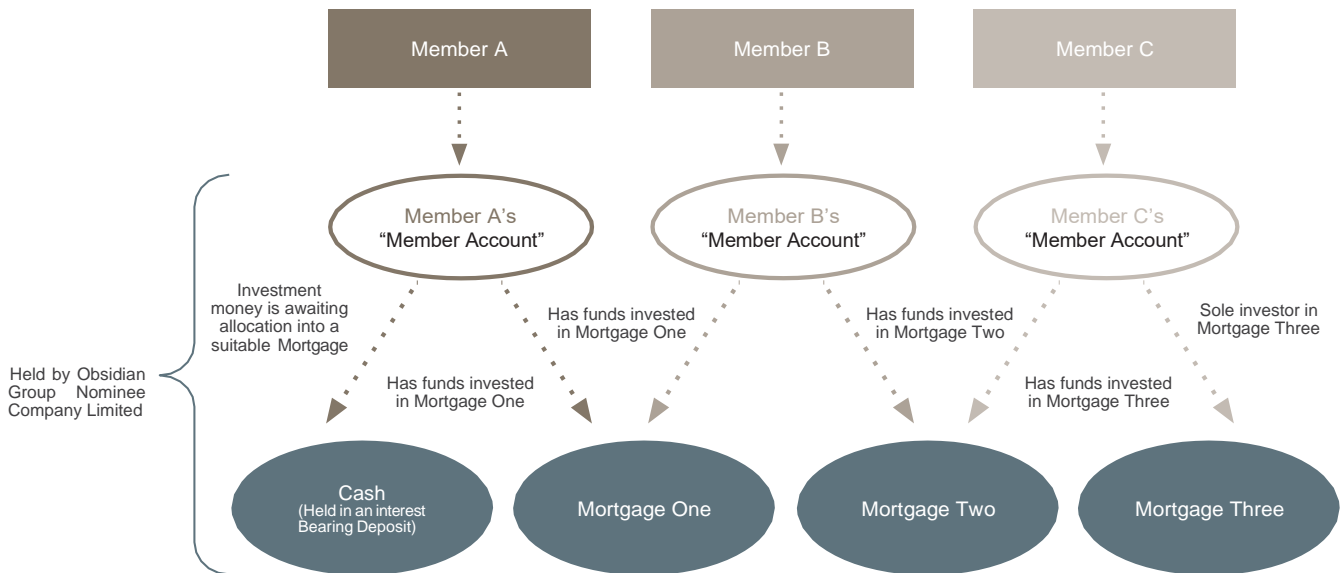


Figure 2: Scheme assets held by the Nominee



How the Scheme Works

A Member Account is established by the Manager at the time a Member subscribes for an interest in the Scheme.

Members invest in the Scheme by making contributions into their Member Account.

Members use the cash deposited in their Member Account to invest in loans secured by mortgages, which they choose to be in their portfolio. A Member Account includes the Member's beneficial interest in:

- any loans in which the Member has invested;
- an accretion to or income from those loans not paid out to the Member; and
- any amount of cash held (including in the trust account of the Nominee) for that Member.

When more than one Member has invested in a loan, the proportionate beneficial interest of each Member is calculated by the amount of their contribution against the total principal value of the loan. This proportion is used to calculate each interest in a loan and the proportionate entitlements to income and benefits created from any early or overdue repayment of a loan.

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Members do not directly advance loan monies, rather the Nominee (on behalf of the Scheme) is the lender of record for each loan. Because Members have appointed the Manager and the Supervisor severally as the Member's agent to manage the loans under the terms of the Governing Document, Members cannot give any direction to the Nominee without the prior written consent of the Manager (which the Manager may give or withhold at its discretion).

Members will be approached on an 'as available' basis at the discretion of the Manager and, if approached, will be given a Loan Disclosure for the loan investment. There is no guarantee that the Manager will offer all loans or any particular loan investment opportunity to you. By becoming a Member, you are able to participate in loans when offered, but the Manager does not guarantee a particular minimum level of investment to you. When the Manager offers a loan investment in the Scheme to a Member, the offer will remain open until the funds required for that loan are satisfied in full and the funds are advanced to the Borrower. The Member will be advised of key dates to agree to a specific loan and to forward funds if these are not already held by the Nominee. If funds are not already held by the Nominee, the Member must ensure funds are available in time for the loan to be advanced on the date advised by the Manager.

There are conditions attached to all loans Members invest in through the Scheme. As each loan investment is different a separate and unique Loan Disclosure is issued for each loan. The Manager is required to include certain information in the Loan Disclosure under the terms of the exemption granted to the Manager for offers of investments in the Scheme. This includes information regarding the term of the loan, the interest rate payable, the mortgage or other security supporting the loan and its value, and risks that are specific to the loan, relevant fees and expenses and other important information.

You will need to read both the Loan Disclosure and this PDS to understand the overall risks and fees that will apply to your loan portfolio.

The Manager selects the loans Members can choose to include in their portfolio. The Manager also arranges and administers the loans. In relation to each proposed loan, the Manager will carefully assess the amount of borrowing against both servicing ability and security value to support the borrowing. The Manager will assess the reason for funding and (if relevant) will also assess a business case. Credit checks are completed on each Borrower by Equifax Limited and this information will be available to Members on request.

Quarterly interest payments will be made into each Member Account in proportion to their interest in a loan (after fees, taxes and expenses). On maturity of a loan, a Member's interest in a loan will be repaid as cash into their Member Account.

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Each loan typically has a maximum term of three years and is interest only. The loan term may be for a longer period and if so, this will be disclosed in an individual specific Loan Disclosure statement. All loan repayments are closely monitored by the Manager and any default payments are quickly addressed. This investment only provides income plus repayment of initial capital (subject to market conditions and Borrower ability to repay). There is no capital gain with this investment. Repayment of capital advanced is made at the end of the loan term. The cash in a Member Account can be withdrawn by the Member at any time.

If the Borrower is unable to repay the capital at the expiry of the loan, then the Manager has a number of options to recover the funds.

The default process is tailored to every particular loan however, it typically follows the following path:

1. If a Borrower's inability to repay interest in a timely way is reported to the Board (typically after a quarter interest payment is in arrears for one month);
2. The Board then instructs the CEO to instruct an independent solicitor ; to
 - a. Issue a Property Law Act 2007 (PLA) notice of the default;
 - b. Attempt to resolve PLA notice;
 - c. If the PLA notice is not rectified, begin the mortgagee sale process

Significant Benefits of Investing in the Scheme

Members of the Scheme are able to take advantage of the experience of the directors of the Manager in selecting suitable mortgages to provide exposure to an interest-bearing investment, while having the ability to create their own individual loan portfolio.

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Legal Structure

The Scheme is a registered Managed Investment Scheme-other under the FMCA.

The Scheme was established by a Governing Document between the Manager and the Supervisor dated 14 June 2018. A copy of this document is available from the Manager on request and on the Disclose Register www.business.govt.nz/disclose as well as Obsidian Group Limited's website www.obsidiangroup.co.nz.

Assets from the Scheme are not available to meet potential individual losses on specific loans. Each specific loan is a stand-alone advance with the risk associated to the member being a loss on that specific loan.

As with most managed investment schemes, the Supervisor, the Manager or any Nominee are entitled to be indemnified from the Scheme in respect of any debt, liability or obligation incurred by or on behalf of the Scheme and Members or any action taken or omitted in connection with the Scheme. While it is unlikely that this indemnity would ever be called in given professional indemnity insurance held by the Manager, if it were it would be a debt owing by the Scheme and could proportionally decrease the value of all investments, on repayment.

Related Party Benefits

From time to time related parties of the Manager may invest in loans through the Scheme. This may occur in situations where, for example, personnel of the Manager act as a trustee of a trust that wishes to invest or borrow through the Scheme. Any such related party investment or borrowing will, at all times, be conducted at arm's length and only in accordance with the FMCA (which may require the prior approval of the Supervisor) and the Manager's conflict of interest policy.

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Risks to Returns from Obsidian Contributory Mortgage Scheme

The Manager is aware of risks that may exist or are likely to arise that may significantly increase the risk to returns for Members. These risks may apply to the Scheme as a whole or will depend on a particular loan. The key Scheme and loan risks identified by the Manager that could affect the value of a Member's loan portfolio are:

Scheme Risks

Property Sector and Economic Risks

The Scheme provides loans in the residential, commercial and industrial, and rural sectors. Each of these sectors has its own particular risks. A general downturn in the economy or in one or more of these sectors may have an adverse effect on returns to Members by influencing the ability of Borrowers to make repayments.

In the commercial and industrial sector, income from properties will be derived from rent paid by tenants. An economic downturn in Otago, Southland, Central Otago or Canterbury could mean that tenants in a secured property are unable to meet rent payments. This consequence would affect the Borrower's cash flow and ability to make interest payments. As such, it could result in default.

Rural lending is likely to be impacted by the general state of the economy in Otago, Southland, Central Otago or Canterbury. Rural lending will also be impacted by rural commodity prices. When rural commodity prices fall, the income earned by a Borrower in the rural sector will likely fall. This increases the chances of that Borrower defaulting. The reverse is true when rural commodity prices increase.

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Residential lending is also likely to be affected by the general state of the economy in Otago, Southland, Central Otago or Canterbury. A weaker economy is more likely to lead to a Borrower defaulting. Often, default may be caused by loss of employment or other opportunities to earn income in an economic downturn.

Falling property values may mean that the security margins of the Scheme are lessened, and a specific Loan may exceed the value of the secured property. If a Borrower defaults and enforcement action is taken, but the sale proceeds are not sufficient to cover in full the invested funds and costs, a Member is likely to receive back less than they invested. This is explained in further detail in 'Borrower Default Risk below'.

Interest-only Risk

Payments made during the term of loans are, in most cases, interest only. Unlike some other loans (in particular, those made by trading banks), there is no component of principal in these payments. In very rare cases there may be provision to allow for principal repayments on a quarter. As such, the loans made by the Scheme may be considered riskier than those that require principal repayments during the term. This is due to the fact that the whole amount of the principal (as opposed to a declining amount) remains outstanding at the end of the loan. The Manager seeks to mitigate this risk by lending within the loan valuation restrictions set out under "*Investment Objective and Strategy*" on page 10.

Nominee Tax Risk

The Scheme has been structured so that Members will be liable for tax in relation to their own Member Account under section YB 21 of the Income Tax Act 2007. If this is the incorrect treatment for income tax purposes, the Nominee could be required to pay tax on behalf of the Members in the Scheme. The tax payable would depend on the re-characterisation of the Nominee, whether as a trustee, company, or otherwise, such that the tax treatment of Members will differ to that described in this PDS and Members would not pay tax at their resident withholding tax rate but at the tax rate of the trustee, company or otherwise.

Manager Reliance Risk

The Scheme operates on the basis that Members rely on the Manager's expertise to assess the creditworthiness and the quality of Borrowers when selecting the loans for Members to include in their portfolios. As described later in this PDS, the Manager exercises a flexible approach and mitigates risk as far as possible by looking at a number of factors including whether there is sufficient equity to provide security, ability to pay, the quality of the Borrower (including, for example in the case of a company, the people running the company) and the registered valuer's report. The weight given to some of these factors by the Manager may differ to how a Member would assess the same factors. Members should be aware that some of the information the Manager relies on in its assessment will not be made available

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to Members, this includes information such as the Borrower's income and expenses, past credit history and the liabilities and realisable assets of the Borrower. Members should also be aware that the Manager both sources the loans for inclusion in portfolios (thereby having a relationship with the Borrowers) and offers these loans to Members. As described elsewhere in this PDS, the Manager has a duty to act in the best interest of Members in managing the Scheme and has processes in place to manage any conflicts.

Loan Risks

Interest Rate Risk

As described above under 'Key Drivers of Returns', the interest rate is agreed with the Borrower on the basis of the prevailing market interest rates for similar loans. If general market interest rates rise, then the comparative return offered on a fixed interest rate loan through the Scheme may fall as a result, resulting in a lower rate of return to Members compared to other investments. It may also mean that Members invested in a fixed interest rate loan may receive a lower rate of return compared to Members invested in a floating interest rate loan.

Borrower Default Risk

A Borrower from the Scheme may default by not paying interest instalments when due or by failing to pay the loan balance at the end of the loan term.

Borrower default has the following potential consequences:

- Negative cash flow impact. There will be insufficient cash flow to pay a specific Member the interest earned on that Member's specific investment through the Scheme.
- Enforcement of security held by the Nominee of the Scheme, including a mortgagee sale of the property. The sale price achieved on mortgagee sale is often less than on an 'open market sale'. On rare occasions, it may be less than the loan amount. The property would need to sell for significantly below valuation before any loss occurs. The enforcement costs of a mortgagee sale will be borne by the mortgagor. If there were a shortfall, they would apportion on a pro rata basis with the Member. Therefore, if a property sold for less than its valuation, the affected Members may receive less than their original investment in the loan. In the Manager's view, the property would need to sell for significantly less than valuation for this to occur. The Manager mitigates this risk by setting a lending policy and resulting loan to value ratio, due diligence, legal enquiries, credit checks and evaluation of the Borrower and security property.

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Subdivision and Development Lending Risk

The Manager may advance funds secured on bare land. In the future, the Manager may also grant loans for development purposes. For loan applications of this nature, the Manager will exercise a high degree of caution in considering the cash coming into the sub-division or development, the character and experience of those involved in the sub-division or development, the registered valuation, and in the case of a sub-division, comparative sales. This is because historically subdivisions and developments carry a higher level of risk as a lot can go wrong. For a development loan, the Manager will require that the building works be very specifically defined and comprise an extension to an existing building. A loan for a new development would only be provided in very limited circumstances. The Scheme does not take on the risk of development, only the underlying land asset. Any improvements on the land that are being changed or built on are not considered in the security value. At any stage of a development the underlying land security must meet standard lending criteria and be readily saleable sufficient to repay in full the loan principal, interest and any costs.

Concentration Risk

Members will only be able to invest in loans primarily secured by mortgage, in regions throughout New Zealand, through the Scheme and not in other types of investment. Each loan will carry its own level of risk. If a Member invests in one loan, and that Borrower defaults, the Member may be impacted negatively. Investment over a range of loans may decrease that risk - so your investment is not confined to one borrower.

In addition, because the Scheme only offers loan investments there is a risk that if a Member only invests through the Scheme, they will suffer loss if there is a downturn in the economy in the relevant regions.

Term of Investment and Liquidity Risk

Subject to the terms set out in the Loan Disclosure for each loan, once you have agreed to invest cash in respect of a particular loan you are committed to the investment for the full duration of the loan term (usually 3 years). Once exposed to a loan, your investment is illiquid in nature. You are likely to be unable to convert to cash the portion of the principal component of the loan you agreed to fund. You should take this into consideration when deciding to invest.

Members should not commit funds for other purposes until either the loan is repaid, or the term of the loan extended.

Any additional loan specific risks (for example based on the type or nature or the loan or property being provided as security) will be set out in the Loan Disclosure provided to Members in respect of each loan.

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What Are the Fees?

You will be charged fees for investing in the Scheme. Fees are deducted from your investment and will reduce your returns. The fees you pay will be charged as follows:

Manager's Fees

Interest Margin /Management Fee

The Manager charges a management fee of a percentage of the gross amount of interest paid on a loan held which is held in the Member Account. This interest margin/management fee is typically 12-18%, however, this may be varied by the Manager.

The fee will be as set out on the Loan Disclosure and will be deducted from quarterly interest payments made by the Borrower to the Scheme, before the balance is paid to the Member's Account.

The interest margin fee is used by the Manager to pay the ongoing expenses associated with the operation of the Scheme which is why it is also referred to as a management fee. To the extent that the fee is not sufficient to pay the ongoing expenses of the Fund, these expenses will be paid by the Manager and will not be recovered from Members. The interest margin fee may be increased for new investments to cover ongoing expenses.

Bank Interest Fee

The Manager is entitled to charge a fee generated money held in any interest-bearing account maintained by the Supervisor (or the Nominee). This is currently calculated at the rate of 10% of the interest earned however this may be varied by the Manager from time to time. Any money received prior to investment in a loan will be held in an interest-bearing account of the Nominee.

This fee will be deducted from the gross interest received in respect of Member funds held in interest bearing bank accounts, and will be deducted at the time any such interest is received by the Scheme before the balance is paid to the Member's Account.

Early Withdrawal Costs

The Manager may permit a Member to exit a loan before its term. There will be additional costs which will be borne by the Member exiting the loan.

Early withdrawal costs will be different depending on the loan the Member is invested in; however, it will typically involve:

- a. the costs of a new valuation;
- b. the costs of an independent solicitor if required;
- c. the Manager's costs, any other documentation costs and any further costs that that the Manager deems necessary.

The Manager may from time to time, with the prior written approval of the Supervisor, introduce new fees or change existing fees payable under the Scheme, by adding to or amending the description of the Scheme's fees in the Loan Disclosure for a particular loan.

Because of how the Scheme works and the nature of the fees charged through the Scheme, we cannot make a reasonable aggregate estimate of fees and expenses to be charged now or in the future. Aggregate estimated fees will be different for each Member.

The Fees can be changed

The Manager may increase its fees. It will provide Members with notice prior to making such an increase.

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Tax

The only tax payable by a Member in respect of a Member's interest in the Scheme is resident withholding tax. The Scheme is taxed on the basis that the Nominee holds Member Accounts on bare trust for each Member, with each Member irrevocably appointing the Manager and the Supervisor severally under the Governing Document as the Member's agents with full discretion to give any directions to the Nominee, which is required for the purposes of managing the loans. Members may not direct the Nominee without the prior consent of the Manager (which the Manager may give or withhold at its discretion). The effect of the Member Accounts being held on bare trust is that the Nominee is not required to pay tax on behalf of the Members in the Scheme, instead, each Member will be liable for tax in relation to their own Members Account under section YB 21 of the Income Tax Act 2007.

Members are required to advise the Manager of the rate of resident withholding tax that should be deducted from their interest payments.

The Manager has received advice that this is the appropriate tax treatment. If Inland Revenue had a different view this would affect the way in which Members are taxed for their investment in the Scheme.

Taxation can have significant consequences for Members' investments. If a Member has queries regarding the tax consequences of an investment in the Scheme, we recommend that the Member obtains their own professional advice on those consequences. New Zealand tax laws are both complex and subject to change.

About Obsidian Group Limited and others involved in the Obsidian Contributory Mortgage Scheme

About the Manager

The Manager of the Scheme is Obsidian Group Limited. The Manager can be contacted at:

Obsidian Group Limited
4th Floor, Capitol Building
67 Princes Street
Dunedin 9016

Email:
enquiries@obsidiangroup.co.nz

Telephone:
03 425 0642, or
021 799 719

The business of the Manager is to act as Manager of the Scheme and any other mortgage funds established by the Manager. The Manager continues the contributory mortgage lending previously undertaken by Albert Alloo & Sons Solicitors Nominee Company prior to September 2016.

The Manager's lending activities cover the residential, commercial, rural and mixed-use property sectors and the Manager focuses on lending opportunities which do not meet normal banking criteria. This is as a result of Banks' changing the way in which they lend and becoming more rigid in their processes.

As a licensed managed investment scheme manager, the Manager is required to act in the best interest of Members and not let its interests' conflict with those of Members. For example, personnel of the Manager may have existing relationships with Borrowers, and in these circumstances the Manager must ensure it puts Members' interests first. When considering lending opportunities, the Manager focuses on whether there is sufficient equity to provide security. The Manager exercises a more flexible approach and mitigates risk as far as possible by looking at a number of factors including ability to pay, the quality of the Borrower (including, for example in the case of a company, the people running the company) and the registered valuer's report.

The Manager is permitted to lend to related parties in limited circumstances, and only in accordance with the FMCA and its Conflict of Interest policy. This may occur in situations where, for example, personnel of the Manager act as a trustee of a trust that wishes to borrow or invest money.

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Performance

The performance of any investment or the rate of return on capital (if any) in the Scheme is not guaranteed by any person, including the Manager, the Nominee and the Supervisor, nor any of their directors, employees or agents.

Directors of the Manager

- Albert Peter Alloo has been involved in mortgage lending with Albert Alloo & Sons Nominee Company Limited for over 30 years and has significant experience in this field.
- Charles Julian Crow is an independent Director of Obsidian. He is a New Zealand qualified Chartered Accountant and currently a Director and Partner of the accounting and advisory firm Moore Markhams Otago Limited. He brings to Obsidian a significant level of compliance and accounting knowledge and experience in the field of commercial property investment.

Who Else is Involved?

	Name	Role
Supervisor	Covenant Trustee Services Limited	Monitors compliance of both the Manager and the Scheme with the Governing Document and the FMCA and fulfils the role of supervisor under the FMCA and the Financial Markets Supervisors Act 2011.
Custodian	Covenant Trustee Services Limited (acting through the Nominee, Obsidian Group Nominee Company Limited)	Holds all the assets of the Scheme through the Nominee.

How to Complain

Complaints about the Scheme can be made to:

The Manager

Obsidian Group Limited
4th Floor, Capitol Building
67 Princes Street
Dunedin
Telephone: 03 425 0642
Attention: The Directors
Email: enquiries@obsidiangroup.co.nz

The Supervisor

Covenant Trustee Services Limited
Level 6 191 Queen Street
Auckland 1010
Telephone: 09 302 0638
Facsimile: 09 302 1037
Attention: General Manager
Email: team@covenant.co.nz

Approved Dispute Resolution Scheme

The Manager is a member of Financial Services Complaints Limited (FSCL). If you complain and your complaint is not resolved satisfactorily after contacting either the Manager or the Supervisor, then you can refer your complaint to FSCL at:

Level 4, 101 Lambton Quay
Wellington 6145
Telephone: 0800 347 257
Email: info@fscl.org.nz

FSCL will not charge a fee to any complainant to investigate or resolve a complaint.

Where You Can Find More Information

Further information relating to the Scheme and the interests offered in the Scheme is available on the offer register and the scheme register. A copy of the information on the offer register or scheme register is available on request to the Registrar.

The website address for the offer register and scheme register is www.business.govt.nz/disclose.

You may request, at any time, copies of the Governing Document, the most recent financial statements, and the most recent annual report for the Scheme by contacting the Manager on:

- Obsidian Group Limited, 4th Floor, Capitol Building, 67 Princes Street, Dunedin
- enquiries@obsidiangroup.co.nz
- Telephone: 03 425 0642

You may also email enquiries@obsidiangroup.co.nz or visit the Manager's website www.obsidiangroup.co.nz.

Copies of the above documents will be provided free of charge on request to the Manager. They are available for public inspection at the offices of the Manager at Obsidian Group Limited, 4th Floor, Capitol Building, 67 Princes Street, Dunedin and on the offer register and may also be requested from the Manager via email, fax, telephone or mail.

Members will receive personalised quarterly statements which will show where their investment is held, the funds invested, the interest rate received, and the fees deducted.

How to Apply

Investments in the Scheme can be made by completing the application form that accompanies this document and submitting that form to the Manager confirming that, on the Manager's acceptance of an application to become a Member, funds are available to invest as required pursuant to a Loan Disclosure. You must send the application form, together with any other required identity documents and your payment to:

Obsidian Group Limited
4th Floor, Capitol Building
67 Princes Street
Dunedin

The Manager may, at its discretion, also accept emailed applications sent to:
enquiries@obsidiangroup.co.nz

The Manager may in its absolute discretion accept or reject any application. Members can increase their investment by making further contributions to the Member's Member Account from time to time by making payments to the Manager or as directed by the Manager.

Obsidian Group Limited's Directors and staff do not provide investment or financial advice to Members or the general public. Obsidian Group Limited does not know the extent of Members' individual financial position or requirements. Members should only invest in the investment after giving careful consideration to their personal needs, the risks of this form of investment and personal investment strategy. Before making any investment, Members should seek advice from an independent Financial Advice Provider.



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