NORFOLK

Norfolk Mortgage Trust

Fund Update for Dec 2017

DIRECTORY

Directors

Jack Porus BCom LLB
Craig Urquhart BBS Banking and Finance
Stu Smith Dip Finance and Banking
Alastair Flett BCom, B Ag, CA

Manager

Glenys Holden LLB

Website

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Companies Office Disclose Register

www.companiesoffice.govt.nz

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1. WHY SHOULD I INVEST WITH NORFOLK?

- Norfolk is a managed fund that spreads your investment across a range of mortgages over New Zealand property.
- An experienced manager administers the fund and chooses the investments - you do not require in depth knowledge.
- Norfolk is a PIE fund with a maximum tax rate of 28.0%.
- All funds are distributed with tax paid.
- Interest on your investment is paid monthly.
- Our funds are run by New Zealanders for New Zealanders.
- We know our Investors and we provide competitive returns.
- Norfolk invests in New Zealand's future.

Norfolk is looking for further investments. If you would like to discuss this investment opportunity please give us a call on 0508 777 707. Please pass this onto to anyone who may be interested.

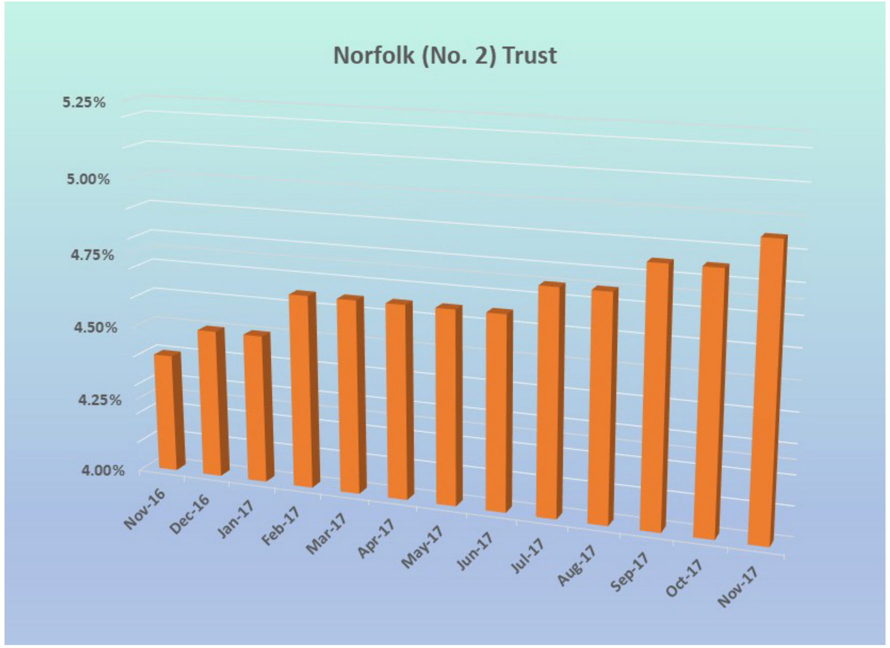
2. FUND UPDATE

Welcome to the first Norfolk Investor update. We would like to welcome the Investors of PMIT who are now part of Norfolk Group in Norfolk (No. 2) Trust. It has been a very busy and productive time for Norfolk Group. Over the past 12 months we have transitioned to a PIE tax structure and attained registration with the Financial Markets Authority.

We have been able to offer competitive returns compared to the main banks' 3 - 12 month term deposit rates with gross returns for Norfolk Mortgage Trust of 6.0% pa and Norfolk (No. 2) Trust currently providing a return of 4.95% p.a. , representing an increase of +0.45% p.a. over the past year.

For more information about Norfolk Mortgage Trust visit our website at www.norfolktrust.co.nz. You can also find our quarterly updates on the Companies Office Disclose Register at www.companiesoffice.govt.nz by searching Norfolk Mortgage Management Limited under Issuer.

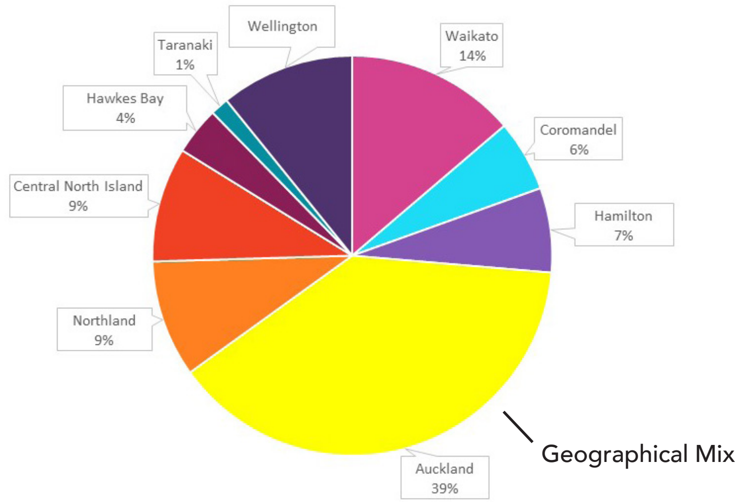
3. INVESTMENT RETURNS

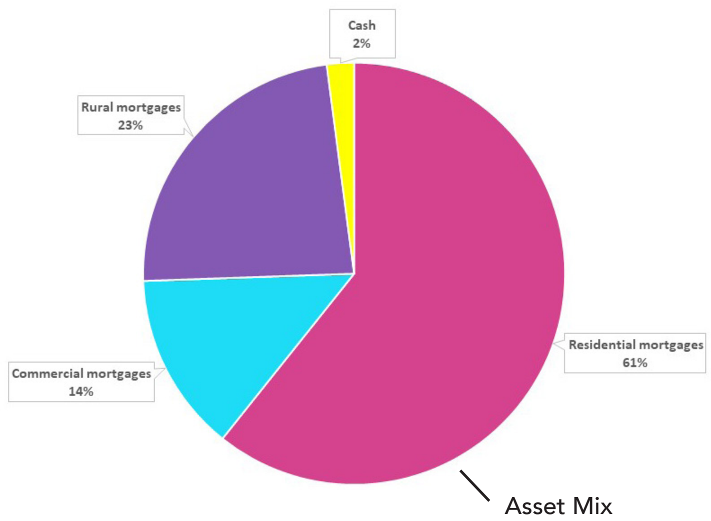


The returns for Norfolk (No. 2) Trust have continued to improve over the past 12 months. Further, we will soon be issuing bonus units to our Investors in Norfolk (No.2) Trust to reflect the improvement in the fund's performance. Under the Group Investment Fund this would equate to an increase in the unit price from .9400 to a unit price as at the end of October 2017 of .9503. However, the PIE structure does not permit in an increase in the unit price, therefore bonus units will be issued to to reflect the fund's performance.

* Past performance is no indicator of future performance.

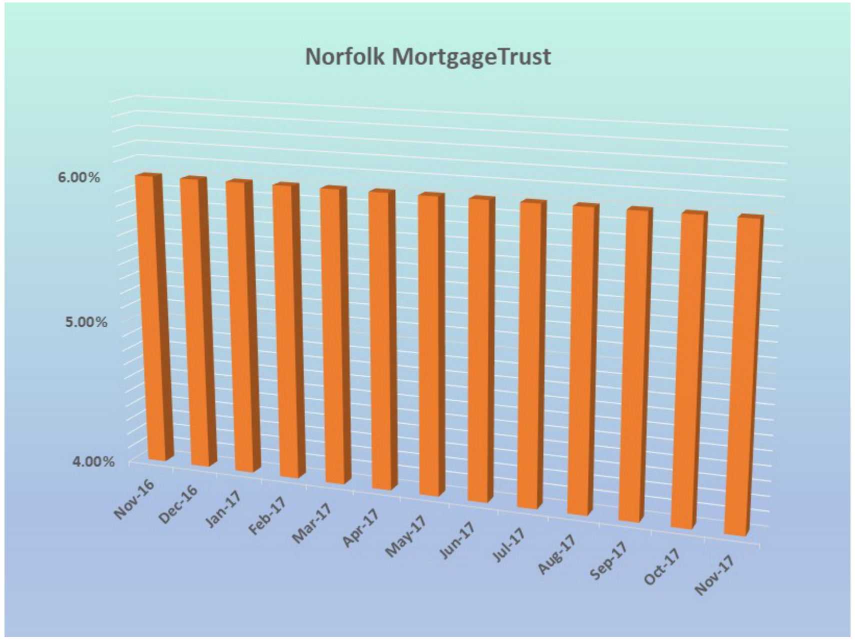
4. NORFOLK (NO. 2) TRUST





• The average loan to value ratio for Norfolk (No. 2) Trust loans is 41.44%

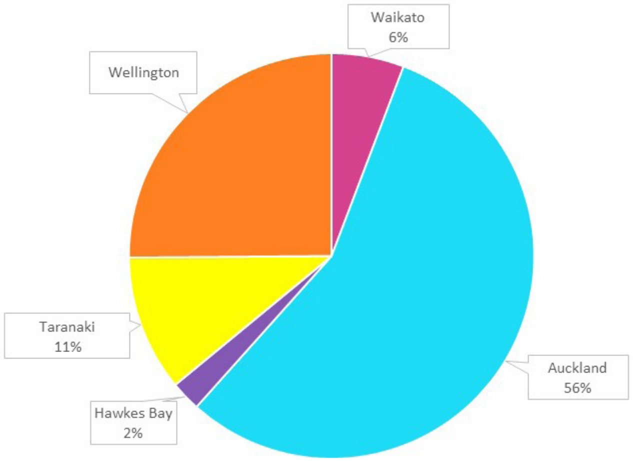
HISTORICAL GROSS ANNUAL RETURNS FOR NORFOLK MORTGAGE TRUST



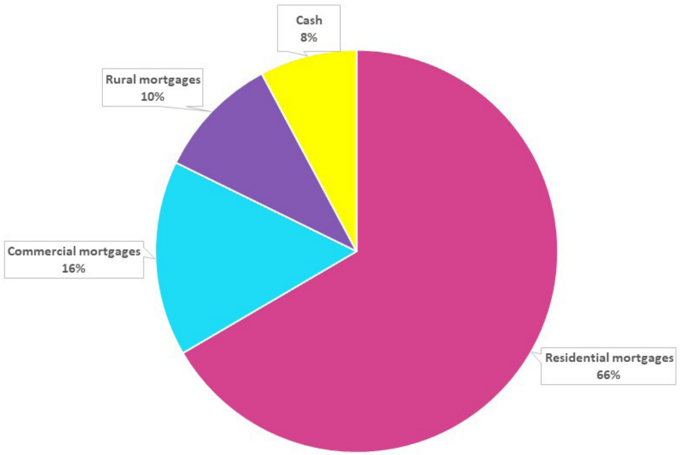
Norfolk Mortgage Trust has continued to perform well and we have been able to maintain a steady 6.0% p.a. gross return to our investors.

* Past performance is no indicator of future performance.

NORFOLK MORTGAGE TRUST



Geographical Mix



Asset Mix

• The average loan to value ratio for Norfolk Mortgage Trust loans is 50.38%

5. FAMILY TRUSTS - ARE THEY RIGHT FOR YOU?

There are an estimated 400,000 trusts in New Zealand. Trusts remain popular as a way to hold family assets.

A family trust is a separate legal entity which takes ownership of assets from a settlor. In most cases a trust will be a holder of passive assets. If a trust is earning income it does not have to be GST registered if it does not meet the minimum income threshold. It may not need to have annual trading accounts prepared.

In every situation the settlor of the trust should have an express objective or reason for setting up a trust. The settlor should complete a memorandum of wishes to advise the trustees on the operation of the trust both whilst the settlor is alive and when he/she has passed on. A trust is an entity that can endure to a defined date or as long as the trustees wish, or possibly as directed by the settlor.

The benefits of a trust can include;

• Protection of selected assets (such as a family home) from claims by creditors or to ensure that assets are held for the family beyond the settlor's lifetime
• Management of any risk of unwanted claims on the settlor's estate (as can occur if a will is challenged)
• Provision of funds for a specific purpose – such as grandchildren's education
• Distribution of trust income to beneficiaries (tax would then be paid by each beneficiary at their marginal tax rate). Currently any profit retained by the trust will attract income tax at the rate of 33%

A trust is usually made up of;

1. A settlor. This party provides assets to the trust by way of sale or gift. In most cases the settlor can be a trustee (or advisory trustee) and also a beneficiary

2. Trustees. The trustees hold the assets of the trust and are responsible for the management and investment of these assets. In a normal family trust it is usual for the settlor(s) to be trustees and often they are joined by an independent person who is often a professional advisor. In some cases a company is used in the role as a trustee.
3. Beneficiaries. The assets of the trust are held for the benefit of this group.
4. A trust deed. This document will spell out the people involved, the intent of the trust and how the trust will operate.

There are costs associated with the setup of a trust – usually the drafting of a trust deed and registration with the IRD (if needed). There may be operational costs using a professional trustee, attending meetings, preparing minutes of meetings, completing annual accounts and tax returns where required.

The management of a trust should be undertaken with care to minimise risk. The trust must be operated as a separate legal entity and the trust assets should not be intermingled with other personal assets. Typically this would include conducting meetings and documenting minutes, operating a separate bank account and possibly completing annual accounts.

It is critical that the selection of trustees is carefully thought out. Trustees have a high level of discretion so they need to be people in whom the settlor or settlors have confidence that they understand and will carry out the management and distribution of the assets in the intended manner. They should manage the trust in accordance with the terms of the trust deed, have regard to the memorandum of wishes and what is of most benefit to the beneficiaries.

Trustees ideally should have an alignment of the thoughts, ideas and standards of the settlor as they are likely to continue this role beyond the death of the settlor. Most importantly trustees need to be pragmatic. If you are asked to be a trustee consider this request carefully. There should be no upside for a professional trustee (other than possibly fee income).

The operation of a trust should be treated as a stand alone entity. A settlor cannot use assets that they have transferred to a trust as personal property. Once transferred, the settlor has lost direct control of these assets.

If you are considering setting up a trust do your own research and seek professional advice from people such as your accountant and solicitor. One good reference on this subject is a short book titled ***Family Trusts – A New Zealand Guide written by Martin Hawes.***

Disclaimer
Stu Smith is a director of Norfolk Mortgage Management. He is not a solicitor or an accountant. He has 30 years of banking and finance experience and has seen a wide range of uses of trusts – most which work well, and some that do not. He is a trustee of his own a family trust that holds long term passive assets. He also acts as a professional trustee for several trusts.

6. NORFOLK MORTGAGE MANAGEMENT LTD

Director Profile - Jack Porus

Jack Porus is Chairman of the Board of Norfolk Mortgage Management and has been the Managing Partner of Glaister Ennor, a well respected Auckland law firm, for over 30 years. Jack brings a wealth of experience in property investment, commercial law and business advisory work with both private and public companies and investors. Jack is the director of a number of substantial companies and a trustee of both personal and charitable trusts.

Jack and his wife have two sons and enjoy travelling.

Happy to Help

Drop us a line or send us your questions, comments or suggestions, and we will respond as quickly as possible.

We would like to take this opportunity to wish all our Investors a healthy, happy and prosperous Christmas and New Year.

Thank you for your trust in Norfolk and your continued support.

We look forward to a successful 2018.

Merry Christmas from everyone at Norfolk.

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