DomaCom
Equity Release Product

ERP Qualified Adviser

DomaCom

DomaCom.com.au

DomaCom Equity Release Product

Adviser Accreditation Program

Study Guide Module 1

v2:3

Module 1: Equity Release Suitability

1.1 ERP Clients: Needs, Preferences and Circumstances

Fractional property investment is separating the ownership of a property including the income and capital growth to create Fractional Property Interests.

Fractional property investing can be a suitable strategy for people in a variety of different situations, stages of life or financial position. It works just as well for property owners as it does for aspiring property investors, in fact, the two can exist harmoniously in a beneficial relationship. People attracted to fractional property investing include:

- General Property investors
- SMSF trustees
- Property trust investors
- Retirees
- Auction vendors
- Developers

Senior Australians are living longer, have their personal wealth concentrated in home ownership and want to stay in their own home. Research shows this is both beneficial for them and cost-effective for the federal budget.
It is the Asset Rich but Cash Poor scenario that when combined with the desire to "Stay in Place" rather than "Sell and Move Away", establishes the need for a robust Home Equity Release market in Australia.

1.1.1 Longevity Expectations

According to the Australian Bureau of Statistics (ABS), since the late 1800s, life expectancy for Australians has increased by over 30 years. During 1881-1890, the average life expectancy of a newborn male was 47.2 years and that of a newborn female 50.8 years. By 2007-2009, average life expectancy had risen to 79.3 years for newborn males and 83.9 years for newborn females.

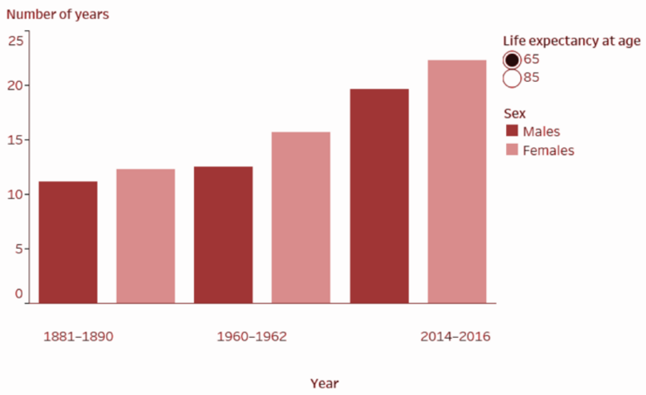
Actuaries Institute reports that:

…retirees aged 65 now (i.e. in 2010) will live to 86 for men and 89 for women.

So rather than living 14 years after 65, men are expected to live 21 years i.e. 50% longer! Similarly women will be living 26% longer!

By 2050 the average life expectancy for people aged 65 is projected to have improved to 92 for men and 93 for women.

Figure 1: Life expectancy at age 65 and 85 years by sex, 1881–1890, 1960–62 and 2014–16



Source: AIHW [2,3]

This is an average. Many will live longer than this.

With Australians living longer they are likely to spend longer in retirement than did previous generations. This extended time in retirement is leading to longevity risk being one of the biggest risks facing retirees.

Longevity risk refers to the risk of outliving your savings and arise as people enter retirement, generally with a fixed amount of money to fund their retirement years (either in the form of a lump sum or pensions), but with no idea of how long they will live and, therefore, no idea how long their money needs to last.

One solution to tackle the longevity risk, according to Bell (the director of St David's Road Advisory) as quoted in Investment Magazine's 21 January 2013 article '*Tackling longevity risk in post-retirement*', could be the family home.

"The reality is that for many people the family home will be a large portion of their asset base, and it is very important that asset is worked hard," said Bell.

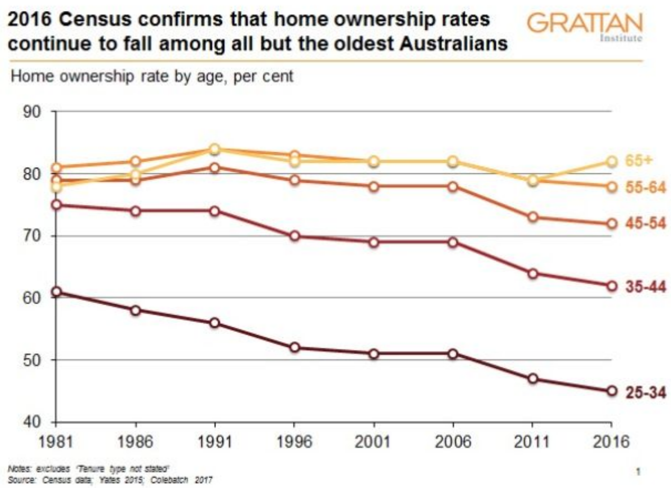
The DomaCom model comes with a range of inbuilt insurances to protect the resident, the property and the investors against longevity risk, property maintenance and rental payment defaults.

1.1.2 Asset Rich but Cash Poor

Over the last 50 years home ownership has been considered a central pillar of Australian retirement planning, with 75 per cent of Australians aged 65 to 74 and 82 per cent of those aged 75 and over own their home outright.

This pattern has resulted in many Australian retirees being classified as asset rich and cash poor.

In other words they have most of their savings and often their retirement money invested in their home and other non-financial assets, but have little cash to live a comfortable retirement on.



To correct the balance they would ordinarily downsize, sell their home, purchase a smaller or less costly property and retain the balance to fund their lifestyle and generally live more comfortably.

The alternative would be to borrow against their home but this is unlikely to succeed for retirees because without the regular income afforded by a wage or salary they would be unable to make the necessary repayments.

Asset Rich but Cash Poor retirees who have previously had little choice beyond bank-funded Reverse Mortgages, now have opportunity to access home equity through the DomaCom asset allocation solution.

1.1.3 Desire to "Stay in Place"

The key challenge for retirees seeking to improve their standard of living is to release some of their home equity wealth without selling their home and then having to move away from established and supportive social networks.

The *Housing Decisions of Older Australians* report released in late 2015 by the Productivity Commission revealed that over 60% of older Australians would strongly prefer to "age in place" by staying in their own homes.

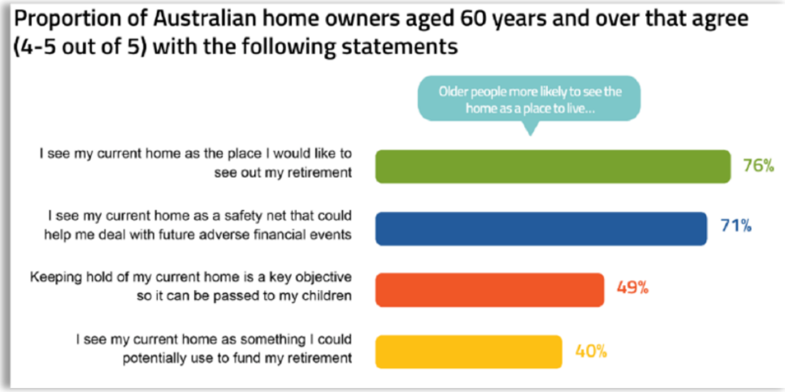
Over three-quarters (76%) of over-60s told the Commission they want to see out their retirement in their own home. 83% view home ownership as vital to maintaining independence and financial freedom as they age.

People surveyed by the Commission were attached to the area where they lived rather than to the home itself.

Other research (Freilich et al. 2014) shows that older people have better physical and mental health when they know they have stable, long-term accommodation.

Familiar surroundings also stabilise people's health.

People develop a strong psychological and social attachment to a location in which they have lived for a long time.



Importantly, maintaining social networks, improves physical and mental health for older people who stay in their own home.

1.1.4 Aged Care System

The Federal Government's Aged Care Reform Package, Living Longer... Living Better wants, among other things, for its elderly citizens to be able to stay in their homes for longer to maintain quality of life, protect their assets and ease the burden of aged care on the public purse.

Living Longer... Living Better delivered a package of reforms and improved home care services.

To achieve this in many cases may require a more flexible model of property ownership that enables a partial and staggered release of equity to fund lifestyle and aged home care visits and services as required.

The DomaCom model assists in the maintenance of this policy without burdening the aged financially or adversely affecting their beneficiaries.

By creating a market for property owners to sell 'shares' in their property to investors who want to take a position in a variety of properties that they believe will provide capital appreciation over time, we can satisfy the demands of groups with multiple needs.

Not only investors but estate beneficiaries could also purchase fractional interests in the family home, in order to:

- ✓ Fund their parents or family members,
- ✓ Ensure retention of the home by the family,
- ✓ Protect their inheritance, or
- ✓ Increase their share of ownership with the demise of their parents or the owners.

1.2 Determining ERP Client Suitability

1.2.1 Adviser Regulatory Obligations

One of the key obligations for financial advisers in the Corporations Act 2001 (Cth) requires a licensee (or authorised representative) to have a reasonable basis for giving personal advice to a retail client. This is known as the 'suitability', 'Reasonable Basis for Advice' or 'Know Your Client' rule.

An adviser must only provide advice if:

- they inquired about the client's personal circumstances relevant to the advice (**Know Your Client**); and
- in light of the client's personal circumstances, they considered and investigated the subject matter of the advice in a way that was reasonable in the circumstances (**Know Your Product**); and
- in light of the adviser's consideration and investigation, they have made sure the **Advice is Appropriate.**

Similar obligations apply to giving general advice. Also, advisers are required to act honestly, efficiently and fairly at all times.

The 'suitability rule' - section 945A(1) of the Corporations Act, states that an Authorised Representative can only provide personal advice to a client if they:

- determine the client's personal circumstances relevant to the advice
- make reasonable enquiries about those personal circumstances, then
- use the information from the client, consider it and do other reasonable investigations relevant to the topic of the advice, and
- ensure that the advice is appropriate in relation to all of the above.

The suitability rule can be met by following the three step approach below:

- Asking **appropriate** questions of the client or the product provider, then
- **Considering** the client's needs and objectives, then
- **Advising** the client by providing appropriate and relevant recommendations.

The level of enquiry will depend on what is reasonable. This includes the complexity of the advice and the potential impact of inappropriate advice on the client. It will also depend on the financial capability of the client and if the client has any impairment.

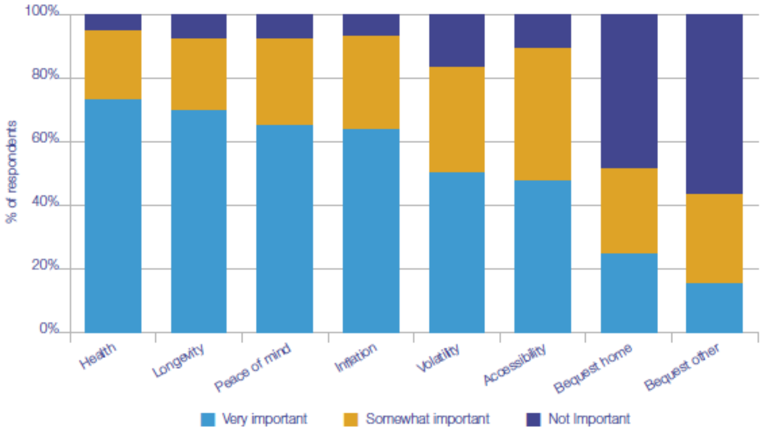
Some thoughts from ASIC on this important subject: [Building Seniors' Financial Capability]

Caution:
Beware of Adviser Bias. Suitability is all about satisfying client needs and preferences!

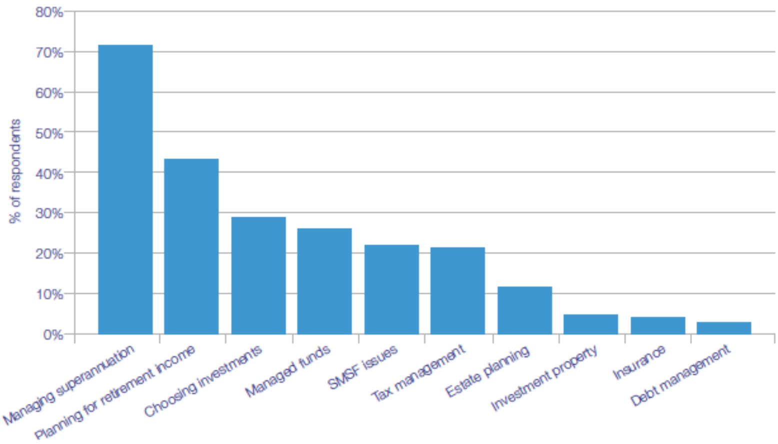
Equity release may challenge some advisers but it is an option that should be properly considered particularly, given the stated needs and preferences of seniors.

It is likely that the home will be viewed as an active asset in retirement rather than a store of wealth for the benefit of others.

The bonus for advisers is that managing superannuation and planning for retirement is exactly what older clients want to talk about when they engage with financial advisers!



Once Australian seniors transition from their working careers into retirement, we can observe many changes in what they say and do.



Their goals for their savings relate to needs such as meeting health costs at advanced ages and having a secure income to cover recurring essential spending needs.

Retirees also demonstrate high levels of risk aversion.

It is a little surprising then that many retirees underestimate how long they might live. Longevity risk is one of the largest risks that retirees will face in their advanced years.

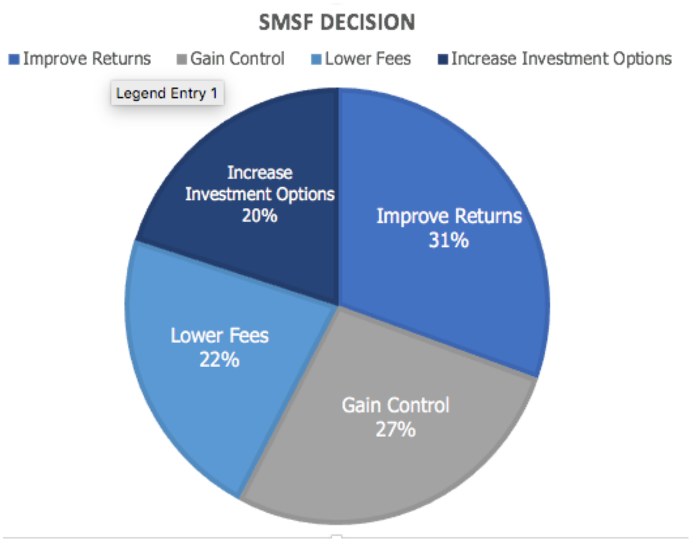
Using a financial adviser appears to help retirees manage this risk by having a plan for a retirement that lasts a suitable period of time.

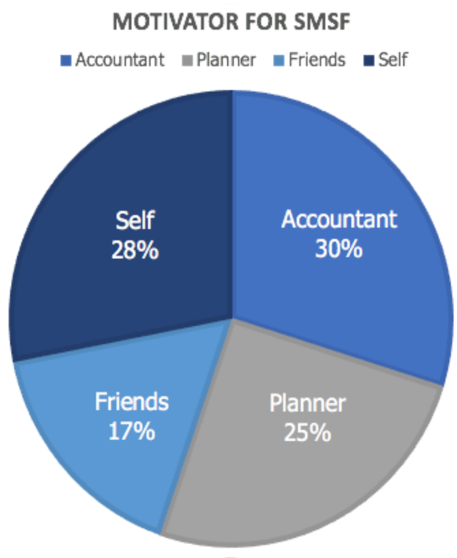
Planning for retirement is still a mixed bag.

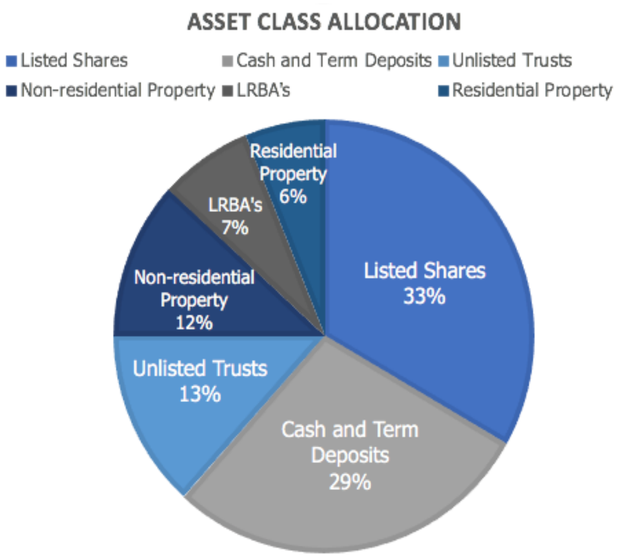
Source: The information presented here is provided by National Seniors "Outlook for Australian Seniors' Retirement Plans", August 2015, and clearly demonstrates that attitudes towards the family home are changing.

Due to the enhanced flexibility of the DomaCom platform, ERP investor clients will include a broad range of investors including, those wishing to assist relatives to stay in place and SMSF Trustees seeking an opportunity to improve their portfolio construction outcomes.

Based on a 2017 report published by the Commonwealth bank and the SMSF Association, the main reasons and primary motivators for setting up an SMSF include:







Consider how the DomaCom ERP Product is likely to meet client needs and preferences:

- ✓ Gain Control
- ✓ Increase Investment Opportunities
- ✓ Advice-based Decisions
- ✓ Improve Asset-Class Allocation

1.2.2 ERP Client -ASIC Instrument [18-0926] Exemption

ASIC has made an instrument [18-0926] that grants certain exemptions that relate to the provision of financial product advice to an ERP client.

ASIC Instrument [18-0926]

The exemption from subsection 911A(1) of the Corporations Act 2001, granted to the responsible entity of the Fund, Melbourne Securities Corporation (MSC), in relation to the DomaCom Equity Release Product, only applies if:

(a) the financial product advice is provided by an ERP qualified financial adviser, MSC, or DomaCom Australia; and
(b) the core competencies described as the Course Scope are met.

Important: Relying on the exemption granted by the ASIC Instrument

An ERP qualified adviser who relies on this exemption must give to the ERP client advice, and maintain for at least 7 years a written record of that advice, about each of the following matters:

(a) how the ERP fee structure works (including the initial service fee and further service fees are calculated generally and the general impact the fees have on the equity a person has in the ERP property and on long term cash flow);

(b) when fees and other costs under the ERP contract will accrue and be payable;

(c) how the ERP client's equity in the ERP property is projected to increase or decrease over a period of 15 years, at 5 year intervals commencing from the date the ERP contract is entered, and the point in time at which MSC's property interest is likely to reach 100 per cent, based on the following:
(i) the valuation of the ERP property, as stated in the statement of offer, increasing at a rate of, respectively:
(A) 0 per cent per year; and
(B) 3 per cent per year;
(ii) the percentage rate applying in the ERP client's circumstances to the initial service fee and further service fees; and
(iii) the initial property interest.

(d) how the projections referred to in subparagraph (c) may impact the ERP client's possible need for future aged care accommodation and whether they prefer to leave equity in the home to their estate;

(e) The circumstances in which the ERP client will be able to terminate the ERP contract and the estimated costs associated with doing so; and

(f) The impact that termination of the ERP contract would have on any third person, who is not a registered proprietor of the ERP property, residing in the ERP property.

1.2.3 ERP Client -Eligibility

To be eligible to complete an Application Form and enter into an Equity Release Deed, an ERP client (and all other owners of the Property) must:

- be a natural person - the owner of the Property cannot be an entity such as a company, trust or superannuation fund;
- be the registered proprietors (i.e. legal owner) of the Property held as joint tenants, and hold all equitable interests in the Property;
- have spouses or de-facto partners (as defined in the Family Law Act 1975) as registered proprietors in the Property and a party to the Equity Release Deed. If they aren't currently on the title, they must be added to the title before Settlement can occur;
- ensure that the Property is mortgage free, or will be mortgage free at Settlement;
- occupy the Property as their principal place of residence;
- be 60 years of age or older; and
- each obtain advice from an Accredited Adviser.

1.3 Determining ERP Product Suitability

1.3.1 ERP Client -Product Benefits

Below is a summary of the key benefits of the DomaCom ERP and the manner by which an ERP client should be made aware of such benefits:

Note: A more complete list of benefits can be found in the relevant DomaCom Fund Equity Release Product Disclosure Statement (PDS).

Access to cash

You will have access to a cash payment without having to take out a loan or sell the entire Property outright. The cash can be used for a whole variety of purposes (other than paying Service Fees) including funding retirement goals, assisting family members or even transitioning into retirement living.

Accessibility

It is intended that Property Owners from diverse geographical locations will be able to enter into an Equity Release Deed with the Fund.

Shared maintenance costs

Upon Settlement, the Fund agrees to meet its share of the ongoing Repair and Maintenance Works in proportion to the Fund's Interest which may save you both time and money.

Staggered Settlement option

You have the flexibility to elect to either receive your Pay Out Amount as a lump sum upon Settlement or on a regular basis over a period of time nominated by you.
If you are looking to better manage your cash flows for lifestyle funding purposes you may favour this Staggered Settlement option.

The Fund is a registered Managed Investment Scheme (MIS)

At the time of this PDS, the Offer is the only equity release product in Australia that is a financial product regulated under the Corporations Act by ASIC as it is offered through an ASIC registered Managed Investment Scheme (MIS).

As such, the Fund and the Responsible Entity are required to comply with Chapter 7 of the Corporations Act. The Fund also has an external responsible entity and custodian.

Ongoing Right of Abode

As long as you comply with your obligations under the Equity Release Deed, you will have the ongoing right to live in your Property, or to determine who lives in it whilst you are alive (even if all your equity in the Property is exhausted).

You can Rent-out Property

The Equity Release Deed does not preclude you from renting out the Property. If you do so, you will be entitled to retain all rent proceeds despite being only a co-owner with the Fund. However, while you have equity in the Property, you will still be responsible for the Service Fees and all other fees and costs related to Property management. Further, you will be required to ensure that the Property is maintained and that all the provisions of the Equity Release Deed that relate to the occupation of the Property are complied with as if you were the occupant.

No capital payment to the Fund until the Property is sold

Because the Equity Release Deed does not involve a loan, there are no loans or interest repayments and the Fund will only receive its pay out when the Property is eventually sold (however you will have to pay Service Fees).

Diversification

You can use the cash from the Pay Out Amount to invest in other properties or even other asset classes such as shares and fixed interest investments, reducing your exposure to a single property.

1.3.2 ERP Client -Product Risks

Below is a summary of the key risks of the DomaCom ERP and a brief description of the manner by which the ERP client should be made aware of such risks:
Note: A more complete list of risks can be found in the relevant DomaCom Fund Equity Release Product Disclosure Statement (PDS).

Risks of entering into an Equity Release Deed

An Equity Release Deed may not be the best product for you when your particular circumstances are considered. You should always seek legal and financial advice before completing an Application Form and before entering into an Equity Release Deed.

It is important that you carefully consider whether entering into an Equity Release Deed is appropriate for your personal financial objectives and circumstances. You should only enter into an Equity Release Deed if you understand the nature of the product and the extent of your exposure to risks.

Below is a summary of the key risks that may apply to you. Please note this is not an exhaustive list of the risks you may face.

Exhausting Equity in your Property Risk

Under the Equity Release Deed, Service Fees are paid through transferring further interest in the Property to the Fund. When Service Fees are used up, a further equity release and transfer will be performed. This will continue to occur until all the equity in the Property is exhausted (or the Equity Release Deed is terminated).
Despite this, even when all equity is exhausted, your right to live in the Property will not be impacted, and you will not need to pay any Further Service Fees however you will still be liable for any utility consumption costs (for example gas, electricity and water usage).

Loss of Control to Deal with Property

During the term of the Equity Release Deed your ability to deal with the Property will be limited (e.g. to sell or encumber the Property) and you will be required to obtain the Property Manager's approval in respect of certain dealings relating to the Property, including, for example, obtaining approval for all Capital Works and approval for certain Repair and Maintenance Works.
Similarly, you cannot seek to transfer your interest in the Property and novate the Equity Release Deed to a third party.
You will also irrevocably appoint the Fund to object (or not object) to any compulsory acquisition by any Authority.

Parties to the Equity Release Deed and authorised people

All people registered on title of the Property must enter into the Equity Release Deed.
The Equity Release Deed requires the nomination of at least one Authorised Person who is authorised to make decision on behalf of the Property Owners. The Authorised Person will have the ability to make decisions including terminating the Equity Release Deed that will bind all the Property Owners. DomaCom will also generally communicate only with the Authorised Person.

Even when there are multiple Authorised Persons for the Property Owner, any one single Authorised Person can make any written communication or take action on behalf of all the Property Owners. If the Property Owners seek to vary their nominated Authorised Person, all Property Owners must unanimously consent to the variation.
By contrast, if any single Property Owner creates an Event of Default (for example becomes subject to an Insolvency Event) DomaCom has the right to terminate the Equity Release Deed for all the Property Owners, irrespective of the compliance by the other Property Owners.

Settlement Failure Risk and Non-refundable Application Fees

In order to fund your Pay Out Amount, sufficient interest must be obtained from Investors in the Fund. If there is insufficient interest (generally determined after 90 days), the Equity Release Deed will be terminated.
However, the Fund will allow you, in certain circumstances to review the figures in the Statement of Offer and Information Statement in order to make it more attractive for the Investors and then the Fund will then re-list the Property on the Platform. No further Application Fee will be payable in these circumstances.

If there is still insufficient interest the Equity Release Deed will be terminated which means that no interest in your Property will be sold and you will not receive your requested cash lump sum.

Risk of Buy Back Amount being higher than Market Value

If you seek to buy back the Fund's Interest, you will be required to pay the higher of the market value of the Fund's Interest and the Indexed Value of the Fund's Interest.

Risk of Pay Out Amount being less than the Buy-Back Amount

Depending on the changing market value of the Property, the amount of cash paid to you on Settlement may be substantially less than the money you will need to pay the Fund if you seek to buy back the Fund's Interest under the Equity Release Deed.

Reduced Centrelink Entitlements Risk

If you are currently receiving a Centrelink benefit, there is a risk that the receipt of a cash lump sum may reduce your benefit under existing means testing rules.

While the value of your family home is generally exempt from any Centrelink considerations, cash generally isn't exempt.

You should seek professional advice to determine what impact a payment under the Equity Release Deed may have on your Centrelink entitlements before entering into an Equity Release Deed.

We strongly recommend that you seek advice from your financial or tax adviser, and use the Centrelink Financial Information or the Veterans' Affairs Financial Information services.
When signing the Equity Release Deed, you will be required to declare that you fully understand the impact the cash payment will have on any Centrelink entitlements.

Forced Sale of Property Risk

In a number of circumstances, the Fund will have the right to sell the Property.
If this happens, the Fund will arrange sale documentation on your behalf under the Mortgage to recover the Fund's Interest in the Property and will ensure that:

(a) the sale is an arms' length transaction; and
(b) the sale price represents fair market value for the Property.

On settlement of the sale of the Property the Fund will pay your legal representative (through the Administrator) the remainder of the sale proceeds after having paid out the Fund's Interest and any other associated costs.

Take a moment to record what you consider to be some key points about the following:

ERP Clients
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Partial Interest Sub-fund Investors
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Product Benefits
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Product Risks
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Explaining the ERP Structure
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1.4 ERP Investors - Needs, Preferences and Circumstances

1.4.1 Partial Interest Properties

The partial interest sub fund allows property owners to enter into an agreement with DomaCom (Equity Release Deed) to sell part of their property in exchange for a cash payment (Pay Out Amount).

The interest in the Property will be held by the Partial Interest Sub Fund in which investors can invest. After Settlement, the DomaCom Fund will become a co-owner in the Property with the Property Owner. The joint ownership will be in proportion to each party's interests.

Through entering into the Equity Release Deed, the Property Owner agrees to pay certain on-going fees which are paid through releasing additional interests in the Property to the DomaCom Fund (generally every 5 years). Therefore, it is expected that approximately every 5 years there will be an opportunity for a Unit Holder to purchase additional interest in the Partial Interest Sub-Fund and increase your exposure to the Property.

Investors in Partial Interest Sub-Fund are entitled to income from their investment (notional rent) and a share of any sale proceeds when the Property is ultimately sold. The notional rent rate will be fixed from the outset and will be disclosed in the Supplementary PDS.

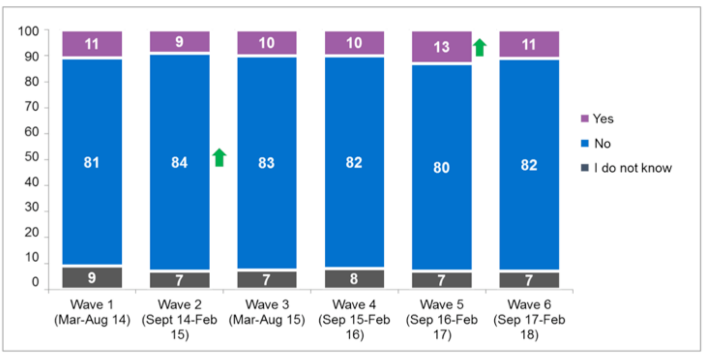
As a co-owner of the Property with the Property Owner, investors will be liable to share certain costs with the owner such as property maintenance and insurance costs in proportion to their interests in the Property. The costs will be deducted from investor returns. Further information will be contained in the relevant SPDS.

1.4.2 SMSF Investors

Fractionalised Property Investment enables clients that operate an SMSF to address their asset allocation objectives and more easily include property without over-weighting that particular asset class.

Reported ownership of a SMSF (%)

The chart below compares the proportion of all surveyed Australians who reported they had a SMSF across Waves 1 to 6 of the research. Overall, around one in ten reported having a SMSF. After an increase last wave, the proportion of SMSF ownership fell back to longer term trend levels this wave (11% Wave 1, 9% Wave 2, 10% Wave 3, 10% Wave 4, 13% Wave 5, 11% Wave 6).



The partial interest sub fund structure may be of particular interest to SMSF investors given the owner-occupier and stay in place characteristics of the property owner.

Generally, the main difference between an SMSF and other types of funds is that members of an SMSF are the trustees.

This means the members of the SMSF run it for their own benefit, decide how the fund will operate and what investments the fund will invest in.

1.4.3 SMSF Structure

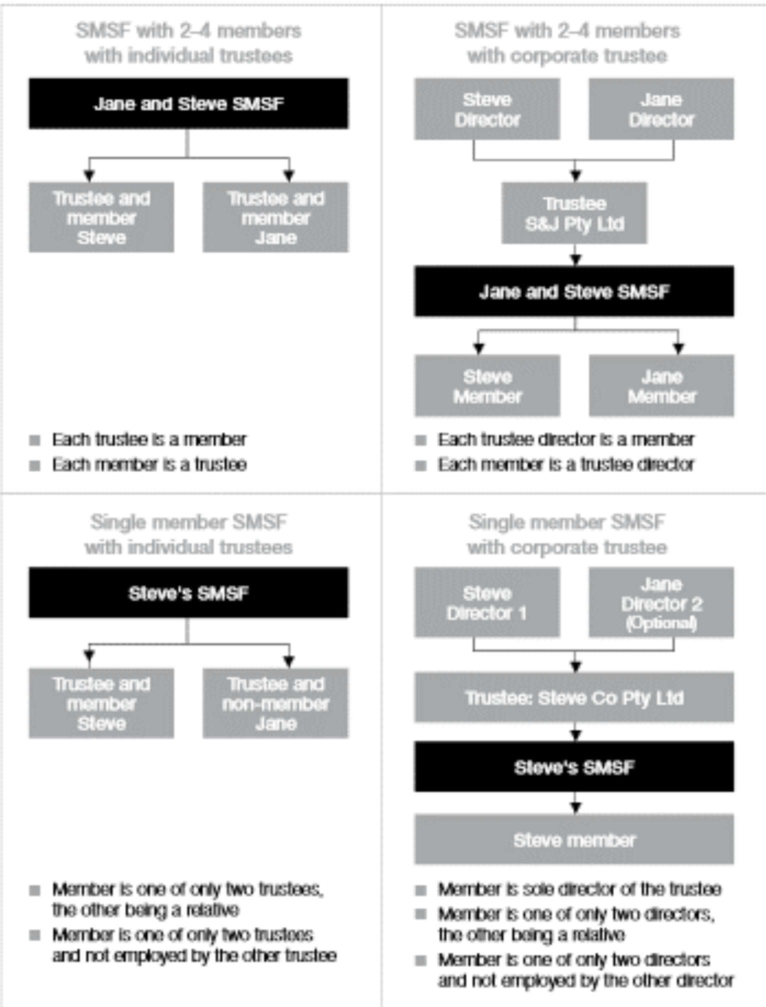
There are two types of regulated SMSFs:

- Non-corporate trustee SMSF - members act as individual trustees
- Corporate trustee SMSF - each member must be a director of the company and act as trustee.

Superannuation Services offers the following explanation of non-corporate and corporate SMSF structure, with a graphic representation from Macquarie.

Individual Trustees (Non-corporate)
To set up your SMSF with individual trustees, all of the following must apply:

- it has four or less members
- each member is a trustee
- each trustee is a member of the fund (except for a single member fund where you MUST have one other trustee who is not a member)
- no member is an employee of another member, unless they're related
- no trustee is paid for their duties or services as a trustee.



Corporate Trustee
To set up your SMSF with a Corporate trustee (a company) all of the following must apply:

- it has four or less members
- each member of the fund is a director of the company
- each director of the corporate trustee is a member of the fund (except for a single member fund where you may have one director who is not a member)
- no member is an employee of another member, unless they're related
- the corporate trustee is not paid for its services as a trustee
- no director of the corporate trustee is paid for their duties or services as director

1.5 ERP Investors – Product Suitability

1.5.1 ERP Investors -Product Benefits

Distributions

An Investor in a Partial Interest Sub-Fund receives any Distributions from the Sub-Fund which are payable to them, generally within 5 Business Days of receipt by the Custodian, into their Cash Account or into their nominated linked bank account.
These Distributions reflect the notional rent paid by the Property Owner of the Underlying Property.

Certainty of yield

Investors in a Partial Interest Sub-Fund will know the expected income return as the amounts are fixed in advance pursuant to the Equity Release Deed with the Property Owner.
Capital Growth and Diversification.

If the value of an Underlying Property increases in value, so too will the value of the Units held by Investors in that Sub-Fund. Of course, if the value of the Underlying Property falls, the value of the Units in the Sub-Fund will also fall.

Accordingly, Investors may suffer a capital loss. However, the ability to spread risk across multiple Underlying Property investments by investing in a number of Sub-Funds provides a degree of diversification in comparison to having made a direct investment in a single Underlying Property.

Rental Certainty

Partial Interest Sub-Funds will never have vacancy issues as the occupancy of Underlying Property is not relevant to Investors. The return paid to investors is derived from the Service Fees paid by the Property Owner.

The Property Owner is obligated to pay these fees throughout the term of the Equity Release Deed by selling additional interests in the Underlying Property. Should the Property Owner's interests in the Underlying Property be exhausted over time, ERA Administrator has an obligation to continue to pay Investors their income yield until the Equity Release Deed is terminated provided, there are sufficient funds in the longevity reserve.

Aligned interests

Property Owners have an equitable interest in the Underlying Property and are more likely to maintain the Property in a state of good repair.

Asset Allocation

The DomaCom Fund allows Investors to gain an exposure to the property sector in accordance with their risk profile, spreading risk across multiple investments both within the DomaCom Fund and as a separate asset class within an Investor's overall investment portfolio.

Property Sector Diversification and Control

Many Investors find it difficult to diversify their exposure to the direct property market given the significant costs involved in directly purchasing property. To achieve this diversification in the past, Investors have had to invest through a property fund where their investments are pooled, and the property investment decisions are made by the manager.

By investing through the DomaCom Fund, Investors can achieve comprehensive diversification within the property sector by making a number of smaller investments in a range of Sub-Funds that they have selected, each of which represents a single Underlying Property or an interest in a single Underlying Property. Investing in this way means that Investors can control their investment decisions.

Investors in the DomaCom Fund can spread their exposure to the property sector by making smaller investments across a number of different Sub-Funds providing them with the opportunity to reduce the risks associated with placing a large investment into just one direct property (which they might have to do if they were to invest in property directly).

Investors are also able to maintain their exposure to the property market in proportion to their preferred asset allocation for property investments for their risk profile, something which is likely to be harder to achieve when investing directly in property.

Improved Access

Purchasing a property directly generally requires large amount of investment funds or borrowings to secure the investment. In comparison, Investors with access to investment funds representing as little as $2,000 for most Sub-Funds can gain investment exposure to an Underlying Property by acquiring Units in a DomaCom Sub-Fund.

Transparency

Investors can identify and view information about the specific Sub-Fund and Underlying Property in which they indirectly invest, something that is difficult to achieve with a traditional investment in a property fund.

Investors also have access to an online platform that will provide information that is very similar to the type of information that Investors might see online about any investment property, including details regarding the age, condition, type and location of the Underlying Property.

1.5.2 ERP Investors -Product Risks

Default by a Property Owner

Under an Equity Release Deed, there is a risk that a Property Owner may default on its obligations. Generally, a default by the Property Owner entitles the Sub-Fund to exercise a power of sale. This may crystallise the asset prematurely.

Property Owner exhausts the equity in Underlying Property

Under an Equity Release Deed, there is a risk that over time that a Property Owner may exhaust the equity in the Underlying Property.

DomaCom will have limits on the percentage of equity that can initially be released on entry into an Equity Release Deed based on a Property Owner's life expectancy. These limits (based on actuarial life expectancy calculations) will reduce the risk that a Property Owner will exhaust the equity in the Underlying Property.

However, in the event that a Property Owner does exhaust the equity in the Underlying Property, the Trustee will call on a Deed of Payment, the agreement entered into with ERA Administrator, to continue to pay approximately 4.0% per annum return to the Sub-Fund (based on the value of the Property, reset every 5 years).

There is no guarantee that the ERA Administrator will be fully funded to have sufficient money available to make the payments required to make under the Deed of Payment. However, actuarial calculations have been undertaken to minimize this risk.

Investment term uncertainty

Under an Equity Release Deed, there are limited circumstances when the Equity Release Deed will be terminated and the Property sold (enabling an investor to receive their capital including any potential capital gain).

These include when the last registered proprietor (as at Settlement) dies or when the Property Owner seeks to buy it back from the Fund or when the Property Owner agrees to sell it to a third party. As the Property Owner has significant control (other than when it breaches the Equity Release Deed) there is some uncertainty as to the period of time as to when any capital gain can be realised.

ERA Administrator Risk

Under an Equity Release Deed where the Property Owner has nominated the Staggered Settlement option, ERA Administrator arranges for the Custodian to hold on trust any part of the Pay Out Amount that has not yet been paid to the Property Owner.

ERA Administrator may invest these funds in cash, government bonds or term deposits with the interest earned being used to assist in the funding of the payment obligations to the Property Owner under an Equity Release Deed.

There is a some risk that these investments could fail which in turn would put at risk the ability of the DomaCom Fund to meet its settlement obligations to Property Owners who have elected to use the Staggered Settlement option.

Similarly, the ERA Administrator may invest prepaid Service Fees and charges received under an Equity Release Deed in cash accounts, term deposits, bank bills and Sub- Funds. Investors in the relevant Sub-Fund bear the risk that the value of these investments may go down and thus investors may receive a lower return on their investment in a Sub-Fund than anticipated.