



## Target Market Determination

10 February 2023

### Introduction

This Target Market Determination (TMD) is required under section 994B of the Corporations Act 2001 (Cth) (the Act). It sets out the class of customers for whom the product, including its key attributes, would likely be consistent with their likely objectives, financial situation and needs.

In addition, the TMD outlines the triggers to review the target market and certain other information. It forms part of the Company's design and distribution arrangements for the product.

This document is **not** a product disclosure statement (PDS) and is **not** a summary of the product features or terms of the product. This document does not take into account any person's individual objectives, financial situation or needs.

Persons interested in acquiring this product should carefully read the PDS before making a decision whether to buy this product.

Capitalised terms have the meaning given to them in the PDS dated 10 February 2023, unless otherwise defined. The PDS can be obtained by contacting us on 1300 WESTLAWN or on our website at <https://www.westlawn.com.au/incomefund/>.

### Target market summary

This product is likely to be appropriate for a consumer seeking regular income distributions with a level of capital preservation. To be used as a small to core component allocation within a portfolio where the consumer has a medium investment timeframe, medium to high risk profile and needs limited access to capital.

## **Fund and Issuer identifiers**

### **Fund name**

Westlawn Income Fund ARSN 639 742 288  
(Fund)

### **Product issuer**

Westlawn Financial Services Limited  
ABN 20 141 420 920 | AFSL 518648  
(Issuer, Responsible Entity, Company, we or us)

### **Class of Units**

Class 6M  
Class 12M  
Class 24M

## **Product description & Fund structure**

The Fund objective is to provide you with exposure to various fixed income investments which provide regular investment returns.

Investor's funds are 'pooled' and invested collectively.

The Fund is an unlisted managed investment scheme structured as a unit trust with the ability to issue multiple classes of Units. The Fund operates as a pooled managed investment scheme.

Each investor, regardless of the Class of Units held, have a proportionate beneficial interest, along with all other investors, in the assets of the Fund.

Each Class of Units has a different term as follows;

- Class 6M Units will have a 6 month investment term,
- Class 12M Units will have a 12 month investment term, and
- Class 24M Units will have a 2 year investment term.

You will not have the right to withdraw your investment during the Investment Term of the particular Class. Generally, your investment is for the term of the investment with no ongoing liquidity.

The Target Distribution Rate is an investment objective and not a forecast.

Whilst we have mechanisms in place to manage the Fund's investments and liquidity, we do not guarantee the payment, or amount, of distributions or capital repayment.

## Target market

### Objectives, financial situation and needs of the target market

The class of consumers for which the product is likely to be appropriate are assessed using a red/amber/green rating methodology as set out below.

In target market

Potentially in target market

Not considered in target market

### Instructions

In the tables below, Column 1, Consumer Attributes, indicates a description of the likely objectives, financial situation and needs of the class of consumers that are considering this product. Column 2, TMD indicator, indicates whether a consumer meeting the attribute in column 1 is likely to be in the target market for this product. Generally, a consumer is unlikely to be in the target market for the product if:

- **one or more** of their Consumer Attributes correspond to a **red** rating, or
- **three or more** of their Consumer Attributes correspond to an **amber** rating.

### Investment products and diversification

A consumer (or class of consumer) may intend to hold a product as part of a diversified portfolio (typically with an intended product use of small allocation or core component). In such circumstances, the product should be assessed against the consumer's attributes for the relevant portion of the portfolio, rather than the consumer's portfolio as a whole. For example, a consumer may seek to construct a conservative portfolio with a satellite/small allocation to growth assets. In this case, it may be likely that a product with a High or Very High risk/return profile is consistent with the consumer's objectives for that allocation notwithstanding that the risk/return profile of the consumer as a whole is Low or Medium. In making this assessment, distributors should consider all features of a product (including its key attributes).

## Target market (continued)

The tables below indicates a description of the likely objectives, financial situation and needs of the class of consumers that may be considering this product.

Consumer attribute - investment objective	TMD Indicator	Product description including key attributes
<p><b>Income distribution</b></p> <p>(The consumer seeks to invest in a product designed to distribute regular and/or tax-effective income and the consumer has a medium to high Risk (ability to bear loss) and Return profile.</p> <p>An investor with a medium Risk and Return profile would have the ability to bear a loss of income distribution in up to 4 years over a 20 year period. An investor with a high Risk and Return profile would have the ability to bear a loss of income distribution in up to 6 years over a 20 year period. The extent of the loss of income would vary depending on the severity of the economic downturn, but could be a total loss of income in a severe event or a partial loss in a more modest economic downturn.</p> <p>The consumer prefers exposure to income-generating assets (typically, high dividend-yielding equities, fixed income securities and money market instruments.)</p>	<p><b>In target market</b></p>	<p>The Fund is designed to provide investors with a monthly income distribution, which will primarily depend on the net return the Fund receives from loans, cash and other assets held by the Fund. Monies invested in cash will normally generate a lower return to the Fund than those invested in loans and other assets.</p> <p>There is no guarantee on the income return or the amount of the monthly distribution of the Fund, and there is a risk of volatility of income distributions to investors. This income distribution attribute therefore aligns with an investor with a medium to high Risk (ability to bear loss) and Return profile and not with an investor with a low Risk (ability to bear loss) and Return profile (refer to the section below called "Risk profile (ability to bear loss) and Return profile" for the definitions of low, medium and high Risk (ability to bear loss) and Return profile).</p> <p>The Target Distribution Rate for Units is variable and calculated on the daily balances invested by the investor.</p> <p>The Target Distribution Rate is an investment objective and not a forecast.</p> <p>Distribution Payments will generally be paid monthly within 14 days following the end of each month.</p> <p>We do not guarantee the payment or amount of the monthly distribution.</p> <p>Refer to the relevant PDS for detailed information on how the Issuer manages liquidity risk and which has been considered by us when assessing this consumer attribute.</p>

Consumer attribute - investment objective	TMD Indicator	Product description including key attributes
<p><b>Capital preservation</b></p> <p>(The consumer seeks to invest in a product to reduce volatility and minimise loss in a market down-turn. The consumer prefers exposure to defensive assets (such as cash or fixed income securities) that are generally lower in risk and less volatile than growth investment.)</p>	<p><b>In target market</b></p>	<p>It is intended that investors will receive all of their capital upon redemption, although as noted above it is not guaranteed.</p> <p>We aim to issue Subordinated Units to related parties or our associates from time to time in order to equal at least 1% of the aggregate Issue Price of all issued Units. The issue of Subordinated Units is a mechanism to be used by the Responsible Entity to facilitate the redemption of Units at the end of their applicable investment term for not less than the Issue Price per Unit (being the price of each Unit at the time of issue) to be redeemed.</p> <p>Refer to the relevant PDS for detailed information on how the Issuer manages liquidity risk.</p> <p>Whilst we do not guarantee the amount or payment of the capital repayment, the Fund is expected to exhibit lower volatility than listed equities or listed REITs in a market downturn.</p>
<p><b>Capital guaranteed</b></p> <p>(The consumer seeks a guarantee or protection against capital loss whilst still seeking the potential for capital growth (typically gained through a derivative arrangement). The consumer would likely understand the complexities, conditions and risks that are associated with such products.)</p>	<p><b>Not considered in target market</b></p>	<p>We do not guarantee the payment, or amount, of distributions or capital repayment.</p>
<p><b>Capital growth</b></p> <p>(The consumer seeks to invest in a product designed to generate capital return. The consumer prefers exposure to growth assets (such as shares or property) or otherwise seeks an investment return above the current inflation rate.)</p>	<p><b>Not considered in target market</b></p>	<p>It is expected that each Unit will be redeemed at the issue price of \$1.00 per Unit.</p> <p>We do not guarantee the payment, or amount, of distributions or capital repayment.</p>

Consumer attribute - intended product use	TMD Indicator	Product description including key attributes
<p><b>Small allocation (&lt;25%) of investable funds</b></p> <p>(The consumer intends to hold the investment as a smaller part of their total portfolio, as an indication it would be suitable for up to 25% of the total investable assets<sup>1</sup>. The consumer is likely to be comfortable with exposure to a product with Low portfolio diversification<sup>2</sup>.)</p>	<p><b>In target market</b></p>	<p>The Fund's investment objective is to generate returns for investors through investing in a diversified portfolio of Loans which will provide fixed income over their life.</p> <p>Loans may be secured by a mortgage (senior or subordinated), by a security agreement over the borrower and its assets, or unsecured, or a combination of both.</p> <p>Loans may be direct to borrowers or indirect via investment in funding trusts or special purpose lending entities</p> <p>As the Fund was only established in March 2020, it does not have a diversified portfolio of assets until it has received sufficient capital from investors and its portfolio has been fully invested in Loans (expected to be when the Fund reaches assets under management of \$100m).</p>
<p><b>Core allocation (&gt;25-50%) of investable funds</b></p> <p>(The consumer intends to hold the investment as a major component, up to 50%, of their total investable assets<sup>1</sup>. The consumer typically prefers exposure to a product with at least Medium portfolio diversification<sup>3</sup>.)</p>	<p><b>Potentially in target market (but only for investors with a high risk profile)</b></p>	<p>Investors should consider the diversification of their entire investment portfolio when considering investing in these Units.</p>
<p><b>Standalone allocation (&gt;50-100%) of investable funds</b></p> <p>(The consumer intends to hold the investment as either a part or the majority (up to 100%) of their total investable assets<sup>1</sup>. The consumer typically prefers exposure to a product with at least High portfolio diversification<sup>4</sup>.)</p>	<p><b>Not considered in target market</b></p>	

<sup>1</sup> Investable assets – those assets the investor has available for investment, excluding the residential home.

<sup>2</sup> Low portfolio diversification – Single asset class, single country, low or moderate holdings of securities.

<sup>3</sup> Medium portfolio diversification – 1-2 asset classes, single country, broad exposure within asset class.

<sup>4</sup> High portfolio diversification – Highly diversified across either asset classes, countries or investment managers.

Consumer attribute - investment timeframe	TMD Indicator	Product description including key attributes
<p><b>Short (&lt; 2 years)</b> (The consumer has a short investment timeframe and may wish to redeem within 2 years)</p>	<p><b>In target market (but only for Class 6M or 12M Units)</b></p>	<p>The Fund is an open-ended trust meaning there is no fixed term for the Fund, however an investor's investment is subject to the Investment Term applicable to the Class of Units in which that investor invests.</p> <p>The Investment Term of each Class varies as follows;</p> <ul style="list-style-type: none"> <li>• Class 6M Units is 6 months</li> <li>• Class 12M Units is 12 months</li> <li>• Class 24M Units is 2 years.</li> </ul>
<p><b>Medium (&gt; 2 years)</b> (The consumer has a medium investment timeframe and is unlikely to redeem within 2 years)</p>	<p><b>In target market (but only for Class 24M Units)</b></p>	<p>An investor will only be able to withdraw their investment at the end of their Class' Investment Term pursuant to submission of a withdrawal request and our withdrawal offer. An investor will not have any other right to withdraw their investment. Unless an investor submits a withdrawal request and accept our withdrawal offer before the end of their Investment Term and within the time-frames specified for that investor's Class as set out in Part 2, Units will automatically rollover for the same Class Investment Term (ie. for 24M Units for a further 2 years).</p> <p>Please see 'Consumer's need to withdraw money' below for more information.</p>
<p><b>Long (&gt; 8 years)</b> (The consumer has long investment timeframe and is unlikely to redeem within 8 years)</p>	<p><b>Not considered in target market</b></p>	

Consumer attribute - Risk profile (ability to bear loss) and Return profile	TMD Indicator	Product description including key attributes
<p><b>Low</b></p> <p>(The consumer is conservative or low risk in nature, seeks to minimise potential losses (e.g., has the ability to bear up to 1 negative return over a 20 year period (SRM 1 to 2)<sup>1</sup>) and is comfortable with a low target return profile.</p> <p>Consumer typically prefers defensive assets such as cash and fixed income.)</p>	<p><b>Not considered in target market</b></p>	<p>It is intended that investors will receive the Target Distribution Rate and all of their capital upon redemption, although it is not guaranteed. Refer to the investment objective sections above called "Income distribution" and "Capital preservation" for further information.</p> <p>As noted above, we aim to issue Subordinated Units to related parties or our associates from time to time in order to equal at least 1% of the aggregate Issue Price of all issued Units. The issue of Subordinated Units is a mechanism to be used by the Responsible Entity to facilitate the redemption of Units at the end of their applicable investment term for not less than the Issue Price per Unit (being the price of each Unit at the time of issue) to be redeemed.</p> <p>Refer to the relevant PDS for detailed information on how the Issuer manages liquidity risk and its investment parameters and which we have assessed against in relation to this consumer attribute.</p>
<p><b>Medium</b></p> <p>(The consumer is moderate or medium risk in nature, seeking to minimise potential losses (e.g., has the ability to bear up to 4 negative returns over a 20 year period (SRM 3 to 5)<sup>1</sup>) and comfortable with a moderate target return profile.</p> <p>Consumer typically prefers a balance of growth assets such as shares, property and alternative assets and defensive assets such as cash and fixed income.)</p>	<p><b>In target market</b></p>	<p>Whilst we do not guarantee the amount or payment of the monthly distribution or capital repayment, the type of Fund assets align with a consumer who is moderate or medium risk in nature.</p>
<p><b>High</b></p> <p>(The consumer is higher risk in nature and can accept potential losses (e.g., has the ability to bear up to 6 negative returns over a 20 year period (SRM 6)<sup>1</sup>) in order to target a high return profile.</p> <p>Consumer typically prefers predominantly growth assets such as shares, property, and defensive assets with a smaller or moderate holding in defensive assets such as cash and fixed income.)</p>	<p><b>Potentially in target market (but only for investors using a small allocation of investable funds)</b></p>	



Consumer attribute - Risk profile (ability to bear loss) and Return profile	TMD Indicator	Product description including key attributes
<p><b>Very high</b></p> <p>(The consumer has a more aggressive or very high risk appetite, seeks to maximise returns and can accept higher potential losses (e.g. has the ability to bear 6 or more negative returns over a 20 year period (SRM 7)<sup>1</sup> and possibly other risk factors, such as leverage). Consumer typically prefers growth assets such as shares, property and alternative assets.)</p>	<p><b>Not considered in target market</b></p>	

<sup>1</sup> The standard risk measure (SRM) is an investment risk classification system developed by the FSC and ASFA to enable investors to compare investment options across superannuation funds. The SRM contains seven risk levels ranging from 'very low' to 'very high', with each level based on the estimated number of negative annual returns over any 20-year period (for more information, see [Standard risk measure: Guidance paper for trustees](#), issued by the FSC and ASFA in July 2011). SRM is not a complete assessment of risk and potential loss. For example, it does not detail important issues such as the potential size of a negative return or that a positive return could still be less than a consumer requires to meet their investment objectives/needs.

In December 2020, APRA released an information paper titled "Stress testing banks during COVID-19" in which they modelled the impact of a severe economic downturn on the banking system. This severe downside scenario developed by APRA was composed of a very large fall in economic activity, with GDP falling by 15%, unemployment rising to over 13%, national house prices falling by over 30%, and commercial real estate values falling by over 40%. Under the stress test, the emergence of significant credit losses from loan portfolios saw the banking system's annual profitability fall from \$24 billion in the year prior to the stress, to a peak estimated loss of \$37 billion in 2022.

Applying this severe stress testing scenario to the Fund will produce varying results depending on the composition and characteristics of the Fund's loan portfolio and other financial assets at the time of the stress event. Assuming a 40% downturn in commercial real estate property values, the likely impact on the Fund would be that firstly, the Fund's net earnings (i.e. interest income less operating expenses) will act as a first loss absorber to increasing credit losses. In other words, the Target Distribution Rate would not be met, and Unitholders would not receive any monthly income distribution payment. Secondly, and assuming a weighted average loan to valuation ratio (at inception of loan) of 70%, the Fund would realise capital losses of up to 14% (reduced by the amount absorbed in the first instance by the net earnings of the Fund and depending on the ability to recover from secondary security provided by the borrower such as personal guarantees). The resulting capital loss would then be absorbed in the first instance by Subordinated Unitholders before a retail consumer incurs a loss of capital. In this severe stress testing scenario, a retail investor might therefore expect to suffer a circa 10% negative capital return and receive no income distribution in these circumstances.

Prior APRA stress tests conducted in 2017 and 2019 were based on more modest but still significant economic downturns. These stress tests were based on a significant downturn in the housing market, triggered by a downturn in China and a collapse in demand for commodities. In these stress tests, GDP fell by up to 4 per cent, unemployment rose to 11 per cent and house prices fell by 35 per cent over 3 years. Assuming a 15% downturn in commercial real estate property values per year over 3 years, the likely impact on the Fund would be that firstly, the Fund's net earnings (i.e. interest income less operating expenses) will act as a first loss absorber to any credit losses. In other words, the Target Distribution Rate may not be met, and Unitholders may receive a reduced or no monthly income distribution payment. Secondly, and assuming a weighted average loan to valuation ratio of 70%, the Fund would not realise any capital loss over a period of 2 years (and to the extent it did it would be reduced by the amount absorbed in the first instance by the net earnings of the Fund and depending on the ability to recover from secondary security provided by the borrower such as personal guarantees). Any capital loss, if any, would be absorbed in the first instance by Subordinated Unitholders before a retail consumer incurs a loss of capital. In this stress testing scenario, a retail investor might therefore expect to suffer no capital loss and receive a reduced or no income distribution in these circumstances.

Consumer attribute - need to withdraw funds	TMD Indicator	Product description including key attributes
<b>During the term</b>	<b>Not considered in target market</b>	<p>Investors will not have the right to withdraw their investment in the Fund during the Investment Term.</p> <p>Generally, an investment is for the term of the investment with no ongoing liquidity.</p>
<b>6 months to 2 years</b>	<b>In target market</b>	<p>Investors seeking 6 months to 2 year liquidity under ordinary circumstances. The liquidity of the Fund will be managed in order to satisfy expected Withdrawal Requests at the end of their Class' Investment Term. It is expected that under ordinary circumstances a majority of investors (more than 60%) will choose to reinvest part or all of their investment for a further term. An unusually large number of Withdrawal Requests at a given time may impact the Fund's ability to fully satisfy those requests.</p> <p>The Fund is an open-ended trust meaning there is no fixed term for the Fund, however an investor's investment is subject to the Investment Term applicable to the Class of Units in which they invest.</p> <p>The Investment Term of each Class of Units varies between 6 months and 2 years.</p> <p>An investor will only be able to withdraw their investment at the end of their Class' Investment Term pursuant to submission of a Withdrawal Request and our Withdrawal Offer. An investor will not have any other right to withdraw their investment. Unless an investor submits their Withdrawal Request and accept our Withdrawal Offer before the end of their Investment Term and within the time-frames specified for that investor's Class as set out in Part 2, Units will automatically rollover for the same Class Investment Term.</p> <p>It is intended that investors will receive all of their capital upon redemption, although as noted above it is not guaranteed. We do not guarantee that Withdrawal Requests will be able to be fully or partially satisfied and will be subject to several factors and risks (such as the volume of Withdrawal Offers and possible liquidity constraints of the Fund at the time each Withdrawal Offer is made).</p>

### Appropriateness of the target

This product is likely to be consistent with the likely objectives, financial situation and needs of the class of customers in the target market as outlined above. This is based on an analysis of the key terms, features and attributes of the product and a finding that these are consistent with the identified class of customers.

## Distribution conditions

The Issuer distributes the PDS for the Fund electronically through its own website <https://www.westlawn.com.au/incomefund/>, or in hard copy in response to requests made directly to the Company. An experienced Issuer representative will ask potential investors a series of questions in order for the Issuer to understand, at a high level, whether the potential investor may be within the target market. For those investors applying for Units in the Fund via the online application form, a series of knock out questions are used in order to avoid investment in the Fund if the investor is unlikely to be within the target market.

Only selected representatives of the Issuer that have undergone internal training in respect of the Fund and the Fund's target market and who have demonstrated knowledge, competence and experience in respect of the Fund and the Fund's target market are able to promote and distribute this product.

The Issuer does not provide financial advice. The Issuer ensures that its representatives provide consumers with factual information only, and make no recommendation or suggestion that consumers invest in the Issuer's products or in any other investment, and that any investment should be made on the basis of the PDS and any independent financial advice the consumer may seek.

The Issuer does not employ any third party distribution channels.

It has been determined that the distribution conditions and restrictions will make it likely that consumers who purchase the product are in the class of consumers for whom it has been designed. We consider that the distribution conditions are appropriate and will assist distribution in being directed towards the target market for whom the product has been designed.

## Review triggers

The Issuer will monitor and review the outcomes produced by the design and distribution of its products and consider whether changes are required to the products, to the way they are distributed and to whom they are being sold (**Review**).

The Issuer will conduct a Review:

- (a) prior to the issue of a PDS or supplementary PDS;
- (b) upon determination of an ASIC reportable significant dealing (as described in paragraphs RG 274.158 – RG 264.161 of ASIC Regulatory Guide RG 274 *Product design and distribution obligations*);
- (c) within 10 business days of becoming aware of any event that suggests this TMD is no longer appropriate;
- (d) within 10 business days if:
  - (i) there is a failure by the Issuer to comply with the terms on which its products were issued;
  - (ii) there is a material change to the Fund investment objectives, benchmarks and/or fees;
  - (iii) the Fund sustains a material trading or capital loss;

- (iv) the Issuer elects to employ any third party distribution channel; or
- (v) the Issuer receives a material or significantly high number of complaints that concerns the design or distribution of its products.

Upon becoming aware of a Review Trigger, or a potential Review Trigger, the Managing Director must within 5 business days provide to the Board all such information necessary for the Board to determine whether this TMD is no longer appropriate.

### **Periodic review**

In addition to any Review conducted as a result of the occurrence of a Review Trigger, the Issuer must conduct an annual review, to finish:

- a) for the first review, on the day which starts 12 months from the date this TMD is made; and
- b) for each subsequent Review, on the day which starts 24 months from the day the prior Review was finished.

### **Review trigger information requirements**

#### **Complaints**

Complaints received about the Issuer's products must be escalated in accordance with the Issuer's internal dispute resolution policy. The Managing Director must, within 10 business days following the end of each quarter in a financial year report to the Board:

- a) whether the Issuer received complaints in relation to the Issuer's products during the quarter; and
- b) the number of complaints received (if any).

#### **Significant dealings outside the target market**

Representatives must notify the Managing Director if they become aware of a significant dealing in relation to the product that is inconsistent with this target market determination as soon as practicable but no later than 10 business days after they become aware of the significant dealing.