

Custodial Services – Report on Control Environment

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Introduction, Purpose and Scope of Report

This report has been prepared by Southern Cross Partners Limited (**SCPL**). SCPL provides an FMCA custodial service (as defined in the *Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014*, to investors through its Peer-to-Peer (**P2P**) lending service (the **custodial services**). SCPL is licensed under the *Financial Markets Conduct Act 2013* by the Financial Markets Authority (**FMA**) to provide P2P lending services (the **P2P Licence**). This report provides SCPL clients with relevant information on the control environment implemented to support the financial information and management of their investments. The focus of this report is therefore limited to the control environment, control objectives and control procedures applicable to the delivery of custodial services and does not encompass all aspects of the SCPL control environment. This report is also not intended to describe the controls relating to any specific client.

Consistent with SCPL's commitment to quality, Baker Tilly Staples Rodway Auckland have been engaged to provide an assurance report relating to those internal controls related to providing the custodial services included in this report. This report has been prepared for the use of SCPL clients and their auditors in accordance with the requirements of *ISAE (NZ) 3150 – Assurance Engagements on Controls* and the guidelines set out in the *Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014*.

In accordance with the *Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014*, this report contains:

- Those relevant control objectives specified by in the regulation; and
- Key control procedures designed to achieve the control objectives.

This is the sixth report issued by SCPL while operating under its P2P Licence and relates to the controls that have been put in place at SCPL from 1 April 2021 to 31 March 2022.

ISAE (NZ) 3150 requires a service organisation to provide a "System Description". The "System" is defined as those procedures that management designs, implements and documents in providing the investment management service. The SCPL System Description was prepared according to the guidelines contained in the *Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014* and describes those processes undertaken by SCPL in the delivery of their custodial services to clients. Aside from Loan Investment Trustees Limited (**LITL**), a sub-custodian related to SCPL by common control and directorship, SCPL does not have any sub-custodian arrangements in place. As such the description excludes the control objectives and related controls of sub-service organisations (LITL excepted), and the service auditor's procedures do not extend to controls at these subservice organisations.

Organisation

SCPL is based in Auckland, New Zealand and, under its P2P Licence, provides lending services to borrowers and investors in relation to loans which are secured by way of a registered mortgage over a borrower's residential and/or commercial property. The registered mortgages are held by LITL on behalf of investors who invest, through SCPL's P2P platform, in the relevant loan.

Prior to the provision of custodial services by SCPL, clients are required to complete an Investor Application Form, they are provided with a Disclosure Statement and General Terms and Conditions relating to SCPL's P2P platform and are required to enter into an Investor Agreement with SCPL (either by signing or on-line acceptance). Once SCPL has confirmation that the client has entered into the Investor Agreement, the relevant client assets can then be managed by SCPL, based on receipt of authenticated instructions from the client. Clients will receive a "Welcome Letter" setting out information relating to the client's investment, as well as bi-annual Statement of Holdings generated from SCPL's investment administration system which records the transactions within the statement period, assets held and fees charged as at 30 September and 31 March each year.

Control Environment, Risk Assessment and Monitoring

The control environment relates to the overall attitude, awareness and actions of SCPL and LITL's Board of Directors and management (i.e. those charged with governance), regarding the system of internal control and its importance to the entity. The control environment sets the tone of an organisation, influencing the control consciousness of its people.

The SCPL system of internal control has been designed to achieve objectives related to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The SCPL internal control structures and compliance systems are also designed to prevent any material or systemic breaches of the Investor Agreement between SCPL and its clients which assigns custody of invested assets to LITL as Trustee.

The control environment includes:

- Governance and management functions, including the function of the board of directors, and management teams;
- The corporate culture, including management's philosophy and operating style;
- The entity's organisational structure, including methods of assigning authority and responsibility;
- Management's control system, including personnel policies and procedures and segregation of duties; and
- Control procedures integrated within the control environment and system.

Internal controls, no matter how well designed, can provide only reasonable, not absolute, assurance to management and clients regarding achievement of an entity's objectives. The likelihood of achievement is affected by the limitations inherent in all internal control systems.

A. Regulatory environment

LITL is an unlisted company wholly owned by SCPL. SCPL and LITL have a common directorship. SCPL and LITL are, pursuant to the *Financial Service Providers (Registration and Dispute Resolution) Act 2008*, both registered on the Financial Service Providers Register (FSPR). SCPL is licensed under the *Financial Markets Conduct Act 2013* by the FMA to provide P2P lending services and is registered on the FSPR in the following categories:

- "Acting as an issuer for regulated products or financial products offered under an FMC Offer"
- "Providing a peer-to-peer lending service"
- "Being a creditor under a credit contract"

LITL is registered on the FSPR in the following categories:

- "Providing a peer-to-peer lending service"
- "Being a creditor under a credit contract"
- "Keeping, investing, administering, or managing money, securities, or investment portfolios on behalf of other persons"

Both SCPL and LITL are members of a dispute resolution scheme with Financial Services Complaints Limited.

SCPL has an obligation under the *Anti-Money Laundering and Countering Financing of Terrorism Act 2009* (AML/CTF) to verify the identity of clients before the provision of any financial services. The client must provide all information that SCPL reasonably requires in order to comply with its AML/CTF obligations and other applicable laws and regulations.

B. Risk management

Governance – roles/responsibilities

The Board - The SCPL board of directors meet, at least on a bi-monthly basis and provide oversight of risk management.

Compliance Officer – The SCPL System of internal control has been designed to ensure there is a separation of powers, functions, responsibilities in relation to custodian services and compliance responsibilities. A dedicated Compliance Officer, who reports directly to the CEO, is charged with the responsibility for the risk assessment and management processes across the organisation. The Compliance Officer is appointed to monitor and ensure compliance with the P2P Licence, Investor Agreements, applicable regulations and SCPL policies. SCPL ensures that documentation recording the internal control structures and procedures are reviewed by the Compliance Officer for the purposes of assessing accuracy and ongoing relevance of those structures.

External audit - In addition to the assurance provided via this report, the annual financial statements of SCPL will be subject to external audit by an external auditor.

Error and incident monitoring

Errors or incidents recorded within the business are captured, investigated and reported to the Board by the CEO at the regular Board meetings. Material breaches or instances of non-compliance with the Investor Agreements and General Terms and Conditions are also notified to clients in writing as soon as practicable following identification.

Human resource policies and procedures

Induction - Each new employee is made their employment offer subject to a criminal background and CV check. Two positive reference checks must also be obtained as policy. The HR Manager is alerted when the national police clearance comes through and the certificate is retained in the employee file.

Orientation - Orientation programs are customised per position by the direct manager. All employees receive a welcome kit which includes their orientation schedule. Within this welcome kit, mandatory induction training requirements are outlined, including:

- Investment administration courses (course taken is position dependent);
- Compliance Policy Checklist (includes all SCPL policies as well as an OH&S educational presentation); and
- Specific HR policy modules.

Response to fraud

Controls have been implemented within the business to minimise the risk of employee or management fraud.

These include:

- Segregation of incompatible functions within the IT system through role profiling;
- Peer review and secondary verification across key transactional processing functions;
- Daily reconciliation of all bank accounts; and
- Escalation of errors or incidents through to management in a timely manner.

Description of the System

Operational and information technology processes

This section of the document details the high-level processes executed by SCPL in its provision of custodial services to clients. This description relates to the standard service offering provided to all clients; any client-specific customisation of services is not reflected in this description of the System (and any such client-specific customisation is actively discouraged). The Investment Portal is often referred to as the P2P Platform.

A. Accepting clients

Investor Agreements and assessments

New SCPL clients are sent an information request in the form of an Investor Application form to facilitate account set up. The information in this Application Form is loaded into SCPL records. Once the Investor Application form is returned to SCPL by the client, an anti-money laundering (AML/CFT) assessment will be completed. The AML/CFT assessment process includes Electronic Verification and PEP screening via a software application where identification records allow this to occur. In all other circumstances, (or should a risk alert be flagged), AML/CFT assessment processes are completed manually. The AML/CFT assessment and client account set-up are completed and verified by the SCPL Compliance team.

Once account set-up is complete, the client is provided with a secure on-line log-on. The first time a new client enters our website using their on-line log-on they are provided with a Disclosure Statement, General Terms and Conditions and an Investor Agreement, which the client is required to accept and enter before any trading requests on the Investment Portal can commence. The Investor Agreement (together with the General Terms and Conditions) operates as the contractual agreement between SCPL and the client. Where a client enters into the Investor Agreement on-line, SCPL will receive notification from the website confirming the client's acceptance of the Investor Agreement. This notification is retained by SCPL and checked by the Compliance team. Where a new client is unable to complete their Investor Application Form and enter into the Investor Agreement online (e.g. where the investment will be held in the name of more than one person or a client prefers to enter into an Investor Agreement in writing), the client will be provided hard-copies of the Disclosure Statement, General Terms and Conditions and an Investor Agreement with the Investor Application form. The client is required to acknowledge on the Investor Application Form that they have received, read and accept the terms of the Disclosure Statement, General Terms and Conditions and Investor Agreement. They are then required to return the signed Investor Application Form to SCPL prior to any trading requests being approved.

Existing SCPL clients (i.e., clients who were investors with SCPL before the issue of the P2P Licence) will not be required to complete an Investor Application form as they have already been assessed and verified for the purposes of AML/CFT. Existing clients will however be required to receive, read and accept the terms of the Disclosure Statement, General Terms and Conditions and Investor Agreement before they can carry out any investment or trading activity on the Investment Portal. The first time an existing client accesses Investment Portal using their secure on-line log-on, they are provided with a Disclosure Statement, General Terms and Conditions and an Investor Agreement. The existing client is required to accept and enter into the Investor Agreement before any trading activity on the Investment Portal can commence. If an existing client provides investment instructions to SCPL by email or telephone (i.e., they do not transact investments on-line) they will need to sign a new Investor Application Form confirming that they have received, read and accept the terms of the Disclosure Statement, General Terms and Conditions and Investor Agreement before SCPL will accept any instructions to process investments for the existing client. Any changes to the Disclosure Statement, General Terms and Conditions and Investor Agreement will require the Investor to reconfirm acceptance of these when next logging into the Investor Platform.

Input and update of client account data

Client accounts for new clients are set up in SCPL's systems based on information contained in the Investor Application form. System set-up, along with any ongoing maintenance of client account static data, is subject to edits and validations performed by the system at the time of input. Data input is also subject to a peer review by a second member of the operations team following update in the system.

Upon completion of the set-up of the client account in the system, investment activity can only commence by the investment staff once funds have been received and acknowledged in the system by the administration team. Once set-up within the system is complete and SCPL has evidence of the client's acceptance of the Investor Agreement, an investment is chosen by the client and appropriate cleared funds invested, the client will be sent a Welcome Letter setting out information relating to the client's investment.

These processes, access rights and privacy protections were reviewed in accordance with the Privacy Act obligations.

B. Client instruction processing

Once SCPL has confirmation that a client has accepted the terms of the Investor Agreement, the client can commence choosing from investments available on the P2P Platform. Clients will provide specific instructions to SCPL on which mortgage investments they wish to invest in, by logging onto SCPL's website using their secure on-line log-on. When a client selects an investment, SCPL receives a notification to arrange that investment and uses the notification to process client transactions in the system. The Investor Management team validates the investment request matches the client's instructions contained in the website notification.

All investment requests are processed online with no email or phone requests accepted. SCPL will inform the client of the investment options on offer (live) and advise them to log-on and make their investment request via the P2P Platform. The Investor Management team validates the investment request matches the client's instructions contained in the website notification.

C. Reconciliations

Security reconciliations – an automated reconciliation process has been created to ensure that LITL's security holdings match accounting system records. Any reconciling issues between the holdings as per the SCPL investment administration system and the holdings reported by the accounting system identified will be investigated and resolved, with the results of the reconciliation process subject to review by a second reconciliation officer.

Cash reconciliations – Bank statements are obtained from BNZ daily and a daily cash reconciliation is performed to compare the cash at bank figure with the figure recorded within the SCPL investment administration system, with any variances investigated and explained.

The reconciliation will match funds deposited by individual clients into the SCPL account to their carrying investment balance recorded in the investment administration system. Any reconciling issues will be investigated and escalated to SCPL management and resolved in accordance with policy and legal requirements.

D. Client reporting

In addition to being provided with a Welcome Letter setting out information relating to the client's investment, clients are provided with a Statement of Holdings listing all of the mortgage investments they hold bi-annually as at 30 September and 31 March each year. The Statement of Holdings report is generated by the system and cannot be edited once the report is produced. LITL's Information Technology Department perform a test run to ensure the complete processing of all clients holding reports prior to the final run and the results of this test are reviewed by Operations. The reports are sent to clients by mail or email. Monitoring is performed for the event of an email delivery failure so that these can be followed up with the client and resolved.

E. Summary of Key Systems and Technology

Summary of key technology systems

i. Custody System – finPOWER

SCPL's business software system is the InterSoft Systems product, FinPOWER. InterSoft Systems is a New Zealand based business formed in 1981, FinPOWER is a finance software product designed for Finance, Lending, and Investment Industries. FinPOWER was initially released in 2000 and has grown to become one of the leading finance software packages in New Zealand.

ii. Electronic Verification – APLYiD

SCPL implemented the APLYiD digital ID solution in June 2020. This platform is a class-leading digital identity verification service that enables the Compliance team to validate an individual's identity where their supporting documentation records (passport, licence etc.) comply with SCPL's low risk policy.

iii. Storage – DropBox

SCPL has a Datto appliance and DropBox deployed as its secure back-up and storage platforms. These systems perform multiple platform snapshots during the day in addition to a nightly offline back-up. The Datto device is only accessible via secure Administrator rights and DropBox is accessed via secure network logon for individuals.

Summary of key technology processes

i. Change Management

The change management process at SCPL is governed by a formal change management policy which is updated on a regular basis by the General Manager of Technology (GMT). Changes that are controlled through this process include changes to SCPL Infrastructure, Applications, Databases, Operating systems, and Users.

a. Request and approval

Changes to the system are requested by staff members, approved by the delegated approver, and lodged with the independent third-party IT service provider. Once the requested change is processed, the service provider provides confirmation of this change, and documentation of such requests and confirmations are retained.

b. Changes Actioned

SCPL uses Base-2 as its independent third-party managed service provider (MSP). Base-2 perform or coordinate all Installs, Moves, Adds and Changes (IMAC)

ii. Access and security management

Access and security management of the SCPL's systems is governed by a formal security management policy which is updated on a regular basis by the GMT approved by the SCPL Board. The administration of access to SCPL systems resides with Base-2 under their remit as the MSP.

a. Restricting access

Identity and Access Management of the applications is maintained using defined Roles, individual log-ons and passwords. To prevent users accessing inappropriate or unauthorised functions, each Role has defined access rights, and these are assigned to unique logons for all users. Requests for new or additional access are subject to approval by the GMT in conjunction with the relevant business unit Manager. Formal approval is required in relation to any new or amended access to the application, database, operating system, or associated infrastructure.

b. Former Employees

Employees who no longer work for SCPL have their access and data files archived via a formal change request administered by the MSP. A checklist is used to ensure User access is revoked and all equipment returned. The business unit manager, or Compliance Officer, review the checklist to acknowledge such actions have been performed.

On a semi-annual basis, user accounts are reviewed by the MSP and GMT. Any anomalies are shared with the senior Management team and resolved in an efficient and timely manner.

iii. Computer operations

a. Back up and disaster recovery

All information is maintained within either the company's core application server, Microsoft 365, Microsoft OneDrive or Dropbox. The core application server is backed up five times daily to a dedicated Datto Alto appliance. The back-ups are stored on the appliance for 3 months and then archived to Datto's cloud infrastructure. The cloud archives are retained indefinitely.

In the event of a server failure, recovery of data and the relevant platforms would be achieved by using the last live local back-up.

Each backup is verified by taking a screenshot of the completed backup temporarily and releasing it when completed.

Retention policy is:

- Local backups on the Datto device for 3months.
- Local back-ups then archived to Datto-Cloud at 3months.

All business systems are maintained at recommended patch levels for the highest level of system security. The MSP performs these regular maintenance activities as scheduled tasks except where an emergency security patch is required. Emergency patching is an expedited activity and conducted within 24hrs of notification.

b. Network, Antivirus and Firewall

The SCPL network and systems are protected by several security layers including: SMX smart mail filtering, Microsoft Cloud, Cisco Umbrella for malicious malware and web site protection, redundant Meraki MX450 Firewalls for intrusion detection and management, Webroot anti-virus and Duo multi-factor authentication. The SCPL Network is monitored 24x7x365 by the MSP with any events notified and logged via their automated ticketing system. A monthly report of all activity is provided to SCPL on the first day of each month. Changes to the firewall are controlled through the standard change management process.

Webroot SecureAnywhere antivirus is a cloud-based security suite which protects all company machines from viruses, malware and other threats that may harm SCPL machines. It is automatically updated and if a threat is detected in any of the machines, the automated agent acts, immediately blocking the threat. The MSP is notified via an automatically created ticket in their system.

Email Spam Filtering is provided by the MSP and uses a cloud-based product called MailProtector. All email to or from a Southern Cross Partners (or related entities) are processed via Mail Protector where any spam or malware is quarantined. A report is sent to users daily detailing any spam email quarantined.

Subservice Organisations

SCPL has not appointed any sub-service organisations, where services material to the provision of custodian services has been outsourced.

Report by Management

As management, we are responsible for the description of the control system encompassing the control environment, the underlying processes and controls set out in this report ('System'), the identification of control objectives relating to clients' assets in the provision of custodial services, and the design, implementation, and operation of the controls to provide reasonable, but not absolute, assurance that the control objectives are achieved.

In carrying out those responsibilities, we have had regard not only to the interests of our clients but also to those of the owners of the business and to the general effectiveness of the relevant controls and efficiency of the relevant operations.

This report sets out the control objectives for custodial services provided and the specific controls established to meet those objectives. These control objectives are consistent with the control objectives provided in the Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014.

We set out in this report a description of the broad System encompassing the control environment described in pages 2 through to page 8, and the underlying processes and relevant controls described in pages 14 through to page 30, together with the related control objectives, which operated during the period 1 April 2021 to 31 March 2022.

We confirm that:

- a) this report describes accurately the System, including processes and controls that relate to the control objectives referred to above which were in place throughout the period 1 April 2021 to 31 March 2022;
- b) the System and underlying controls were suitably designed to achieve the specified control objectives throughout the period 1 April 2021 to 31 March 2022;
- c) the System and underlying controls were implemented throughout the period 1 April 2021 to 31 March 2022; and
- d) the System and underlying controls were operating effectively through the period 1 April 2021 to 31 March 2022.

The criteria used in making these assertions were as follows:

- a. The description presents how the System, including processes and controls were designed and implemented, including:
 - o The types of services provided, including, as appropriate, classes of transactions processed;
 - o The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers;
 - o The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared for customers;
 - o How the System dealt with significant events and conditions, other than transactions;
 - o The process used to prepare reports for customers;
 - o Relevant control objectives and controls designed to achieve those objectives; and
 - o Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting customers' transactions.

- b. The description does not omit or distort information relevant to the scope of the System being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and may not, therefore, include every aspect of the System that each individual customer may consider important in its own particular environment.
- c. The risks that threatened achievement of the control objectives stated in the description were identified; and
- d. The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved.

We confirm there are no events or transactions that have occurred since the reporting date that would have a material effect upon the assurance report or which are of such significance as to require mention in the assurance report in order to make it not misleading.

Signed on behalf of Southern Cross Partners Limited


Barry Milward
Director
Southern Cross Partners Limited
28 JULY 2022


Julia Milward
Director
Southern Cross Partners Limited
28 JULY 2022

INDEPENDENT ASSURANCE PRACTITIONER'S REPORT

To the Directors of Southern Cross Partners Limited

Scope

We have undertaken a reasonable assurance engagement on the design of controls within Southern Cross Partners Limited's custodial service system (the controls), comprising controls relating to the custodianship of client money and property custody, administration and information technology processes, procedures, and controls, throughout the period 1 April 2021 to 31 March 2022 relevant to compliance with the control objectives specified by clause 10 (2) of the Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 (the 'Regulations'), Southern Cross Partners Limited's description of its custodial service system at pages 2 to 8 (the description), and the operating effectiveness of those controls.

Southern Cross Partners Limited's Responsibilities

Southern Cross Partners Limited is responsible for:

- a) the functions within the custodian system;
- b) identifying the control objectives;
- c) identifying the risks that threaten achievement of the control objectives;
- d) designing controls to mitigate those risks, so that those risks will not prevent achievement of the identified control objectives;
- e) preparing the description and Statement at pages 2 to 8, including the completeness, accuracy and method of presentation of the description and Statement; and
- f) operating those controls effectively as designed throughout the period.

Our Independence and Quality Control

We have complied with the Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law or regulation, that are at least as demanding, Baker Tilly Staples Rodway maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Assurance Practitioner's Responsibilities

Our responsibility is to express an opinion on Southern Cross Partners Limited's Statement regarding the suitability of the design of controls to achieve the control objectives, the presentation of Southern Cross Partners Limited's description of the custodial services system and the operating effectiveness of Southern Cross Partners Limited's controls within the custodial services system, based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements (SAE) 3150 *Assurance Engagements on Controls*. SAE 3150 requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the control objectives, the description is fairly presented and the controls operated effectively throughout the period.

An assurance engagement to report on the design, description and operating effectiveness of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the control objectives, the completeness, accuracy and method of presentation of the description of the custodial services system and the operating effectiveness of controls throughout the period. The procedures selected depend on our judgement, including the assessment of the risks that the controls are not suitably designed, the description is not fairly presented or the controls did not operate effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to achieve the control objectives identified. An assurance engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other than in our capacity as auditor and assurance provider, our firm carries out other assignments for Southern Cross Partners Limited in the area of tax compliance services. The provision of these services has not impaired our independence. The firm has no other relationship with, or interests in, Southern Cross Partners Limited.

Limitations of controls

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and operating effectively, the control objectives may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected.

An assurance engagement on the operating effectiveness of controls is not designed to detect all instances of controls operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the outcome of the evaluation of controls to future periods is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.

Opinion

Our opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects, Southern Cross Partners Limited's Statement is fairly presented in that:

- a) the controls related to the control objectives stated in the description were suitably designed throughout the period from 1 April 2021 to 31 March 2022;
- b) the description fairly presents Southern Cross Partners Limited's custodial services system as designed, throughout the period from 1 April 2021 to 31 March 2022; and
- c) the controls, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 April 2021 to 31 March 2022.

Intended Users and Purpose

This report has been prepared for use by Southern Cross Partners Limited for the purpose of reporting to the Directors and the Financial Markets Authority in accordance with Section 9(2) of the Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014. We disclaim an assumption of responsibility for any reliance on this report to any other person other than Southern Cross Partners Limited, or for any other purpose other than that for which it was prepared.

**BAKER TILLY STAPLES RODWAY AUCKLAND****Auckland**

28 July 2022

ACCOUNT OPENING

Control objective(s)

- (a) New accounts are set up completely and accurately in accordance with client agreements and any applicable regulations.
- (b) Complete agreements that properly authorise the holding of client money and client property (authorising agreements) are established before the custodian starts providing FMCA custodial services.

Process and controls overview

Account information captured through application forms is reviewed, verified and entered manually in line with approved procedures by a segregated, specialised account opening team into the investment administration system. All accounts are subjected to review and approval prior to being activated.

Validation controls are in place to ensure mandatory information is captured.

Regulation Reference

Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2a) and (2b).

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|---|---|--|--|
| All new accounts are set up based on completed application forms which outlines the terms and conditions to which the client is agreeing. | Inspection: For a sample of 24 new accounts, verified through inspection that a complete and current application form, authorised by the new client, was processed and reviewed as part of the new account set-up. | No exceptions noted. | |
| Incomplete applications are followed up with the investment sales staff, until all outstanding documents are received. | Inspection: For a sample of 9 weeks, verified through inspection that pending registers, detailing outstanding applications, are prepared and reviewed. | No exceptions noted. | |
| All deposits made by the investors are reviewed on a weekly basis to ensure all funds received are from approved investors. | Inspection: For a sample of 9 weeks, verified through inspection that deposit summaries, detailing all deposits during the week, are prepared and reviewed. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|---|---|--|
| <p>Each account is subject to a quality control check by a second independent operator. The quality check includes a comparison of the scanned application form to details recorded in finPower (asset management system).</p> | <p>Inspection: For a sample of 24 new accounts, verified through inspection that review of the account set-up takes place by a second independent operator.</p> | <p>No exceptions noted.</p> | |
| <p>Client information is collected and verified in accordance with the relevant AML/CTF legislation and Southern Cross Partners Limited's AML/CTF Program Manual (Policy).</p> | <p>Inspection: For a sample of 24 new accounts, verified through inspection that the AML/CFT form and PEP Screening is completed and reviewed.</p> | <p>No exceptions noted.</p> | |
| <p>Account opening procedures are designed in accordance with applicable regulations and are approved by management prior to publishing and distribution. The approving managers are responsible for ensuring applicable regulations have been considered and the appropriate teams have been engaged in the review process.</p> | <p>Enquiry and Inspection: Inspected a copy of account opening procedures and verified the management approval process before publishing and distribution through enquiry.</p> <p>Observation: Verified through observation of the compliance calendar that account opening procedures are subject to regular review.</p> | <p>No exceptions noted.</p> <p>No exceptions noted.</p> | |

TRANSACTION PROCESSING

Control objective(s)

(a) Transactions are authorised, processed and recorded in an appropriate, accurate and timely manner.

Process and controls overview

Transaction information entered are supported by client authorised instructions, which are reviewed and verified for accuracy.

Manual payments are reviewed, verified and are subject to dual approval controls prior to disbursement.

Cash receipts and payments are accounted for daily and are reconciled by a segregated reconciliation team in line with approved procedures.

Regulation Reference

Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2c).

| Control Activity | Assurance Practitioner’s Test Procedures | Result of Assurance Practitioner’s Test Procedures | Management Comments (where applicable) |
|---|--|--|--|
| Transfers in are only processed based on complete and valid instructions authorised by the relevant parties. | Inspection: For a sample of 24 investor deposits, verified through inspection that transfers in are based on complete instructions and authorisations by the relevant parties. | No exceptions noted. | |
| All payments processed are in line with investor instructions and are authorised appropriately prior to distribution. | Inspection: For a sample of 24 investor payments, verified through inspection that payments processed are in line with investor instructions and authorised prior to distribution. | No exceptions noted. | |
| Cash holding account reconciliations are performed daily between the cash bank account and finPower (asset management system). Reconciling items are identified, followed up and resolved or escalated to management. Reconciliations and any escalated exceptions are then reviewed by management on a weekly basis. | Inspection: For a sample of 9 weeks, verified through inspection that cash holding account reconciliations are performed daily between the cash bank account and finPower and appropriately reviewed on a weekly basis. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|--|--|---|
| <p>Investor funds holdings reconciliations are performed monthly between the finPower (asset management system) and emPower (fund manager's records). Reconciling items are identified, followed up and resolved or escalated to management. Reconciliations are reviewed by management on a monthly basis.</p> | <p>Inspection: For a sample of 4 months, verified through inspection that investor funds holdings reconciliations are performed monthly between finPower and emPower and appropriately reviewed.</p> | <p>No exceptions noted.</p> | |
| <p>All new advisers registered to use the platform are provided with a unique user name and password to access both finPower (asset management system) and emPower (fund manager's records), based on user access.</p> <p>For all new advisers / administrators registered to use each software package, the registered account is subject to an independent quality control check by a second independent person.</p> | <p>Inspection: For all new users, verified through inspection that each registered account is subject to an independent quality control check by a second independent person.</p> | <p>No exceptions noted.</p> | |
| <p>All user accounts are subject to a periodic review to ensure all personnel have appropriate access to systems.</p> | <p>Inspection: For all employees, verified through inspection that all user accounts are subject to a periodic review to ensure all personnel have appropriate access to systems.</p> <p>Inspection: For all changes in user access during the year, verified through inspection that the change in access are appropriate reviewed and implemented,</p> | <p>No exceptions noted.</p> <p>Exceptions noted. 11 employees had modifications to user accounts during the period. For three employees, where access had been modified, user access was not appropriately approved and documented. It is noted that relevant access was appropriate for employees' role in the Company.</p> | <p>Management Comment <i>The 3 employees noted related to a new application and access given to the relevant staff members. Any new access to this application will go through the usual Access form process, and signed off by Management.</i></p> |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|---|---|--|
| Transaction procedures are designed in accordance with applicable regulations and are approved by management prior to publishing and distribution. The approving manager is responsible to ensuring applicable regulations have been considered and the appropriate teams have been engaged in the review process. | <p>Enquiry and Inspection: Inspected a copy of transaction procedures and verified the management approval process before publishing and distribution through enquiry.</p> <p>Observation: Verified through observation of the compliance calendar that transaction procedures are subject to regular review.</p> | <p>No exceptions noted.</p> <p>No exceptions noted.</p> | |
| All deposits made by the investors are reviewed on a weekly basis to ensure all funds received are from approved investors. | Inspection: For a sample of 9 weeks, verified through inspection that deposit summaries, detailing all deposits during the week, are prepared and reviewed. | No exceptions noted. | |
| All cash receipts are identified and reviewed on a monthly basis. | Enquiry: Verified through enquiry that cash receipts are subject to review and authorisation. | No exceptions noted. | |
| All payments made to the investors are reviewed on a weekly basis to ensure payments made are in line with investor instructions. | Inspection: For a sample of 9 weeks, verified through inspection that transaction lists, detailing all payments during the week, are prepared and reviewed. | No exceptions noted. | |

CLIENT ACCOUNT ADMINISTRATION

Control objective(s)

- (a) Accounts are administered in accordance with the Act, these regulations, and authorising agreements.
- (b) Records and changes to records relating FMCA custodial services are accurate and are kept –
 - In an appropriate and timely manner; and
 - In accordance with the Act, these regulations and authorising agreements.

Process and controls overview

Accounts information captured through investor written requests are reviewed, verified and entered manually in line with approved procedures by a segregated, specialised account maintenance team into the investment administration system. Investor account changes are reviewed for accuracy.

Regulation Reference

Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2d) and (2e).

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|---|--|--|
| Transfers in are only processed based on complete and valid instructions authorised by the relevant parties. | Inspection: For a sample of 24 investor deposits, verified through inspection that transfers in are based on complete instructions and authorisations by the relevant parties. | No exceptions noted. | |
| Client requested transactions are reviewed for legitimacy and appropriateness; any suspicious matters are escalated to management, where they are investigated and resolved. | Inspection: For a sample of 24 investor payments and a sample of 24 investor deposits, verified through inspection that client requested transactions are reviewed for legitimacy and appropriateness, and any suspicious matters are escalated to management. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|---|---|--|
| <p>Cash holding account reconciliations are performed daily between the cash bank account and finPower (asset management system). Reconciling items are identified, followed up and resolved or escalated to management. Reconciliations and any escalated exceptions are then reviewed by management on a weekly basis.</p> | <p>Inspection: For a sample of 9 weeks, verified through inspection that cash holding account reconciliations are performed daily between the cash bank account and finPower and appropriately reviewed on a weekly basis.</p> | <p>No exceptions noted.</p> | |
| <p>Investor funds holdings reconciliations are performed monthly between the finPower (asset management system) and emPower (fund manager's records). Reconciling items are identified, followed up and resolved or escalated to management. Reconciliations are reviewed by management on a monthly basis.</p> | <p>Inspection: For a sample of 4 months, verified through inspection that investor funds holdings reconciliations are performed monthly between finPower and emPower and appropriately reviewed.</p> | <p>No exceptions noted.</p> | |
| <p>Account administration procedures are designed in accordance with applicable regulations and are approved by management prior to publishing and distribution. The approving managers are responsible to ensuring applicable regulations have been considered and appropriate teams have been engaged in the review process.</p> | <p>Enquiry and Inspection: Inspected a copy of account administration procedures and verified the management approval process before publishing and distribution through enquiry.</p> <p>Observation: Verified through observation of the compliance calendar that account administration procedures are subject to regular review.</p> | <p>No exceptions noted.</p> <p>No exceptions noted.</p> | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|---|--|--|
| <p>Changes to client data in the system, in particular changes to client address, client e-mail address and client authorised signatories requires written approval by the current authorised signatory and are subject to review prior to being affected. Daily client logs are generated and reviewed to identify changes to investor accounts. Any variances are investigated and resolved on a timely basis.</p> | <p>Inspection: For a sample of 15 weeks, verified through inspection that changes are authorised by the client and is subject to review prior to being updated in the system. All variances are investigated and resolved on a timely basis.</p> | <p>No exceptions noted.</p> | |

HOLDING AND SAFEGUARDING OF CLIENT FUNDS

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|--------------------------------------|--|
| Control objective(s) | (a) there are adequate safeguards against the loss, misappropriation, and unauthorised use of client money and client property |
| Process and controls overview | Assets are segregated and reconciled back to independent sources on a periodic basis. |
| Regulation Reference | Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2f). |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|---|--|--|--|
| Cash holding account reconciliations are performed daily between the cash bank account and finPower (asset management system). Reconciling items are identified, followed up and resolved or escalated to management. Reconciliations and any escalated exceptions are then reviewed by management on a weekly basis. | Inspection: For a sample of 9 weeks, verified through inspection that cash holding account reconciliations are performed daily between the cash bank account and finPower and appropriately reviewed on a weekly basis. | No exceptions noted. | |
| Investor funds holdings reconciliations are performed monthly between the finPower (asset management system) and emPower (fund manager's records). Reconciling items are identified, followed up and resolved or escalated to management. Reconciliations are reviewed by management on a monthly basis. | Inspection: For a sample of 4 months, verified through inspection that investor funds holdings reconciliations are performed monthly between finPower and emPower and appropriately reviewed. | No exceptions noted. | |
| Underlying securities are reviewed on a weekly basis to assess for non-payment, overdue balances and any indicators of impairment. | Inspection: For a sample of 9 weeks, verified through inspection that the expired loan register and arrears loan register is reviewed on a weekly basis. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|---|---|--|--|
| Policies exist that address conflicts of interest for all staff. Such procedures are designed in accordance with applicable regulations and are approved by management prior to publishing and distribution. The approving managers are responsible for ensuring applicable regulations have been considered and the appropriate teams have been engaged in the review process. | <p>Enquiry and Inspection: Inspected a copy of conflict of interest procedures and verified the management approval process before publishing and distribution through enquiry.</p> <p>Observation: Verified through observation of the compliance calendar that conflict of interest procedures are subject to regular review.</p> | No exceptions noted. | |
| Validation of related party transactions is performed annually through staff conflict of interest declarations. Any actions are followed up in a timely manner. | Inspection: Inspected all annual declarations by staff stating that they have no involvement in related party lending or listing any related party investors. | No exceptions noted. | |
| First mortgage holding is appropriately registered on underlying securities to secure investors' interest in underlying security. | Enquiry and Inspection: For a sample of 24 new loan advances, obtain the property title for underlying security, and ensured that first mortgage is registered in the name of Loan Investments Trustees Limited, nominee entity securing investors' interest in the underlying security. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|--|---|--|
| <p>Register of related party transaction is maintained by the Compliance Officer and updated on a monthly basis.</p> | <p>Enquiry and Inspection: Inspected a copy of the register of related party transactions and verified the management approval process.</p> | <p>No procedures in place to restrict access to the loan files.</p> | <p>Management Comment <i>The register of related party transactions is updated every month by the Compliance Officer. The personnel involved in the loan decision making process are excluded from the decision-making process if they are a related party. All investment selections must be undertaken through the public website portal where investments are offered to all users at the same time. As those people who are investing in loans cannot influence the Company's standard credit policy, processes, and decisions regarding those loans, we do not consider that any public disclosure of specific Related Party investing is warranted. Furthermore, we are currently in the process of implementing a software upgrade to finPower which will have the ability to restrict user access.</i></p> |

MONITORING SUB-SERVICE ORGANISATIONS AND SUB-CUSTODIANS

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|--------------------------------------|---|
| Control objective(s) | (a) Sub-custodians are appropriately approved and managed and adequately monitored. |
| Process and controls overview | <p>Policies and procedures support the lifecycle of outsourced relationships. Contracts are reviewed and approved by management, and regular meetings are held with outsourced parties to ensure adherence and monitoring of agreed service level expectations.</p> <p>Sub-custody deed (where applicable) has been reviewed and approved by management, and regular meetings are held with the sub-custodian to ensure adherence and monitoring of agreed service level expectations.</p> <p>Assets held with sub-custodian (where applicable) are safeguarded from loss, misappropriation and unauthorised use. Cash positions are completely and accurately recorded and reconciled to the records of the sub-custodian on a timely basis.</p> |
| Regulation Reference | Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2g). |

| Control Activity | Assurance Practitioner’s Test Procedures | Result of Assurance Practitioner’s Test Procedures | Management Comments (where applicable) |
|---|--|--|--|
| Sub-custodian organisations are subject to a formal agreement approved by management | Not Applicable, as no sub-custodian organisations noted. | | |
| Monthly service reports are prepared by the sub-custodian and reviewed by management. | Not Applicable, as no sub-custodian organisations noted. | | |
| Sub-custodian relationships established are subject to proper due diligence procedures. | Not Applicable, as no sub-custodian organisations noted. | | |

INVESTOR REPORTING

Control objective(s)

- (a) Reports to the client in respect of holdings of client money and client property –
- Are complete and accurate; and
 - Are provided within the timeframes in the Act, these regulations, and client agreements.

Process and controls overview

The statement generation process is coordinated by the investments team which entails the drafting of key requirements for report and statement designs and layouts.

These document designs and layouts capture relevant regulatory disclosure obligations and are approved by management. Information extracted for investor reporting is based on that information sourced from the secure investment administration system.

Statements and reports are tested by experienced staff and are signed off against specific criteria. Statement and report statistics are reconciled to total investors per investment administration system to ascertain comfort as to completeness of reporting.

Regulation Reference

Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2h).

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|--|--|--|
| Confirmation letter sent to investors upon successful opening of new account. | Inspection: For a sample of 10 new accounts, verified through inspection that a welcome email was sent to the investors upon successful opening of account. | No exceptions noted. | |
| Bi-annual statements are produced for investors including detail of investment transaction(s) and income. A sample of statements are reviewed and checked by management to confirm data accuracy of letter to source system; and a reconciliation is performed between the number of statements sent and the number of accounts in the system. | Inspection: For a sample of 10 investors inspected their bi-annual statement and verified the management review process. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|---|--|--|--|
| <p>The investor reporting template is designed in accordance with applicable regulations and is approved by management prior to publishing and distribution. The approving managers are responsible for ensuring applicable regulations have been considered and the appropriate teams have been engaged in the review process.</p> | <p>Enquiry and Inspection: Verified through inspection of the report customisation document that the template is designed in accordance with regulations. Verified through enquiry that the template was approved by the Compliance Officer prior to publishing and distribution.</p> | <p>No exceptions noted.</p> | |

INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

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| Control objective(s) | (a) Information technology systems and processes are appropriate to allow the custodian to accurately and reliably meet the objectives in paragraphs (a) to (h). |
| Process and controls overview | <p>Southern Cross Partners Limited has defined security policies, standards and procedures to protect its information systems from unauthorised access, modification and deletion. New employees are advised of the Information Risk Policies during orientation and re-training conducted when required. Segregation of duties is enforced between development and IT Operations personnel.</p> <p>Individuals request access to key systems through a designated authorised personnel, which is approved prior to being granted. User access reviews are conducted on a regular basis and issues noted are resolved in an appropriate and timely manner.</p> |
| Regulation Reference | Financial Advisers (Custodians of FMCA Financial Products) Regulations 2014 s10 (2i). |

| Control Activity | Assurance Practitioner’s Test Procedures | Result of Assurance Practitioner’s Test Procedures | Management Comments (where applicable) |
|--|--|--|--|
| New Access requests (including temporary access) to data systems must be approved by authorised personnel. | <p>Enquiry: Verified through enquiry that new access requests must be approved by authorised personnel.</p> <p>Inspection: For a sample of all new employees, verified through inspection that user access has been appropriately approved and documented.</p> | No exceptions noted. | |
| <p>Policies exist which address logical access and were available to all staff, including the following:</p> <ul style="list-style-type: none"> - Access management - Information Risk - Interest usage | <p>Observation: Verified that the “IT Policy” details policies on logical access and is available to all staff.</p> | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|---|---|---|
| Procedures which support the secure removal of client data prior to disposal or redeployment of equipment exist. | Enquiry: Determined through inspection that policies exist which address secure removal of client data prior to disposal or redeployment of equipment. | No exceptions noted. | |
| Additions or modifications to user accounts require management approval and are documented. | Inspection: For all additions or modifications to user accounts, verified through inspection that user access has been appropriately approved and documented. | Exceptions noted. 11 employees had modifications to user accounts during the period. For three employees, where access had been modified, user access was not appropriately approved and documented. It is noted that relevant access was appropriate for employees' role in the Company. | Management Comment The 3 employees noted related to a new application and access given to the relevant staff members. Any new access to this application will go through the usual Access form process, and signed off by Management. |
| Revocations of user access are performed in a timely manner and are documented. | Observation: Verified through observation that only approved personnel have authority to revoke user access. Inspection: Verified through inspection that revocations are performed in a timely manner and are documented. | No exceptions noted. | |
| All accounts are subject to a periodic review to ensure all personnel have appropriate access to systems. | Observation: Verified through observation that policies exist which require annual review of all user accounts. Inspection: For all employees, verified through inspection that all user accounts are subject to a periodic review to ensure all personnel have appropriate access to systems. | No exceptions noted. | |
| IT security and server configuration standards exist for Operating systems and database servers. | Enquiry: Verified through enquiry that IT security and server configuration standards exist for Operating systems and database servers. | No exceptions noted. | |

| Control Activity | Assurance Practitioner's Test Procedures | Result of Assurance Practitioner's Test Procedures | Management Comments (where applicable) |
|--|--|--|--|
| Firewalls are in place to protect the Southern Cross Partners Limited network from external connections. | Enquiry: Verified through enquiry that firewalls are in place. | No exceptions noted. | |
| Periodic tests of the perimeter network security are performed and the results are reviewed. | Inspection: For a sample of 4 months, verified through inspection that network security is tested periodically. | No exceptions noted. | |