

AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

iPartners Investment Fund

December 2020

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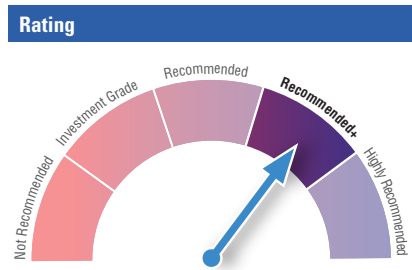
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Note: This report is based on information provided by the company as at December 2020.



Key Investment Information	
Name of Fund	iPartners Investment Fund
Investment Manager	iPartners Funds Management Pty Ltd
Trustee	iPartners Nominees Pty Ltd
Investment Type	Wholesale unit trust
Investment Term	Suggested 3-years
Application Close	Open-ended
Unit Issue Price	\$1.03 (30 Nov 2020)
Minimum Investment	\$10,000
Target Return (% p.a.)	8-10% p.a.
Redemption Frequency	Monthly
Distribution Policy	Quarterly
Application Fee	None
MER	0.5% p.a.
Trustee Fee	0.1% p.a.

Fees Commentary

At an all-in 60bps, this is probably the most competitively priced private debt mandate in the Australian market. The Manager's philosophy in terms of setting this level speaks to the genesis of the Fund itself. Namely, to provide a service to investors wanting to access product more so than an emphasis on extract more material fee income.

Portfolio Characteristics (as at 30 Nov 2020)	
Property Debt	44%
Asset Backed Debt	40%
Private Credit	11%
Cash	5%

OVERVIEW

The iPartners Investment Fund ("the Fund") was established as a wholesale unit trust on 6 March 2020. The Fund is managed by iPartners Funds Management Pty Ltd ("iPartners" or "the Manager"). The Fund provides exposure to a diversified portfolio of private credit, asset backed debt, property debt and private credit funds. All loans are secured against a portfolio of loans, receivables or cashflows. The target portfolio allocation is Private credit: 0-40%; Asset backed debt (ABS): 0-40%; Property: 0-40%. As a 30 November 2020, the portfolio split 44% in property, 40% ABS, 11% private credit and 5% in cash. The average loan maturity is a relatively short 12-24 months. The Fund aims to pay distributions on a quarterly basis. The Fund is designed to produce an annual yield of around 8% to 10% (net of fees and costs) measured over the investment horizon with a low degree of volatility. While the track record is limited to data, the Fund has delivered a 10.07% annualised return since its inception, net of all fees.

INVESTOR SUITABILITY

IIR has for some time now viewed Australian private debt as offering one of the most attractive risk-adjusted returns profiles. It is also one of the few asset classes where the skillset of the manager can actually demonstrate the ability to 'preserve investor capital'. The Fund is one of the more attractive propositions this analyst has seen in the asset class. In essence, we believe it is very well positioned to capitalise on the private debt premia, which comprises three components: 1) an illiquidity premium; 2) a complexity premium; and, 3) and a supply / demand premium. A premium is not earned until a loan is repaid - i.e., risk management to mitigate defaults and loss-given-defaults (LGDs) is critical. It is here where we believe the Manager excels in the smaller end of the private debt market it plays in. In short, on a pound-for-pound basis, we believe the Fund delivers a compelling risk-adjusted returns value proposition. More broadly, the iPartners platform provides investors single loan opportunities as well (many of which are folded into the Fund), providing investors the opportunity to dial up / down overall risk / return in relation to a larger portfolio investment. At the lower end of the 8-10% target, the 8% level is there to factor in any cash dilution risk. This potential issue is well-managed. In short, we would expect the Fund to continue to deliver in the circa 10% net return range.

RECOMMENDATION

IIR ascribes a **"RECOMMENDED PLUS"** rating to the Fund. The basis for the rating is partly described above. The Manager's ability to extract the premia is based on 1) its expertise in structured finance ABS, with various structural protections in place to mitigate risk in addition to careful borrower selection and, 2) careful co-investor best-of-breed selection for its CRE and business private debt strategies. We talk about an illiquidity premium in private debt. While IIR believes this tends to be overstated, it certainly does exist (the leveraged loans market vs private broadly syndication loan (BSL) / club syndication private deals quantifies the premium). What is attractive in the Fund is that while this is earned, investors have monthly liquidity. The right private debt strategy with the right manager is a 'no brainer' in IIR's view. We do not believe the fundamental of this market in Australia will deteriorate over the foreseeable future. In contrast, investors are well aware of near zero returns on TDs and the impact on equities dividends over 2020 (noting the outlook has improved markedly more recently). Finally, returns to investors are always net of fees to state the obvious. At an all-in 60bps, the Fund is very sharply priced. While exogenous to this review and Fund, we would ultimately encourage iPartners to launch a structured finance ABS specific strategy some time down the track.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT ANALYSIS

Strengths

- ◆ A highly experienced ABS securitisation team with a complementarity of skillsets. This in the context of a market where many investment professionals with similar experience gained in the lead up to the GFC moved into different areas post GFC - there is not a 'deep bench' of experience in Australia in ABS securitisation. This enables the Manager to capitalise on an attractive complexity and supply / demand premium, augmented by the smaller end of the private debt market it plays in. Team stability is deemed very high.
- ◆ To date, the Fund has performed slightly above the upper end of the target return, generating an annualised return of 10.07% to 30 November 2020. While the track-record is short, the Manager has a 3-year track record in originating deals, recording no defaults and, hence, zero LGDs. Given the team's experience, process, portfolio construction and risk management, IIR has a high degree of conviction the Fund can continue to track the performance to date.
- ◆ There is an extremely strong layering of structural protections in relation to the ABS securitisation deals the Manager originates. These include: senior security over all assets of the borrower; ring fencing of borrower operational risk through the establishment of an SPV to house all collateral; 'generous' first loss provision provided by the borrower; a 20% 'charge' over the profit before tax (PBT) or Net Interest Margin (NIM); and various arrears / default provisions.
- ◆ The Manager recognises its relative strengths and weaknesses by private debt asset class sub-segment. For CRE and corporate lending it co-invests with what are considered best-of-breed private debt lenders in the space. The three-part portfolio by private debt sub-segment serves to further diversify the portfolio by sector, borrower, and collateral and feeds well into the 'set-and-forget' philosophy of the Fund.
- ◆ Structurally, the Fund has been well constructed, specifically monthly liquidity (in an illiquid asset class), very low fees, and prudent portfolio construction, the latter of which further strengthens downside protection in the Fund.

Weakness

- ◆ All relatively small investment teams face key man risk (I would be casting an indirect aspersion to say otherwise). While a three man team (in terms of the senior members) is not the smallest team we have reviewed, the complementarity of skillsets does equate to a degree of key man risk in relation to any one of the three. Given all three are principals in iPartners, the risk is a case of being hit by the proverbial.
- ◆ Being a co-investor (potentially up to two-thirds of the book in the case of the Fund) can be dis-advantageous relative to being the originating private debt lender. However, where this is the case it is more so in large club syndication or broadly syndicated loan (BSL) deals. In the case of the Manager given its choice of lending partners, process, pari-passu status on lends, etc, we do not believe this to be the case at all.

Opportunities

- ◆ Pound for pound, IIR believes the Fund provides a compelling risk-adjusted returns value proposition. Strong lending partner selection in both CRE and corporate debt greatly mitigate property sector and company specific idiosyncratic risk. We also note that leverage multiples on corporate debt are very low (although, sensibly so given the smaller nature of the borrowers). ABS securitisation structural protections are extremely strong, and pricing is materially higher than public securitisation comparables (albeit with some justification).

Threats

- ◆ All debt strategies face the threat of loan impairments adversely impacting capital and income returns. We note that Covid-19 has presented a myriad of risks to all asset classes, and the impacts on the real economy are most likely not fully washed through yet. Having said that, we refer back to the investment processes noted above which IIR views as greatly mitigating such potential risks.

PRODUCT OVERVIEW

The Fund provides exposure to three private debt sub asset classes, specifically asset backed securities (ABS securitisation) and typically with account receivables serving as collateral, commercial real estate (CRE) lending (almost invariably secured by a first mortgage lien), and private business loans (corporate lending) typically to SMEs and secured by cashflows.

ABS lends are originated by the Manager and for any lend included in the Fund. CRE and corporate lends are conducted on a co-investor basis with a select number of partners (five in total currently) considered best-of-breed in their respective segments. CRE loans typically represents bridging finance lends (generally a term of less than 12-months). It currently has four primary co-investing partners, two in CRE lending and two in corporate debt. All four are well known and regarded originators of loans in the market.

The Manager's real in-house expertise is ABS securitisation. All such lends are originated, executed and managed directly by the Manager, with the Fund investing in either a Senior or Junior tranche as determined by suitability for inclusion in the Fund. For the purpose of creating greater diversification by borrower, sector, security type, the Manager co-invests with select best-of-breed private lenders with respect to CRE and corporate cashflow lends.

In the case of ABS securitisation, loan size is in the lower range of the private debt market, generally from \$2-\$5m. Loan duration is typically 12 to 24-months, although repeat refinancing deals with existing borrowers on the ABS and business segments has been strong, which speaks well to the prudent manner in which the Manager executes its private debt strategy in addition to serving to effectively augment risk-adjusted returns over time. In the case of CRE and larger corporate lends, the Fund will typically make a 10-20% contribution to co-investment deals executed by its partner lenders.

In IIR's view, the Fund is underpinned by a very strong investment philosophy and one that ultimately benefits investors, again on the basis of risk-adjusted returns. Australian investors that are now familiar with the domestic private debt market are likely well familiar with the growth opportunity for non-ADI lenders - the banks are in retreat due to both regulatory / capital requirement reasons, Covid-19 work load pressures with existing books, slower, less nimble processes, and internal classification that deem many (otherwise eligible potential borrowers) as 'non-conforming'. IIR has written in some detail about this dynamic in the past. Suffice to say in relation to the Fund, pipeline and attractive opportunities will not be an issue.

Over and above this volume dynamic however, in IIR's view, private debt can be such an attractive asset class in Australia more so due to the private debt premia. This consists of three components: 1) an illiquidity premium; 2) a complexity premium; and, 3) supply / demand dynamics. The illiquidity premium is overstated in IIR's view, although it is certainly there by way of a premium over and above the leveraged loans market. The real uplift in risk-adjusted returns comes from the second two components.

By complexity premium, this is the ability of certain adept private lenders that have the expertise to structure lends in a way that not only greatly mitigates default risk (or, more importantly, loss-given-default (LGD) risk) but have the expertise to execute lends that other managers do not have the ability to prudently do.

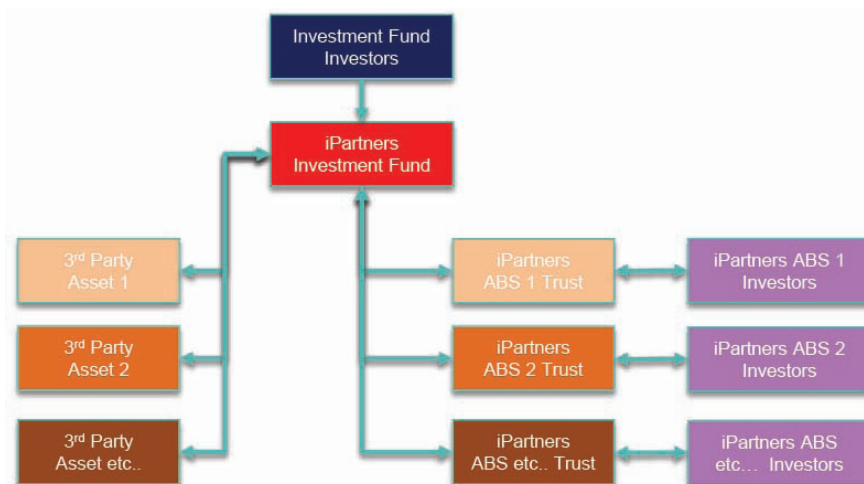
By supply / demand, iPartners is intentionally playing in the lower end of the loan size market (CRE lending excepted). Larger respected players like Metrics, Moellis, Qualitas, Gryphon, etc may well have the expertise, but are simply too big to play in the lower market segment.

Finally, to return to the illiquidity premium, worth noting that investors in the Fund have monthly liquidity. That is, the premium is earned, but the illiquidity effectively not incurred by investors.

Investment Structure

Sourced assets may be external to the iPartners investment platform or they may be held within the iPartners investment platform as separate series to this series. Assets of other series will be held in separate sub-trusts and governed by the same trustee and subject to its discretion.

Fund Investment Structure



Fund Inflows Management

iPartners is in a very unique position to manage fund inflows and outflows, as there are over 4,000 registered investors who can create liquidity for the fund units and the underlying assets creating a unique liquidity position in a traditionally illiquid asset class.

Through having a significant allocation to non-bank lenders in the growth phase, the deployment of capital is well aligned as the Fund can take on new investors and deploy capital in line with the non-banks constant growing funding requirements. This combined with being a client to the street and the flexibility to invest in 3rd party private credit funds means the cash drag on performance can be largely minimised.

Redemptions / Liquidity

Like any private debt fund, the Manager seeks to manage its maturities to create liquidity, creating a diversified portfolio by 'maturity wall' over time. Of course, there is still an inherent risk that redemptions could be restricted in the (highly unlikely) case of a run on the Fund.

What is unique about the iPartners' platform is the second way in which it can create liquidity. This process is facilitated in two steps:

- 1) Facilitating the interaction of buyers and sellers of trust units on the Manager's platform (\$10,000 minimum investment size and 4000 direct investors);
- 2) Partial liquidation of underlying units or loans to a 3-rd party. Given a number of credit funds invest in iPartners deals, the Manager can create liquidity by 'chopping' up the underlying assets and on-selling to investors should the Manager need to take an active approach.

The in-house fund structuring team purposefully interposes a wholesale unit trust in-between underlying assets to allow more seamless partial sales to create liquidity. This is a unique feature, as a partial transfer of a lender of record often requires approval of the borrower and can be time and documentation intensive. Transfer of an iPartners underlying unit trust can be facilitated intra-day if required.

MANAGEMENT GROUP PROFILE

iPartners is an innovative, secure, cloud-based technology platform that provides wholesale investors direct access to a diversified range of alternative investments across a broad range of asset classes.

Established in 2017 as a direct, online co-investment platform by experienced investment professionals Travis Miller and Rob Nankivell, iPartners has raised close to \$500 million, leveraging their significant capital raising experience in the structured finance ABS segment as well as partnering with other what are considered best-of-breed lenders in the CRE and corporate lending segment. These partnering relationships are based on careful selection and now solid relationships.

iPartners provides wholesale investors with direct access to transactions previously limited to family offices and institutional investors. The platform provides a streamlined and transparent process for investors to review, assess and invest in alternative assets online at a time and place using technology that suits them.

iPartners' principals are co-investors in the Fund with a large amount of their personal capital invested, which adds to an alignment of interest. However, the alignment is not limited to personal capital. When the Manager structures an ABS deal it 1) ensures the Fund is 'senior' to the borrower servicing the loan and, 2) that the borrower has a large part of its capital exposed and that the capital remains at risk for the duration of the loan.

The genesis of the Fund was to provide a simpler investment offering to its investment base relative to single loan offerings. That is, to provide an evergreen, set-and-forget style strategy.

INVESTMENT TEAM

The Investment Committee (the direct investment team) is made up of Travis Miller, Portfolio Manager, Rob Nankivell, Managing Director and Chris Reade, Chief Operating Officer .

The direct investment team consists of Travis Miller, Portfolio Manager and Lincoln Stollery, Head of Investor Relations and Dan Steen involved with investment review and due diligence.

The bio's of each member is presented below, but the common themes regarding experience are: institutional investment banking experience; significant structured finance expertise; a complementarity of experience across asset classes, notwithstanding the credit focus; a complementarity of skillset across origination, due diligence, structuring, ongoing loan monitoring; and, a complementarity of experience between client facing and analytical due diligence and loan structuring.

All three members have know each other for a number of years, partly in case of Travis and Chris working together at UBS. Given this, equity ownership, etc, team stability risk would be perceived as very low.

While the Manager's co-investment private debt partners are not part of the team, investors should effectively think of them as such, and notwithstanding the strong oversight the Manager has over all loans on an ongoing basis. Importantly, these partners are deemed best-of-breed and have effectively undergone 'internal DD' by the Manager through engagement of time. They can also be a good source of 'IP build' for the Manager in CRE and corporate lending given these partners' expertise.

The key members of the investment team are detailed below.

- ◆ **Rob Nankivell Managing Director & Co-Founder.** Rob has been active in financial markets for more than 25 years with a primary focus on building investments across a range of asset classes. He has worked in Melbourne, Sydney and London with Macquarie Bank, CBA and JPMorgan before holding senior roles at Longreach Global Capital and Venture Crowd. Rob has first hand experience across equity, credit and property markets and has a passion for originating and completing successful transactions for investors.
- ◆ **Travis Miller, Managing Director & Co-Founder.** Travis is co-founder and joint Managing Director of iPartners, and through the early years of the business has primarily led the evolution of the iPartners private credit, private securitisations and funds management businesses, with a constant eye to the broader strategic direction and emerging bolt on opportunities. Prior to iPartners he had worked in financial markets for the last 20 years, most recently as Managing Director at UBS Investment Bank, previously as a Director at Deutsche and ANZ Bank. He has been a pioneer in the evolution of alternative investments and products in Australia. Having priced, structured and offered assets giving investors exposure to credit, rates, equities, FX, derivatives, ETF's, funds, property, infrastructure and agriculture.
- ◆ **Chris Reade, Chief Operating Officer.** Chris has more than 20 years of experience in Australian financial markets, having worked at UBS Investment Bank, Commonwealth Bank and Nikko Asset Management in senior product structuring and transaction execution roles. Chris is an expert in designing, building and operating best of breed investment products, services and transactions. He has experience across a very broad range of asset classes and product types including derivatives, structured products, investment lending, unlisted funds, exchange traded funds and property syndicates.
- ◆ **Lincoln Stollery, Head of Investor Relations.** Lincoln has over 5 years' experience in financial services, beginning his career with ROC Partners, before transitioning into equity-sales focused roles at Wilsons Advisory and FinClear. As Head of Investor

Relations Lincoln currently works to distribute products and manage client engagement across the iPartners platform. Lincoln holds a Bachelor of Commerce and is currently completing the CFA.

- ◆ **Dan Steen, Director, Business Development.** Dan is a Director at iPartners and has nearly 20 years of experience in financial markets. Largely working in sales and business development roles across interest rate, FX, credit / debt markets, Dan was most recently a Director at Deutsche Bank in Sydney. He has previously worked for a number of other organisations including Bankers Trust, Goldman Sachs, Goldman Sachs JB Were, AIG Financial Products and RBS with a significant part of his career based in Asia.

Investment Team & Investment Committee Personnel			
Name	Position	Yrs at Manager	Ind. Exp. (yrs)
Travis Miller	Portfolio Manager Managing Director & Co-Founder	4	20+
Rob Nankivell	Managing Director & Co-Founder	4	25+
Chris Reade	Chief Operating Officer	4	20+
Lincoln Stollery	Head of Investor Relations	2	5+
Dan Steen	Director Business Development	1	20

INVESTMENT PROCESS

Investment Philosophy

Returning to the notion of private debt premia and focusing on ABS, we believe the bang from buck in the Fund derives from several key aspects.

In relation to the complexity premium, there are not a lot of managers experienced in asset backed securitisation. Post GFC, many professionals in the space moved on to different roles, with the result that there is no longer a deep bench of experience in the segment. In contrast, within iPartners all three principals have either directly structured, originated or distributed these investment products.

Where many private debt lenders may look at an opportunity and say “too hard,” the Manager will seek to ring-fence the risk in relation to the real assets (being a receivable or a loan) away from the operating entity (the borrower). This being the security over the loan. These structural provisions are examined in the Investment Process section of the report.

With supply and demand, the Manager is lending in a segment too small for many larger players, notwithstanding co-investing with two larger managers in CRE lending.

As an example, the Manager has undertaken a number of what in effect are warehouse finance lends to non-bank lenders, having worked with eight pre scale non-bank lenders to offer them warehouse facilities to facilitate the growth of their books. Non-bank lenders are one of the fastest growing segments in the local market. A number of players in the tier below the larger players (Bluestone, Pepper, Latrobe, Latitude, Flexi, Zip Money, MoneyMe, WISR, Prospa and Plenti, for example) focus on building out prime credit books. This is not dissimilar to domestic bank personal loan or SME books, although they utilise technology to out compete the banks through point of sales origination (whether it is through the likes of Bunnings, private schools or providers of solar, pools, roof services, and other services).

There is some risk at the operational/holding company level regarding growth and profitability. However, iPartners’ deliberately structures its loan and security at the funding vehicle level (via an SPV) to mitigate its credit risk to the operations. The funding entity generates the profit and holds all the assets.

This segment of the market is not closely followed because it requires an in-depth understanding of legal/risk structuring and securitisations, has smaller loan sizes and requires a longer-term partnership with the client. Many of iPartners’ clients have an ongoing need to grow their books and the financing task extends beyond a single funding round and requires frequent taps that does not suit all investors. The Manager views it as an efficient, progressive, non-committed way of allocating capital. As the transactions perform, the Manager can re-invest, if they do not, the Manager can manage existing positions without committing more capital.

Partnerships

In relation to CRE and corporate lending, the underlying philosophy is that by co-investing with select best-of-breed lenders the Fund can facilitate scale, diversify the portfolio by collateral, sector, borrower, and mitigate idiosyncratic property developer / company specific risk (by the investment selection and workout expertise these lending partners have). All up, the intention is to generate improved risk-adjusted returns by way of the greater portfolio diversification.

As a lender, iPartners is not particularly comfortable with developer or corporate idiosyncratic risk, having a natural preference for asset backed lends structure in a way that ring fence such risk. It only gains comfort with such lends by co-investing with specialist lender in both the CRE and corporate lending segments.

Additionally, these partners have a high degree of alignment of interest with investors, being equity owners and co-investors (as per the Manager). All things being equal, an investor should have a preference for an investment manager with 'skin in the game'. And as we have previously noted, private debt is possibly the only asset class where manager skill can solely determine capital preservation, or lack thereof (i.e., the value of alignment of interest is arguably higher than any other asset class).

The purpose of this report is not to take a deep dive into each of these partners, rather gain confidence in the selection process / criteria the Manager employs in its co-investing relationships, which IIR does. Additionally, IIR has a high degree of familiarity with one of the co-investing partners, given its prominence in CRE lending. This is a highly adept investment manager with strong systems, governance, and long standing relationships with developers (borrowers) and investors (ranging from super funds, family office, HNWI).

ABS Structuring

The Manager's real expertise and point of differentiation is in the origination and structuring of ABS securitisation lends. For any given ABS lend, the Manager will issue either a Senior only 'tranche' or a Senior and Junior tranche. How the Fund participates (either Senior or Junior or both) is discussed in the Portfolio Construction section.

Given the limited number of experienced players in this segment, and where a prospective borrower is dependent on the debt capital to grow, the Manager has a lot of power from a legal documentation perspective.

This is very much evident in the key aspects of its deal structuring, which effectively represents a series of lines of capital and interest income defence. Specifically: 1) Registered senior secured charge over funding vehicle & all assets; 2) 100% of first loss provision funded by the servicer upfront; 3) 25% of servicer net interest margin (NIM) retained by funding vehicle (deferred profitability); 4) 100% of NIM retained for servicer portfolio underperformance; 5) Revolver stopper & book roll off for servicer portfolio underperformance; and, 6) Interest support from servicer holding company if NIM does not satisfy interest obligations.

We discuss each in some detail below but suffice to say here that taken together these structural protections provide an extremely strong position with respect to capital and income. Additionally, a number of these protections do not exist in the larger public ABS securitisation deals.

The other point we would note is, to this analyst's eye at least, some of these provision appear onerous to the borrower. One thinks "christo, why would a borrower risk it?" Well, a borrower would only 'risk' it if they were confident of not defaulting on the terms. That is, confident of growth. In this respect, these structural provisions act as an excellent self-validation tool. Additionally, if these prospective borrowers were to approach a bank, the bank would invariably require a personal or corporate guarantee which some borrowers are reticent to issue.

1) Registered senior secured charge over funding vehicle & all assets. As a starting point the Manager invariably executes a registered senior secured charge over the funding vehicle and all assets of that vehicle. Furthermore, the collateral is placed in an SPV to negate any operational risk associated with the borrower.

2) 100% of first loss provision funded by the servicer upfront. The borrower, or operating entity, is subject to a 100% first loss provision and the specified amount must be funded by the borrower (into the SPV) prior to the loan being drawn. In the case of a senior and junior

tranche, the Junior subordination typically ranges from 5% up to 20%. On Senior, it typically ranges from 25% up to 50%. IIR notes these first loss provision amounts exceed the ranges typically found in public securitisation deals (3.5% to 7% on Junior and 15% to 40% on Senior). I.e., the protection is greater in the case of deals executed by the Manager.

3) 25% of servicer net interest margin (NIM) retained by funding vehicle (deferred profitability). Under this structure, 25% of the borrower's profit before tax (or NIM) is retained in the SPV structure. This structure increases the subordination over time, as the cumulative retained PBT over time grows, as well as effectively 'back ending' the borrower's profit. It also provides for an alignment of interest between the borrower and the Fund, as it incentivises the borrower to 'work hard' to get back its first loss provision. This structure does not typically exist in traditional (public) securitisation.

4) 100% of NIM retained for servicer portfolio underperformance. Under this structure, if the borrower is in arrears by an amount equal to typically 3% of the loan value the Manager proceed to capture 100% of the borrower's NIM until the level of arrears falls back below the trigger threshold of 3%.

5) Revolver stopper & book roll off for servicer portfolio underperformance. Should a borrower breach a certain amount of arrears the Manager will progressively roll off the loan (pay down the Senior tranche) through periodic principal and interest payments, rather than re-lending as a loan amortises until the legal maturity.

6) Interest support from servicer holding company if NIM does not satisfy interest obligations. Under this structure, which again does not exist in public securitisations, if the total outstanding interest bill exceeds 100% of the NIM, the borrower is required to fund the shortfall by way of an injection of capital or cash reserve.

ABS Securitisation Pricing

Pricing on Junior units typically ranges from 9.5% p.a. to 12% p.a. and from 6.5% p.a. to 10% p.a. on Senior units

Pricing is largely determined by market comparables from public transactions, anecdotal research and feedback from other more traditional private ABS lenders (clearing pricing is constrained by the gross portfolio return from the servicer / borrower perspective).

CRE Lending

The Manager typically participates in shorter duration bridging finance transactions for either land and/or property development projects. Typically, these are senior secured loans, 18-month maturity, 10%+ p.a., monthly pay, and relate to residential, commercial, industrial, or buy to rent projects. Co-investment is on a pari passu basis with other lenders through a SPV or Trust structure. LVRs typically range from 55%-65%, with the Manager having a perfect look through to the underlying borrower by way of the information transparency accorded by the originating lender. As per bridging finance in general, exit is by way of refinancing, often by ADI lenders, once the project has achieved certain milestones.

The Manager differentiates its two co-investing partners partly based on typically risk-return profile, with one typically executing at higher LVRs / higher coupon payments than the other.

To allay any potential concerns regarding the (typically) higher LVR originating partner, this is a lender with significant resourcing (50 plus staff in offices across Australia including a significant number of experienced former bank lending personnel), have excellent relationships with developers and investors alike (super funds, smaller funds, family office, HNW clients). From a risk management perspective, the lender has never had a history of income or capital impairment and represent one of the earlier non-ADI lenders in the CRE construction finance segment.

The Manager's relationship with both lenders is, in turn, supported by long standing personal relationships with key members of both teams. The Manager regards both as being extremely well run with the Manager benefiting from the thoroughness of due diligence undertaken in executing any lend. Additionally, both typically contributes its balance sheet to any transaction, often at the junior level. That is, the alignment of interest is strong.

Corporate Lending

As noted, the Manager has two key co-investing partners in this segment. These loans are typically structured as senior secured loans over cashflow and receivables (the latter often providing a degree of collateral exceeding the loan) with a 2-year maturity and amortising over

the term (such that leverage declines over time) and typically pay 12%+ p.a. Leverage, as defined as total debt to EBITDA, typically starts at 2.5 to 3.0x, declining over time by way of principal amortisation.

Both co-investing partners are considered as very conservative in their lends. The leverage ratios are materially lower than the mid-market direct lending market, for example, with the latter typically in the 5x-6x vicinity. That said, we would expect lower leverage given the smaller size of the borrowers.

INVESTMENT PROCESS

Loan Assessment and Management Process

The loan assessment and management process is relatively consistent with standard private debt processes employed by investment managers. Nor should it be any different given its tried and true nature over time.

In that context, the next section focuses on the Manager's philosophy to selecting or rejecting potential lends.

In this regard, step one is a case of which party (3rd-party originator) is introducing the underlying borrower to the Manager. The Manager needs to know and trust the originator. Many prospects operate businesses that any manager would not initially be across, hence the need to trust the quality of work undertaken by an originator.

The second piece is who owns the equity. The Manager has a strong preference for transactions where there is an entrepreneur or a founder, and who has a significant portion of their personal wealth tied up in the business; they tend to work a lot harder than a borrower who does not own the equity to ensure the business succeeds.

The third step is assessing the key personnel in the borrowing entity: track-record, longevity, reputation, etc. The Manager is well networked across the Australian market, stating that it is rare that it comes across a potential lend where it can not link back to the key personnel.

The final step is the standard due diligence and legal structuring. In respect to the latter, the Manager seeks to structure a deal in its favour. If things go bad, the Manager wants to be able to take control, turn off the tap, take more of the borrowers P&L.

PORTFOLIO CONSTRUCTION

The portfolio is guided by single asset limits, typically being 2.5%-5% with a preference to be at the 2.5% level. Investors should note that over the first 12-months, or so, single asset levels will exceed these amounts in some cases as the FUM ramps up.

In any new fund, cash drag is a risk. The Manager has sought to mitigate this risk by having a monthly instalment process.

With respect to ABS holdings, as noted, the Manager typically has a Junior and Senior tranche for investors. The Fund will either make an allocation to both to create a blended return or an allocation to a single tranche on the basis of a better risk vs return. At times the Manager will do only a single tranche.

On the allocation process, an investment is assessed by the investment committee for approval prior to launch. The next step is to size the minimum and maximum investment given the portfolio rules. The Fund is then scaled pari-passu with other investors. This ensures the Fund is not the last investor in, and is thus treated in line with other investors (no conflict of interest).

The portfolio as at 30 November 2020 is detailed below.

Portfolio Composition (30 November 2020)			
ABS	Maturity	Coupon	Subordination
Broad Consumer Junior Secured Loan	8/30/2021	12%	7%
Broad Consumer Senior Secured Loan - Series 1	3/16/2022	7%	30%
Broad Consumer Senior Secured Loan - Series 2	3/10/2022	12%	7%
Education Junior Secured Loan - Series 2B	1/13/2021	10%	5%

Portfolio Composition (30 November 2020)			
Senior Secured Receivables Loan	8/30/2021	10%	20%
Broad Consumer Senior Secured Loan	12/22/2024	7%	30%
BNPL Senior Secured Loan	3/31/2022	10%	20%
Medium Business Junior Secured Loan	9/15/2021	12%	5%
Livestock Senior Secured Loan	4/5/2022	7.50%	50%
Broad Consumer Junior Secured Loan - Series 3D	9/12/2021	9.50%	6%
SME Junior Secured Loan - Series 2	18/09/2022	12.00%	10%
PROPERTY			LVR
Adelaide Senior Secured Loan	2/1/2021	12.50%	65%
Castle Hill 2 Senior Secured Loan	3/10/2021	12.50%	60%
Cheltenham Senior Secured Loan	4/30/2021	9.00%	60%
Penrith Senior Secured Loan	11/15/2021	8.75%	60%
Dixon & Goulbourn Senior Secured Loan	2/3/2021	12.50%	65%
North Melbourne Senior Secured Loan	10/24/2021	10.50%	50%
Dural Senior Secured Loan	31/08/2021	10.00%	60%
South Melbourne Senior Secured Loan	10/9/2021	9.00%	55%
PRIVATE CREDIT			GEARING
Flooring Senior Secured Loan	12/27/2021	13%	1.4
Non-Bank Lender Senior Secured Loan	26/08/2021	12%	1.5
Energy Senior Secured Loan	8/21/2021	13%	2

Source: Manager

PERFORMANCE ANALYTICS

Like all private debt mandates, income paid to investors is a function of gross interest less manager fees less any loss-given-defaults. We note: there has been zero losses / no arrears, with all loans performing; no loan losses or arrears across the platform &/or while co-investing in loans. Again, all loans are performing

Monthly performance is tabled below, with the Fund having recorded annualised performance since inception of 10.07%.

Investment Team & Investment Committee Personnel				
Reported Numbers	Unit Price	Monthly Perf (unit p)	Monthly Perf (pm)	Annual Perf
Mar-20	\$1.008	-	11.41%	11.41%
Apr-20	\$1.012	0.423%	8.36%	9.63%
May-20	\$1.018	0.583%	11.38%	10.20%
Jun-20	\$1.023	0.488%	9.73%	10.09%
Jul-20	\$1.022	0.998%	10.91%	10.26%
Aug-20	\$1.030	0.766%	9.43%	10.13%
Sep-20	\$1.039	0.887%	9.52%	10.04%
Oct-20	\$1.026	0.784%	9.69%	9.99%
Nov-20	\$1.034	0.779%	9.55%	10.07%

Source: Manager

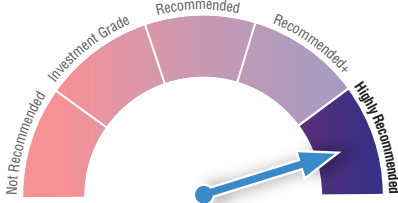
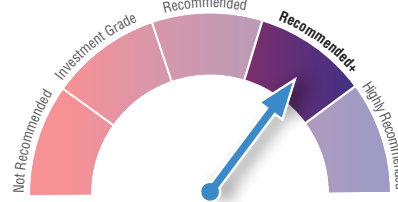
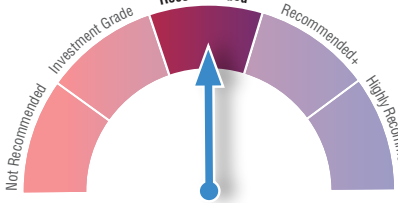
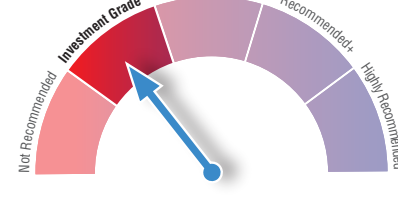
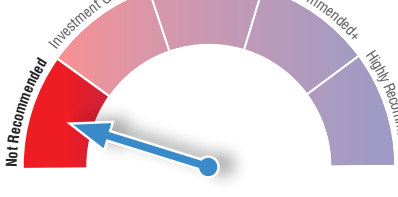
IIR notes that performance to date, noting the track-record is short, has been extremely consistent on a monthly basis and, on an annualised basis, at the upper end of the target range. That is, right in-line with what the Manager has telegraphed to the market.

Given the absence of LGD, quality of process, etc, the floor that sits under risk-free (government bonds) rates, and our comfort level with the competitive lending environment, IIR has a high degree of conviction the Manager can track its annualised performance to date.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

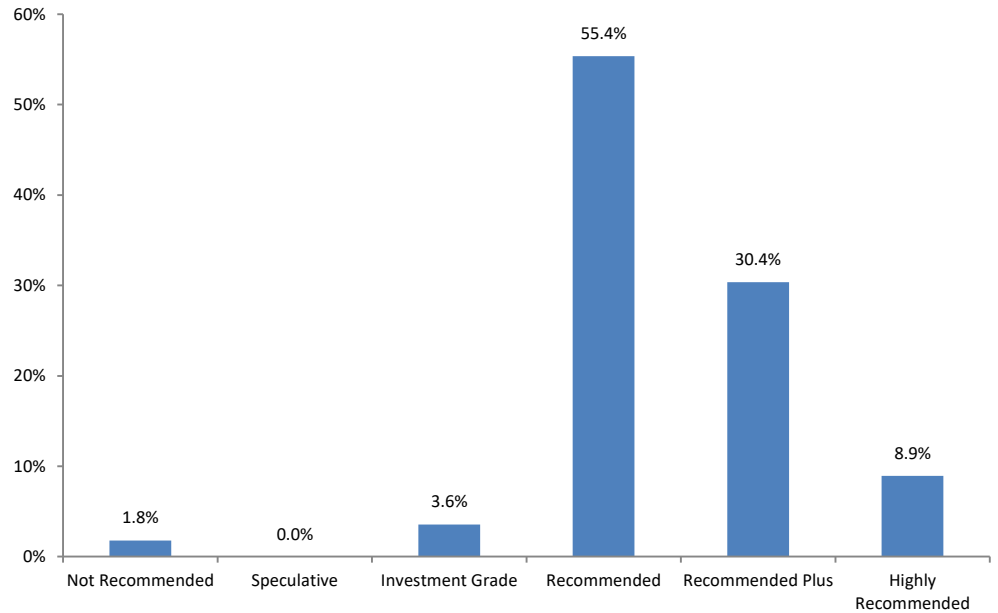
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above
	<p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
Recommended +	79–83
	<p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
Recommended	70–79
	<p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
Investment Grade	60–70
	<p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
Not Recommended	<60
	<p>This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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