Private Markets Insights

January 2023

iPartners
FUNDS MANAGEMENT

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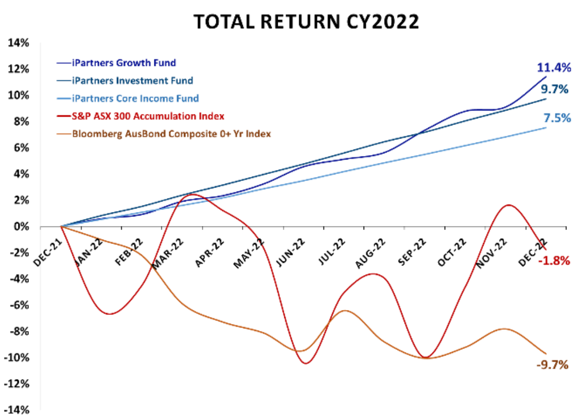
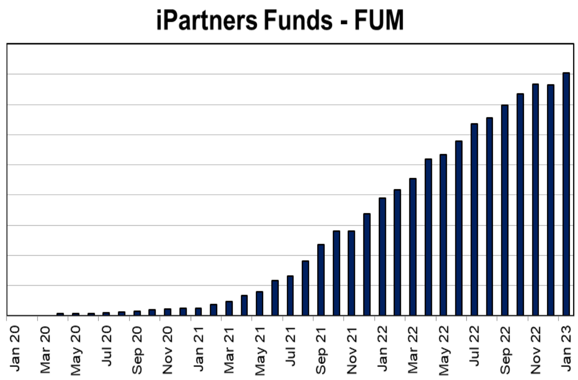
Chief Investment Officer

The power of private markets

Investment markets were extremely challenging in 2022. We are often asked how have we been impacted by this and we are fortunate to be focused in the area of private markets, which have been a key beneficiary of these conditions. The volatility and generally negative returns in public markets highlighted some of the strengths of private markets, and the iPartners Funds delivered strong and stable returns throughout the year.





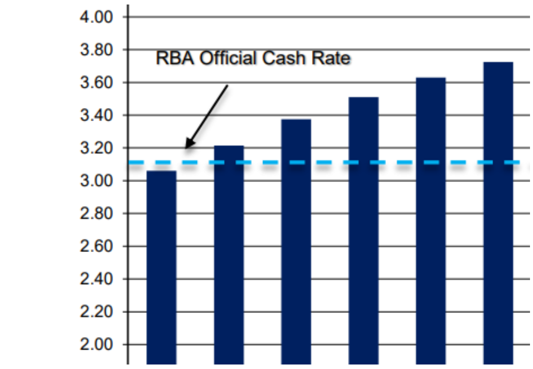
Market conditions are ideal now for private markets funds with capital to deploy. Our investors are taking full advantage of this and continue to consistently invest into our funds. Having deployed over $180 million in 2022 and with strong inflows, our total funds under management will soon exceed $250 million.

With higher interest rates and increasing demand, we have re-opened the iPartners Conservative Fund to new applications. It currently returns 4.6% p.a. with a lower risk profile and fortnightly liquidity feature.

In this edition, we set out in more detail current conditions in private markets and how the iPartners Funds are positioned to benefit.

Capital Raising Environment

The Reserve Bank's cash rate target has increased by 3.0% since April, from 0.10% to 3.10%.

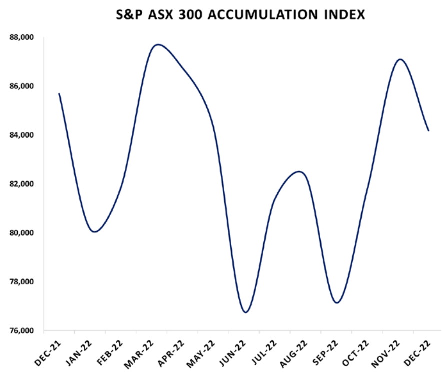


	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Implied Yield	3.060	3.215	3.375	3.510	3.630	3.725

Source: ASX

Cash rate futures imply market expectations for this to increase, and peak, at 3.80% in 2023.

Equity markets continue to be volatile.



Private companies have found it difficult to raise equity capital particularly since June 2022.

Those that needed additional capital and were not able to raise, or were waiting for better conditions, may have found themselves in precarious positions with equity markets essentially closed now for the summer period.

Some of these companies may have tapped short-term, or emergency funding, to tie them over into the new year.

We typically avoid such situations. This short-term funding may be presented as debt like, or offered with extremely attractive returns, but fundamentally they are relying on a successful equity raising for repayment. There is no guarantee that markets will be receptive after the summer break, and the need for short-term or emergency funding may continue for extended periods of time.

We have also seen more reluctance from institutional investors to deploy in the private credit space. Some evidence of banks reducing capacity in the sector can be seen in credit lines being reduced in size and renewed for shorter tenors.

The Opportunity

It is clearly a difficult environment for capital raisers, and this is likely to persist well into 2023.

Our core strengths allow us to capture the opportunities that arise:

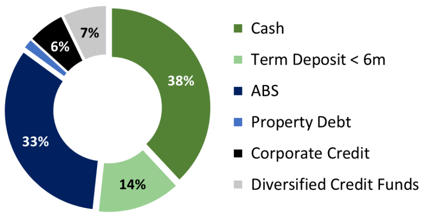
1. Our expertise in structuring and executing transactions enables us to deliver bespoke solutions for capital raisers, especially for those with more complex situations.
2. This capability generates institutional-grade deal flow backed by high quality assets. iPartners Funds Management can choose amongst the best deals and target superior risk adjusted returns for our investors.

Whilst it has been and continues to be a difficult investment environment, the iPartners Funds have been a strong beneficiary of these capital gaps.

iPartners Conservative Fund

The Conservative Fund commenced in June 2020 and following increased demand is now being made available to new applications, with improved features. It provides another alternative for those investors seeking a lower risk option with the additional flexibility of fortnightly applications and redemptions.

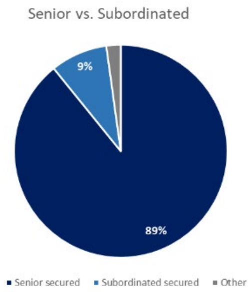
With the benefit of increased cash rates, the Fund currently returns 4.6% p.a. To support liquidity and provide some additional yield, the Fund maintains a substantial allocation to cash, some term deposits, and a selection of private credit assets.



iPartners Core Income Fund

Returns for the Core Income Fund have been steadily increasing towards 8.0% p.a., the top end of the target range. This reflects the benefit of rising interest rates as well as an improvement in credit margins.

Some of the rate increase benefit has been balanced by an improved risk profile in the portfolio, together with some higher cash holdings to optimise deal selection. The stronger risk profile can be seen with over 90% of the invested portfolio held in senior secured holdings.



The Core Income Fund has an allocation to property of 20%, and this may increase slightly in 2023 as we remain cautious on the sector.

The largest holding is in a diversified portfolio of corporate loans supported by a Government Guarantee Scheme. The strong credit profile of this asset is supported by multiple levels of protection including:

- Diversified portfolio of loans.
- 20% subordination / first loss piece.
- Government Guarantee Scheme.

It is intended that the maturity profile is maintained relatively short, with the current weighted average maturity at 0.8 years. We will look to increase deployment into corporate credit and further diversify the portfolio.

iPartners Investment Fund

Returns for the Fund are expected to steadily increase towards the top end of the target range of 10.0% p.a., although not move into the next return range with some improvement in risk and higher cash holdings balancing some of the benefit of higher rates and credit margins.

With an underweight property allocation of 10%, we expect this to increase gradually as we now see some suitable assets in the senior secured segment meeting return hurdles for the Fund.

The maturity profile is also expected to remain relatively short and is currently at 1.0 years. Deployment is also intended to increase into corporate credit, particularly for companies with strong cashflow generation and asset support.

iPartners Growth Fund

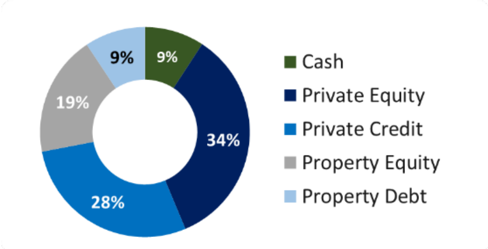
The iPartners Growth Fund will continue to be managed on a conservative basis (for a growth fund), as we see continued volatility in the equity market and a challenging environment for companies that require equity funding.

There are concerns generally in the private equity market around the valuation of existing holdings, and more specifically around whether valuations of illiquid portfolio holdings need to be lowered.

These concerns typically arise in the situation where a fund has made an initial equity investment some years ago, the company has raised subsequent amounts at increasingly higher valuations, and the initial fund investment has been marked up accordingly.

With some companies avoiding any further equity raise at lower than peak valuations, the question arises whether existing portfolio valuations remain valid.

In the iPartners Growth Fund, only 7% of the portfolio is of a pure equity nature where there isn't an external valuation. For these cases, the investments are held at cost, having been made recently in the past year and have not been marked up since acquisition (and the businesses are performing well).



The vast majority of assets are in the form of high yielding private credit / hybrid securities, or growth type assets with a regular yield or cashflow generation from operations (and some upside potential) that support an external valuation.

We intend to maintain the same conservative approach for the near future.