AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Pallas Warehouse Trust No. 3

Research Review

7 July 2023

This Report is for Wholesale Investors Only

INDEPENDENT
INVESTMENT RESEARCH

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

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2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

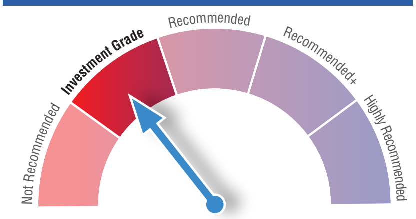
For more information regarding our services please refer to our website www.independentresearch.com.au.

Pallas Warehouse Trust No. 3

Research Review - 7 July 2023

Note: This report is based on information provided by the Manager as at October 2022 and the Information Memorandum dated 31 October 2022. **This report is for Wholesale Investors Only.**

Rating



Key Investment Information

Name of Fund	Pallas Warehouse Trust No. 3
Trustee	Pallas Funds Pty Limited
Investment Manager	Pallas Capital Pty Limited
Sponsors	Family trusts associated with the Directors of the Manager
Investment Structure	Unlisted Unit Trust
Eligible Investors	Wholesale
Investment Period	Open-ended
Target Issue Size	$150m*
Unit Price	$1.00
Minimum Investment	$100,000
Interest Rate	30-day BBSW + 6.50%p.a
Distribution Frequency	Monthly**
Redemption	Monthly, subject to 12-months written notice.
Offer Document	Information Memorandum

*The Fund is entitled to accept subscriptions below the initial target issue size and the Trustee may increase or decrease the issue size at any time at its discretion.
**Generally, within 5 business days after month-end.

Fees Commentary

Fees are not paid directly by investors with fees typically being paid by the borrower, through upfront establishment fees and line fees. Fees paid by borrowers range from 1.5%-2.0%. The Manager will also be eligible for the balance of the income generated by the Fund after all distributions are paid to unitholders.

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.

PRODUCT SUMMARY

The Pallas Warehouse Trust No. 3 (the "Fund") is issued by Pallas Funds Pty Limited (the "Trustee"). The purpose of the Fund is to fund a warehouse facility that will invest in a diversified portfolio of commercial real estate (CRE) loans to Australian and New Zealand SMEs secured by a registered first mortgage against Australian or New Zealand property. The Trustee has appointed Pallas Capital Pty Limited as the Manager of the Fund. Both the Trustee and the Manager form part of the Pallas Group. The Pallas Group was established in 2016 and comprises Fortis Development Group ("Fortis"), a property development business, and Pallas Capital, a specialist commercial real estate (CRE) financier and investment manager. The Fund will issue Units at $1.00 and has an initial target issue size of $150m. The Trustee may increase or decrease the initial target issue size at its discretion. The Fund is open-ended with no fixed end-date. The Fund provides monthly redemptions subject to unitholders providing 12-months' written notice to the Trustee. There are no fees paid directly by investors with the Manager receiving fees from the borrowers and/or the balance of the income generated by the Fund after all distributions have been made to unitholders. The Fund incorporates an Investment Protection Mechanism whereby the Sponsors (the family trusts associated with the Directors of the Manager) will make or procure advances as required to ensure that the Fund holds bank guarantees and/or cash equal to 5% of the Fund, up to a maximum of $5m.

Each investment made by the Fund must be supported by one or more loans that meet the parameters of the Fund. The parameters include a maximum LVR of 65%-70% depending on the loan type and a maximum loan term of 36 months. The Manager will diversify the portfolio to reduce the Fund's exposure to any individual loan. If the Fund size is less than $50m the Fund cannot make an investment that represents more than 30% of the Fund's size or allow an investment that represents greater than 20% of the Fund to continue for more than 90 days. If the Fund size is greater than $50m the Fund cannot make an investment greater than $15m or an amount equal to 15% of the Fund or allow a loan in excess of $10m or a loan representing 10% or more of the Fund to continue for more than 90 days. Investments in Pool Lender(s) will be exempt from these restrictions provided that such Pool Lender(s) maintain substantially similar diversification requirements.

INVESTOR SUITABILITY

The Fund provides wholesale investors access to the CRE debt market which can provide diversification to an investor's broader portfolio. The Fund provides an attractive regular monthly income. Effective 1 September 2021, the Fund moved from a fixed interest rate to a variable interest rate of 30-day BBSW + 6.5%p.a. The change is beneficial for unitholders with the variable interest rate removing interest rate risk for investors in the current increasing interest rate environment. With regards to the asset class, we view the risk associated with the Fund to be at the higher end of the spectrum given the exposure to construction loans and the related party risks. The Fund is diversified with 28 investments, including investments in two Pool Lenders, which provide additional diversification. Portfolio diversification has improved as the Fund has grown. The key risk associated with loans is default risk. In the event the borrower is unable to repay the loan this may result in a capital loss to investors. Portfolio diversification, the disciplined loan assessment and loan management process, the first mortgage security, the short-to-medium term duration of the loans, personal guarantees and conservative LVR limitations minimises the inherent risk associated with the Units however, it does not eradicate it. The Investment Protection Mechanism provides investors with first loss protection for up to 5% of the Fund, subject to a maximum of $5m. Given the illiquid nature of the underlying loans, there is limited liquidity offered by the Fund. The Fund provides monthly liquidity subject to Unitholders providing 12-months' written notice to request redemption. As such, investors should be in a position to not require the capital invested for at least a 12-month period.

RECOMMENDATION

IIR has assigned the Pallas Warehouse Trust No. 3 an **Investment Grade** rating. The diversification of the Fund has improved as the FUM has grown with the portfolio having additional diversification provided by the investment in the Pool Lenders. A key positive for unitholders is the move to the floating rate interest rate which removes the interest rate risk associated with the Fund and ensures unitholders are being compensated for the risks associated with an investment in the Fund when compared to other fixed income investments.

While there are portfolio risk controls regarding the maximum allocation to a single investment and maximum LVR limitations, there are no limitations regarding related party and borrower concentration, which has resulted in the portfolio being heavily weighted to a single borrower and high levels of related party loans throughout its history. Investors should be cognisant of and comfortable with these risks before making an investment in the Fund.

SWOT ANALYSIS

Strengths

- The Fund moved from a fixed interest rate of 7.0%p.a. to a floating interest rate of 30-day BBSW + 6.5%p.a. effective 1 September 2022. We view this as a positive for unitholders in the current increasing interest rate environment.
- Loans have a conservative LVR with a maximum LVR of between 65%-70% depending on the loan type. This provides for a level of protection against a decline in valuations if a default event occurs and the Manager needs to take possession of the asset and sell to recoup the face value of the loan.
- In addition to the loans being secured by a first mortgage over the property, the Manager typically takes a personal guarantee from the directors or other sponsors of the borrower, which further insulates the loan from impairments.
- The Manager has a disciplined loan management and assessment process that has resulted in the Pallas Group experiencing low default rates to date and all resolved default events having a positive outcome. We do note that Pallas Capital has a limited track record, commencing operations in 2016 and past performance is not an indicator of future performance.
- The Pallas Group is well resourced with over 130 staff employed across the two operating businesses of the Group.
- The team is highly experienced in Australian and global financial markets and CRE debt and equity.
- The Manager is highly selective when making loans as is highlighted by the low loan approval rate of 8%-10% of loans reviewed.

Weaknesses

- While the Investment Protection Mechanism is a positive for unitholders, providing for a first loss mechanism in the event of any capital impairments from loans made by the Fund, we note that if the initial target issue size is reached the maximum $5m falls below 5%, representing protection of 3.3%.
- Liquidity is limited with monthly liquidity, subject to the Noteholder providing 12-months' written notice to the Trustee. While liquidity is limited, it is in line with the illiquid nature of the investments.
- While there are portfolio limitations regarding exposure to an individual investment and maximum LVRs, there are no limitations regarding related party, borrower and geographic concentration. With limited independent oversight of the portfolio construction, the lack of portfolio management controls has resulted in investors being exposed to significant concentration risks.

Opportunities

- An investment in the Fund provides investors the opportunity to diversify the income portion of their investment portfolio. Direct loans provide for low levels of capital volatility, assuming no capital impairments, with CRE debt returns historically having a low correlation with other major asset classes.
- The market share of non-bank lenders in the CRE debt market is expected to continue to increase as the banks share of the market continues to decline. This is expected to result in a strong pipeline of investment opportunities.

Threats

- The key risk associated with an investment in the units is the risk of default by a borrower and the Manager not able to recover the loan amount potentially resulting in investors experiencing a capital impairment. There are a number of risk mitigation strategies implemented to reduce this risk such as conservative LVRs, a diligent loan assessment and approval process, loan monitoring and management of loans off the books if the risk materially changes. The Pallas Group is yet to experience an impairment with regards to its loans.
- The potential for conflicts of interest is considered high given the Trustee and the Manager are related parties and the Fund can make loans to related parties (ie. Fortis). The Manager seeks to mitigate these risks by ensuring an independent committee member is involved in the investment decision on related party loans and those members of the Investment Committee

that are shareholders of Fortis recuse themselves from the decision making process. However, this still results in the Investment Committee being majority non-independent of Pallas Group.

- Pallas Capital has grown rapidly in recent years, which can put undue pressure on a business. We note that the business has invested in people, systems and processes to support the growth and is expected to continue to do so to support future growth. However, in the event the business cannot secure the resources needed this may hamper the growth aspirations of the business and opportunities for investors.
- The macroeconomic outlook potentially provides for some challenges in the property market. A deterioration in the economic conditions could result in increased borrower stress and the potential for defaults in the portfolio.
- There is increasing competition in the CRE debt market. This may put pressure on the ability of the Manager to achieve the objectives of the Fund.

PRODUCT OVERVIEW

The Pallas Warehouse Trust No. 3 (the "Fund) is issued by Pallas Funds Pty Limited (the "Trustee"). The purpose of the Fund is to fund a warehouse facility that will invest in a diversified portfolio of commercial real estate (CRE) loans to Australian and New Zealand SMEs secured by a registered first mortgage against Australian or New Zealand property.

The Trustee has appointed Pallas Capital Pty Limited as the Manager of the Fund. Both the Trustee and the Manager form part of the Pallas Group. The Pallas Group was established in 2016 and comprises Fortis, a property development business, and Pallas Capital, a specialist commercial real estate (CRE) financier and investment manager.

The Fund issues Units at $1.00 and has an initial target issue size of $150m. The Trustee may increase or decrease the initial target issue size at its discretion. As at 31 October 2022, the Fund had $103.3m units on issue.

The Fund will invest in CRE loans that meet the following criteria:

- The loan is secured by a registered first mortgage on Australian or New Zealand real estate. In some cases, the loan may also be supported by the personal guarantee of the Sponsor behind the borrower and/or security over other assets;
- The property securing the loan is a commercial real estate loan, including pre-development loans, investment loans, construction loans, land loans and residual stock loans;
- The property securing the loan is a developments site and/or residential, commercial or industrial property or vacant land;
- The security property is supported by a valuation dated no more than three months prior to the date on which the lender commits (or committed) itself to make the loan;
- Maximum LVR of:
  - 65% for construction loans; and
  - 70% for investment loans.
- Maximum loan term of 36 months;
- The borrower and Sponsor/s are suitably experienced and have the skill set to manage their position and perform their obligations under the loan;
- The loan falls within the maximum exposure limitations; and
- There is a clear exit strategy/path to repayment.

The Fund can invest in qualifying CRE loans by investing in:

1) an SPV Lender that has or will make a loan that qualifies for investment by the Fund;

2) a Pool Lender that has or will make one or more loans that qualify for investment by the Fund; and/or

3) a Pool Lender that has taken up one or more investments in an SPV Lender and/or another Pool Lender.

The Fund will only invest in an SPV Lender or Pool Lender that lends or invests in line with the parameters that are substantially the same as the Fund. Each SPV Lender or Pool Lender will be owned, controlled and/or managed by a member of the Pallas Group. The SPV Lender and Pool Lenders will likely have third party investors in addition to the Fund.

The Fund is allowed to make an investment or loan to a related party. The loan or investment must be made at arms length and the loan or investment must be jointly guaranteed by the related party/parties that hold a beneficial interest in the borrower. The Fund has and will likely continue to provide loans to SPV Lenders owned in full or in part by some or all of the shareholders of the Pallas Group, namely Fortis, which is an operating business of the Pallas Group.

The Fund will diversify the portfolio to reduce the exposure to any single loan. To ensure this, the Fund has maximum exposure limitations that it is required to adhere to. Investments in Pool Lenders will be exempt from these restrictions provided that such Pool Lenders maintain substantially similar diversification requirements. The maximum limitations include:

- If the Fund size is less than $50m the Fund will not:
  - Make an investment in excess of 30% of the Fund size; or
  - Allow an investment in excess of 20% of the Fund size to continue for a period exceeding 90 days.
- If the Fund size is $50m or more the Fund will not:
  - Make an investment in excess of the greater of $15m or an amount equal to 15% of the Fund size; or
  - Allow an investment in excess of the greater of $10m or an amount equal to 10% of the Fund size to continue for a period exceeding 90 days.

Based on the Fund size at 31 October 2022, the maximum limit of an investment in an SPV Lender would be $15.5m, which represents 15% of the Fund. The largest investment of the Fund at 31 October 2022 was in the Pallas NZ Lending Trust with a $28.85m investment accounting for 27.9% of the Fund. As mentioned above, investments in Pool Lenders are exempt from the above covenants, subject to the Pool Lender maintaining substantially similar diversification requirements. The Pallas NZ Lending Trust is a recently established discretionary trust issued by the Pallas Group that provides exposure to a portfolio of CRE loans secured by a first mortgage over New Zealand property. The Pallas NZ Lending Trust can invest in related party loans and construction loans.

If at any time the Fund is in breach of the above covenants the following applies:

- the Fund may not enter into a new commitment until it is back in compliance with the covenant; and
- if the breach has continued for a period of 10 business days or more, the Fund must immediately notify unitholders, setting out the reason/s for the breach and the steps being taken to rectify the breach.

The Fund is open-ended with no fixed end-date. Units will be redeemable on the last business day of each month provided the unitholder has given the Trustee at least 12-months written notice. The Trustee may suspend redemptions in certain circumstances including where it is believed to be in the best interest of unitholders. The Trustee may redeem the units at any time upon providing 90 days' notice (or such lesser period as may be agreed between the Trustee and unitholders). Upon redemption, unitholders will receive the Issue Price plus any arrears of interest payable in respect of the units.

The Manager will charge certain fees to the Fund or directly to borrowers and/or SPV Lenders or Pool Lenders under the various loans. The Manager is typically remunerated in two ways:

- the Manager charges the borrower an upfront establishment fee; and
- the Manger receives the balance of the income generated by the Fund after the payment of all unitholder distributions.

Fund Structure

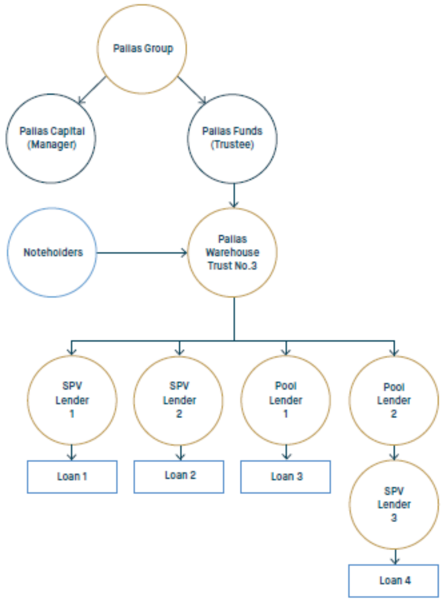
The Fund is structured as an unlisted unit trust and is a managed investment scheme which is not required to be (and has not been) registered with ASIC. Unitholder funds are pooled with those of other investors to facilitate larger investments. The below graphic provides an overview of structure of the Fund.

The Fund will invest in CRE loans via SPV Lenders and Pool Lenders. A SPV Lender is a special purpose vehicle that has been created for a loan that Pallas Capital makes to a borrower. The SPV Lender is the lender of record and counterparty on loan documentations with the borrower. Pool Lenders issue notes or units and invest in SPV Lenders or Pool Lenders. Each SPV Lender or Pool Lender will be owned, controlled and/or managed by a member of the Pallas Group.

The Fund invests in related party loans including loans to Fortis Development Group ("Fortis"), which is an operating business of the Pallas Group and discretionary trusts issued by the Pallas Group. At 31 October 2022, 23.8% of the Fund was invested in related party transactions and 41.1%

in discretionary trusts (Pool Lenders). The weighting of loans to Fortis has declined as the Fund has grown and Pallas Capital has become less reliant on Fortis as a source of capital and vice versa.

Fund Structure



Investment Protection Mechanism

The Sponsors (family trusts associated with the Directors of the Manager) will make or procure advances as required to ensure that the Fund holds bank guarantees and/or cash equal to 5% of the Fund size, up to a maximum of $5m. The Investment Protection Mechanism provides a level of first loss protection for unitholders.

The above-mentioned amounts are considered the Base Reserve requirements. If the Fund incurs a loss on any loan made the Sponsors are obliged to increase the bank guarantee and/or advance further monies to the Fund in respect of each loss up to an amount equal to the lesser of:

- The amount of the loss; and
- 5% of the Fund size at the time the relevant loss was incurred.

Both the Base Reserve and top up amounts will be applied by the Trustee as required to assist with the Fund meeting its obligations to unitholders.

If a claim is made that depletes the Base Reserve the following will occur:

- The Sponsors must replenish the Base Reserve to the required amount within 10 business days; and
- The Fund may not make any further loans until the Base Reserve is restored to at least 5% of the Fund size, subject to the maximum of $5m.

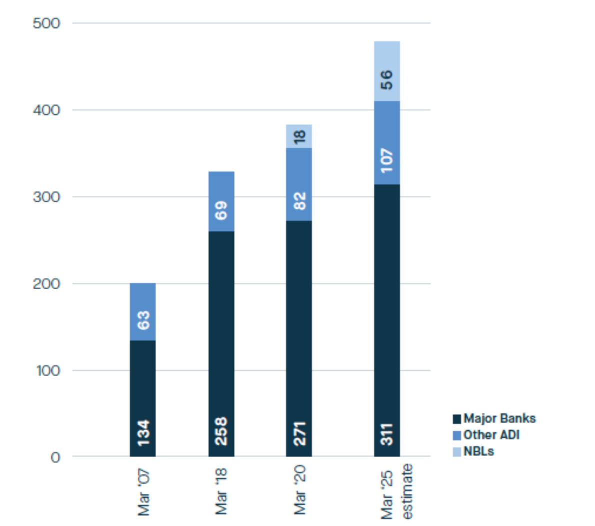
Any failure by the Sponsors to increase or procure the increase of the amount of bank guarantee and/or cash available to the Fund as part of the Investment Protection Mechanism within 10 business days will represent an event of default.

COMMERCIAL REAL ESTATE (CRE) DEBT MARKET

The CRE debt market is serviced by the major banks, other authorised deposit taking institutions (ADIs) and non-bank lenders (NBLs). The major banks service the majority of the market, however the major banks have tightened the lending requirements to the CRE market which is resulting in growth in the NBLs market share.

As at 31 March 2020, APRA reported CRE loans of $371b. Of this, ~95% was held by major banks and other authorised deposit-taking institutions and ~5% of loans was provided by NBLs. APRA projects that the CRE loan market will grow to ~$474b by March 2025 and NBLs are projected to increase the market share from 5% to 12%. The forecast suggests the CRE debt market is expected to grow at ~5%p.a., with NBLs growing at ~25%p.a. Growth in the market share of NBLs provides an opportunity for investors to participate in this market.

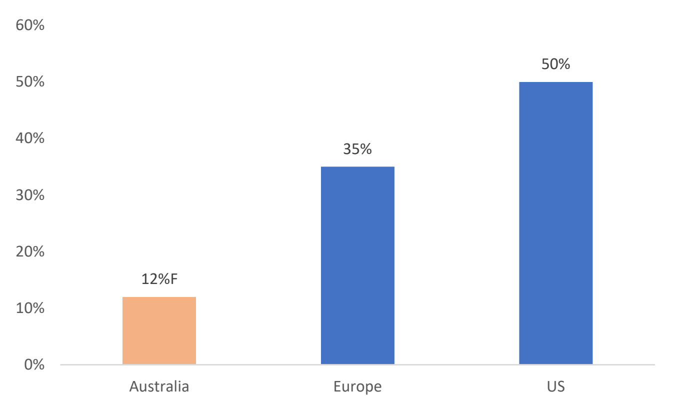
Australian CRE Debt Market



Source: PFT Feeder Fund IM, February 2023

Even with the projected growth, the NBL share of the Australia CRE debt market is significantly below that of international markets, as shown in the below graphic. Over time, market participants are expecting the Australian CRE debt market to follow the experience of international markets with regards to the acceptance of NBLs.

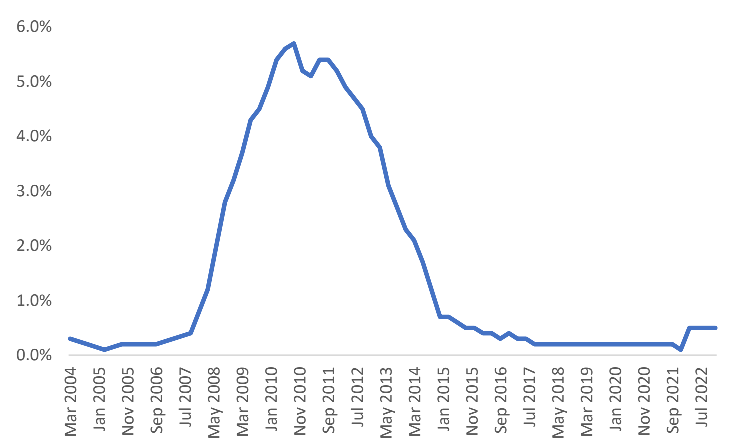
Global NBL CRE Debt Market Share



Source: PFT Feeder Fund IM, February 2023

Impairments/non-performing loans in commercial real estate loans by ADIs has historically been low. The below chart shows the percentage of impaired commercial real estate loans by ADIs from March 2004 to 31 December 2022. Impairments hit a peak of 5.7% in September 2010 with impairments accelerating post the GFC in 2008. Impairments have subsequently declined to less than 1% with an impairment/non-performing loan rate of 0.5% at 31 December 2022. As highlighted by the below chart, defaults tend to cluster around periods of prolonged economic weakness.

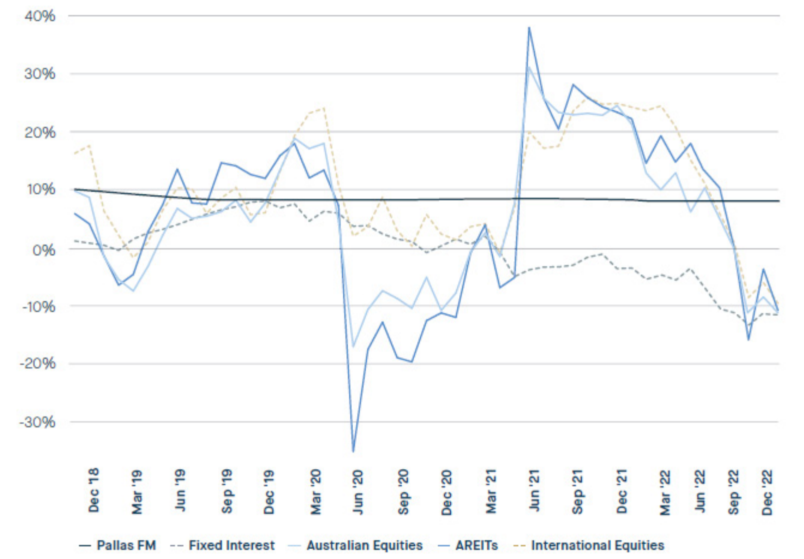
ADI Commercial Real Estate Loan Impairments (March 2004 to 31 December 2022)



Source: APRA

CRE debt has the potential to diversify an investors broader portfolio with the asset class offering a different risk/return profile to other major asset classes. The Pallas Group has provided the below chart which shows the returns of its first mortgage loan book compared to other major asset classes. The asset class offers low capital volatility with capital volatility only occurring in the event of capital impairment from a default event. While the CRE debt asset class has offered low returns volatility compared to other major asset classes, we note that this is accompanied by low levels of liquidity.

Rolling 12-Month Returns of Varying Asset Classes



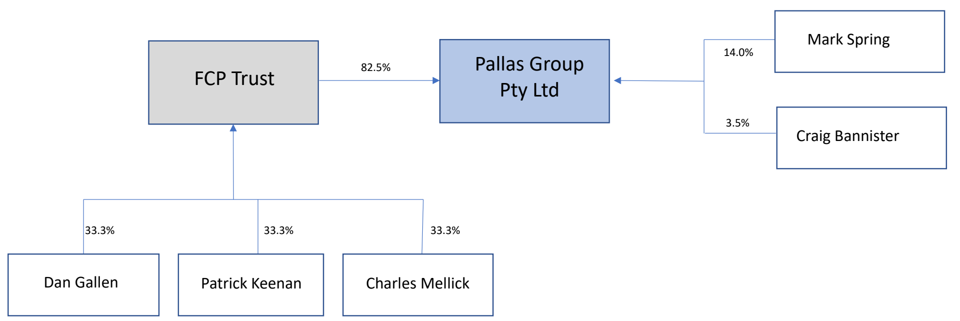
Source: PFT Feeder Fund IM, February 2023

TRUSTEE & INVESTMENT MANAGER

The Trustee of the Fund is Pallas Funds Pty Limited. The Trustee has appointed Pallas Capital Pty Limited as the Manager of the Fund. Both the Trustee and the Manager form part of the Pallas Group.

The Pallas Group is 100% owned by five family trusts associated with employees of the Group. The family trusts of Dan Gallen, Patrick Keenan and Chris Mellick own an equal share of the FCP Trust, which has a 82.5% interest in the Pallas Group, while the family trusts of Mark Spring and Craig Bannister hold a direct interest totalling 17.5% of the Pallas Group.

Pallas Group Ownership Structure



The Pallas Group has two primary operating businesses: (1) Fortis Development Group (Fortis) - a property development business; and (2) Pallas Capital - a specialist commercial real estate (CRE) financier and investment manager.

1) Fortis

Fortis was established in 2015, and is a developer focused on boutique residential and commercial projects in the affluent, inner-metro suburbs of Melbourne and Sydney. Fortis currently has 35 development projects representing a total project end value in excess of A$5.0b.

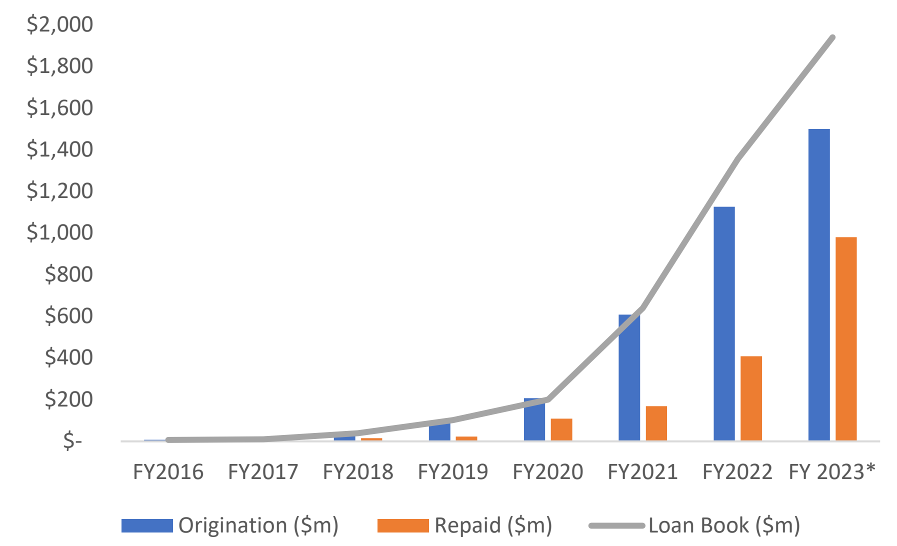
2) Pallas Capital

Pallas Capital is a wholesale debt and equity fund manager, specialising in commercial real estate (CRE). The business was established in 2016 in direct response to the structural dislocation within the Australian credit landscape and in particular the growing lack of credit in Australia's mid-range CRE market.

Pallas Capital has written A$2.8b of total investments (debt and equity) across 389 transactions, supported by properties covering a wide range of real estate sectors (land, retail, commercial, residential and industrial). Of those transactions, 182 have been completed and $1.2 billion repaid with no loss of capital.

The loan book has grown rapidly since being established in 2016, as highlighted by the below chart. The business is forecasting a loan book in excess of $1.9b as at 30 June 2023. Of the $1.6b in FUM as at 31 October 2022, ~$300m is under discretionary management through five pooled funds. Growth is attributed to the investment in people, systems and processes in recent years which has driven FUM growth and the loan pipeline. The business is expecting that the investment pipeline and FUM will continue to grow over the coming years given the recent additions and with the recruitment of further industry leading executives and new mandates being explored along with investment into the ongoing refinement of the business' risk management framework and operational systems and processes.

Pallas Capital Loan Book



Transactions to 31 October 2022

Loan Type	Loan Limit ($M)	Number of Loans	Average Loan Size ($m)	% of Total Loans
Construction	$1,150.2	79	$14.6	47.93%
Pre-Development*	$938.0	183	$5.1	39.09%
Residual Stock	$194.0	30	$6.5	8.09%
Investment	$117.3	36	$3.3	4.89%
Total	**$2,399.6**	**328**	**na**	**100%**

*Includes Fortis Equity & Preferred Equity transactions.

Relationship Between Fortis & Pallas Capital

Pallas Capital has provided a reliable source of funding to Fortis to enable it to acquire and develop more sites. In return, Fortis has provided Pallas Capital with the CRE loans needed to generate an income stream for its investors and grow its lending business. Fortis has developed strong and deep relationships with other developers, builders, lenders, architects, planners, estate agents and valuers. These relationships generate a significant flow of loan opportunities for Pallas Capital.

As both businesses have grown, they have become less reliant upon each other. Fortis loans now make up approximately one third of Pallas Capital's loan book. Fortis now borrows from lenders other than Pallas Capital including other non-bank lenders and the big four banks.

Potential conflicts arising from the interaction between Pallas Capital and Fortis are managed by the implementation of compliance and governance safeguards set out in the company's Conflict of Interest Policy. In particular, Pallas Capital assesses all loan applications from Fortis on an arms length basis, as if the loan application were submitted by an unrelated third party borrower. The members of the Investment Committee that are also owners or directors of Fortis development projects recuse themselves from all consideration of Fortis loan applications, and an independent member with significant real estate lending experience steps in for these decisions.

Investment team

The business has grown to have over 130 staff located across Melbourne, Sydney, Brisbane and Auckland. This is an increase from 48 as at 30 June 2021. Growth in the team has included a number of senior hires which has been a key driver of growth.

The expansion of the team and in particular the senior hires has reduced key man risk associated with the directors of the Pallas Group. Further to this, the Manager ensures that no one individual exclusively possesses critical information (including IP) that could compromise the business' ability to continue to operate at the standards it requires if that individual were to leave.

The Group has appointed an Investment Committee (IC) which plays a central part in the lending process. The IC is comprised of six senior team members with one independent member, who provides independent representation for assessing loans to Fortis. For related party loans (loans to Fortis), the members of the IC that are also shareholders of the Pallas Group recuse themselves from the assessment and consideration of transactions. Under the current lending policy, investment decisions of >$10m must be approved by the IC by way of unanimous decision of those that are in attendance (minimum of three IC members required for an investment decision).

Pallas Capital has also appointed a Compliance & Risk Committee (CRC) which sits on a quarterly basis. The key responsibility of the CRC is to monitor the funds with a specific focus on ensuring the funds are operating within the relevant laws, trust deeds, constitutions and contractual obligations regarding the business conducted by Pallas Capital. We note there is only one independent representative on the CRC.

Pallas Group Board of Directors

Name	Role	Independent	Years at Firm	Years in Industry
Patrick Keenan	Executive Chairman	N	6	31
Dan Gallen	Chief Investment Officer	N	6	21
Charles Mellick	Executive Director	N	6	31
Mark Spring	Executive Director	N	6	7
Average			**6**	**22.5**

Investment Committee

Name	Role	Independent	Years at Firm	Years in Industry
Patrick Keenan	Executive Chairman	N	6	31
Dan Gallen	Chief Investment Officer	N	6	21
Charles Mellick	Executive Director	N	6	31
Ben Keenan	General Counsel	N	0.5	19
Alexis Holloway	Head of Credit	N	1	14
Anonymous	Independent (Fortis Loans)	Y	1.5	20

Compliance & Risk Committee

Name	Role	Independent	Years at Firm	Years in Industry
Jarrod Brooks	General Counsel	N	2.	21
Ben Keenan	General Counsel	N	0.5	19
David McGilvray	Group Manager - Operations	N	2	6
Steve Lawrence	Executive Director - Lending	N	2	24
Alexis Holloway	Head of Credit	N	1	14
Craig Bannister	Executive Director - Distribution	N	6	7
Mabel Zhou	Group Manager - Finance	N	5	5
Sharman Grant	Compliance Officer	Y	1	21
Sharon Woodley	Group Manager - HR	N	0.5	20

The investment team comprises 21 team members, tabled below. The team had an average of 10.6 years industry experience as at 31 October 2022. The team is led by the Chief Investment Officer, Dan Gallen, who has 21 years experience in the industry and is a Director of the Pallas Group.

Investment Team

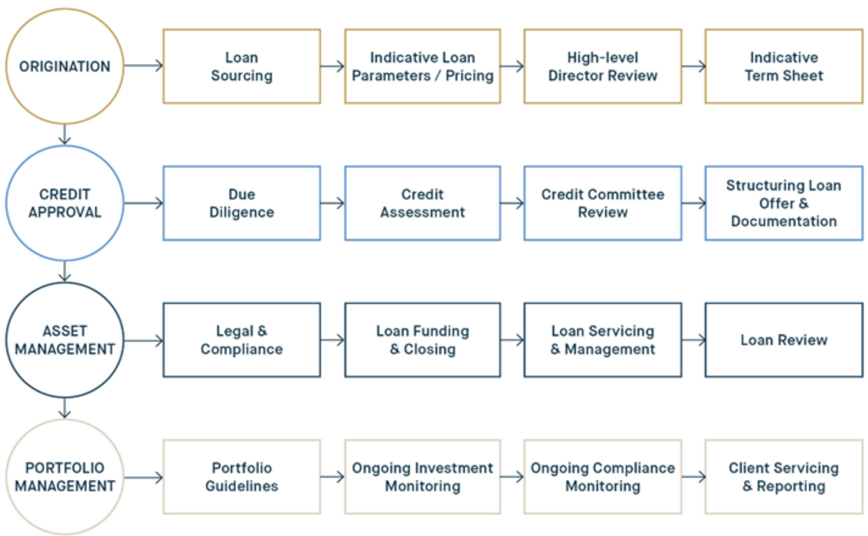
Name	Role	Location	Years at Firm	Years in Industry
Dan Gallen	Chief Investment Officer	Syd	6	21
Steve Lawrence	Executive Director - Lending	Melb	2	24
Mark Hood	Director - Lending	Melb	0.5	20
Denis Dundovic	Associate Director - Lending	Syd	0.5	17
Alexis Holloway	Head of Credit	Melb	1	14
Les Buxton	Credit Manager	Syd	1	8
Peter Blanc	Senior Credit Manager	Brisbane	0.1	16
Michael Lee	Senior Credit Manager	Melb	0.1	9
Gary lam	Senior Associate - Credit Services	Melb	2	9
Jenny Lee	Credit Analyst	Melb	0.1	9
Madeline Brooks	Associate - Credit Services	Syd	0.5	5
Jacky Kwok	Credit Analyst	Melb	0.5	1
Cameron Dunn	Senior Credit Manager - NZ	Melb	3	21
Lisa Chai	Senior Associate - Loan Mgt and Const.	Melb	0.5	12
Matthew Staffenoni	Associate - Loan Mgt and Const.	Melb	1	5.5
Joyce Fei	Associate - Loan Mgt and Const.	Melb	0.5	3.5
Liam Higgins	Associate - Loan Mgt and Const.	Melb	0.1	5
David McGilvray	Chief Operating Officer	Syd	2	6
Anne-Louise Wills	Product Development & Strategy	Melb	3	12
Jake Thomas	Junior Operations Analyst	Syd	1.5	1.5
Matt Taylor	Technical Business Analyst - Operations	Melb	1.5	4

LOAN ASSESSMENT & MANAGEMENT PROCESS

The Manager has a disciplined loan assessment and loan management process that is documented in its Lending Manual and associated documentation.

The loan assessment and management process is depicted in the below chart. The process can be broken down into four key stages: (1) Origination; (2) Credit Approval; (3) Asset Management; and (4) Portfolio Management.

Loan Assessment Process



Origination

The origination team comprises three team members with two senior team members who report to the Executive Director of Lending, Steve Lawrence. Loans are sourced via direct and indirect channels. The addition of the indirect channel has been a key contributor to the recent growth in the business.

Pallas Capital has a target of 80% of loan volume to be driven by the indirect channel, whereby loans are sourced through brokers. This channel provides access to a much wider network of borrowers at a variable business cost and there is the added benefit of loans typically already having the initial due diligence completed by the broker resulting in a quicker turnaround time than loans sourced through the direct channel.

For the indirect channel, the Group has implemented an Introducer Accreditation program, with all brokers required to meet the requirements of the program and all brokers are required to execute an Introducer Agreement to be able to become a member of the network. The Group is currently onboarding select Aggregators that service CRE loans. Aggregators provide access to a wide range of brokers and will provide the Manager with expanded access to potential deals.

The initial source of loans was from direct channels. The Group is targeting 20% of loan volume to be sourced via this channel. The direct channel is expected to grow over time as larger loan are made, as brand recognition increases and a wider suite of products is issued. The direct channel offers the benefits of the Group retaining the full establishment fees and interest rate.

Credit Approval

A detailed due diligence is undertaken for all loan applications that make it through the Origination process. Loan applications are assessed in accordance with the Credit Policy and Credit Procedures and by reference to the Lending Matrix and the Funding Source from which the capital is being deployed. There are specific loan eligibility and portfolio parameters that the loans must meet to be able to be included in the portfolio.

The Credit Team is responsible for the evaluation of each loan application and the preparation of the Credit Risk Assessment (CRA), which is distributed to the appropriate Delegated Lending Authority (DLA) for approval. There are CRA templates for each property type which the team are required to complete as part of the CRA process. Each CRA template provides a list of input fields and specific requirements to be addressed for each loan type to assist the Credit Team complete the CRA and make a recommendation. The CRA templates are not intended to be exhaustive. It is the responsibility of the Credit Team to address the specific risks and requirements of each individual loan within the CRA on a case-by-case basis.

The underwriting guidelines for the assessment of a loan application are documented within the CRA template for each Loan Type, and covers the following key areas:

1) Executive Summary;

2) Sponsors and Guarantors;

3) Security Property;

4) Planning;

5) Future Project Overview;

6) Valuation;

7) Transaction Structure;

8) Capacity and Serviceability;

9) Exit Strategies; and

10) Risk Analysis and Mitigants.

With respect to Valuations, all properties are required to have an independent valuation performed by a panel valuer. All valuations must be prepared and dated less than three months from the time of settlement. Valuations beyond the three month period will need to be accompanied with an updated report or letter extending the reliance of the valuation report prior to settlement.

In circumstances where a DLA or the IC assess there has been a material change that affects the value of the security property and there is no clear path to rectification, the Credit Team will instruct an updated valuation for the security property. Examples of changes may include adverse market conditions specific to the security property/sector, the income generated from the security property adversely changing with no path to rectification, or Pallas becoming aware of a breach of facility terms. Pallas shall reserve the right to revalue the security property at any time and at the borrower's cost within the relevant loan documentation for each transaction.

Prior to lodging of a CRA for approval with a DLA or IC, the Valuation Checklist must be completed by the Credit Team. In instances where the Credit Team or DLA does not agree with the findings of the valuation report or believes there has been a mistake in the valuation report, a DLA or Credit Team member will discuss the matter directly with the valuer to seek a satisfactory explanation and/or amendments to the valuation report. If the matter is not resolved it will be referred to IC for a decision on the acceptance of the valuation report and review of the valuer's panel status.

Assessment of Construction Loans

Construction loans are inherently riskier than non-construction loans due to the fact they generally comprise:

- A construction component that incorporates risks such as delivery risk, contamination and force majeure events;
- Market risk incorporating pre-sales and/or leasing risk; and
- A greater sponsor risk given the sponsor is generally more critical in a development transaction.

Given the increased risks the due diligence process for construction loans incorporates an additional assessment to identify and assess these risks. The additional areas that are covered in addition to the standard CRA includes:

1) Project Feasibility - Pallas requires that any construction transaction has a robust due diligence completed in respect of the project feasibility. Pallas will prepare its own project feasibility based on inputs provided by the borrower, quantity surveyor, valuer, consultants or independent assumptions where data is not yet available. The assessment will also include a sensitivity analysis on key cost and revenue inputs to evaluate risks that may arise and impact on loan performance. The project feasibility assessment is designed to confirm the deliverability and profitability of the project.

2) Builder and Construction Contract - An assessment of the builder and construction contract is important because the capability, capacity and performance of a builder is paramount to the successful delivery of a project. The credit team will review the construction costs against market rates and recent developments of a similar nature as well as investigate the proposed construction costs for the project.

3) Quantity Surveyor - All quantity surveyor reports will be completed by a panel surveyor. Reports from non-panel quantity surveyors will be accepted if they can meet the requirements to be added to the panel. The initial report is to be received by the lender as a condition precedent to first drawdown of a construction loan. The quantity surveyor will provide monthly progress reports until practical completion/occupation certificate is achieved for a project. The progress reports will be used by the lender to confirm the monthly progressive drawdown amount, as well as project status, cost to complete, insurance certificates, and other items as requested by the lender in the quantity surveyor instructions.

In circumstances where the Pallas Loan Management Team assess there has been a material change to the project program, cost to complete, or quality of works undertaken, then the matter is to be raised with a DLA for assessment. Where there is no clear path to rectification, the DLA and IC will evaluate alternative commercial strategies for negotiation with the borrower. Pallas shall reserve the right to charge default rates where there has been a breach of covenants or an event of default.

4) Progressive Drawdowns - All drawings under a construction loan are to be made on a "cost to complete" basis, which means that the undrawn component of the facility must be sufficient to fund development costs identified in the feasibility that have yet to be paid or incurred. All progress claims under the building contract are to be supported by a report and recommendation from the quantity surveyor.

In addition to the above, additional security requirements are required for construction loans that include a General Security Agreement over the assets of the borrower and incorporates all assets pertaining to the project. Pallas will also require a tripatite deed between the lender, the builder and the borrower which grants Pallas the right to step in following a default or termination event in the construction contract and acknowledges that neither the borrower or the builder can consent to an amendment, termination or assignment of the construction contract without the lender's written consent.

Delegated Lending Authority (DLA)

There are five team members of the Pallas Group that have been designated as a Delegated Lending Authority (DLA). There are delegated approval limits for loans of different sizes, tabled below. The larger the loan the greater the sign-off requirements. A DLA cannot be involved in the approval of a loan that they originated. Loans of more than $10m are required to be approved by the Investment Committee.

Delegated Approval Limits	
Loan Size	**Requirement**
$0 - $3m	1 DLA
$3m - $5m	1 DLA Holder with one of either Head of Credit or CIO
$5m-$10m	Head of Credit and the CIO
>$10m	Investment Committee

Once loans have been reviewed and approved the loan offer and documentation is finalised for completion of the loan with the borrower.

Asset Management

Once a loan has been approved and the Letter of Offer executed the loan goes through the legal requirements for settlement. Following settlement, the Loan Management Team is responsible for the portfolio loan servicing, management, reporting and default management requirements, in conjunction with AMAL Asset Management (AMAL) who have been appointed for loan servicing activities.

Loans are reviewed regularly and the underlying security property is subject to revaluation at any time, where Pallas has cause to believe there has been a reduction in the value of the security property. Once received, the updated valuation should be reviewed to confirm the ongoing acceptability of the property for security purposes. The opportunity should also be used to confirm that the facility complies with the:

- Maximum LVR, RLVR and LCR (as required) covenant imposed when the facility was first approved (as subsequently varied);
- Minimum ICR covenant imposed when the facility was first approved (as subsequently varied); and
- Any other covenants impacted by the valuation or which can be measured using information contained within the valuation.

Unless a reporting or covenant testing condition has been included in the Loan Agreement, a revaluation effectively represents the sole opportunity for Pallas to verify the compliance of the borrower against these key covenants during the loan term.

In the event that one or more of these covenants are breached, then appropriate steps are taken to rectify the default or renegotiate the facility, provided it remains within acceptable parameters and the key policies of the lender.

AMAL

Pallas Capital has appointed AMAL Asset Management (AMAL) to assist it in the servicing and management of its loan book under a Loan Servicing Agreement.

AMAL operates across Australia and NZ and was established in 1994 as a specialist third-party servicer of commercial mortgages for the retail mortgage trust sector. Clients of AMAL include Colonial First State, AXA, ING Funds Management, ANZ, Westpac, Nomura, Credit Suisse, Deutsche Bank, Challenger, Morgan Stanley, Blackstone and many others. AMAL's current funds under administration and supervision is c. $13 billion.

AMAL Group entities provide various functions for the business including Note Trustee, IPAR and Security Trustee for Pallas FM Trust Bond as well as acting as a variation agent of the Bonds parameters at the end of each quarter.

AMAL's corporate governance framework is overseen by its Board of Directors. AMAL's internal controls framework is based on ISO9001:2015 Quality Management System, and includes both preventative and detective controls such as:

- Segregation of duties, approvals, authorisations and verifications.
- Comprehensive data quality checking procedures across all client functions.
- A wide range of automated system checks, alerts and reports to identify data anomalies.
- Maintenance of a comprehensive, ongoing internal audit process across all areas of the business, overseen by the Executive Director — Governance, Risk and Compliance.
- In addition to regular audits by their clients and advisors AMAL is subject to an annual servicer evaluation by Standard & Poor's Ratings Services (S&P), now in its 15th year. In 2019 S&P affirmed its overall STRONG ranking for AMAL (the highest possible ranking) as a servicer in Australia and New Zealand.

Default & Arrears Management

The Manager has a detailed default and arrears management process. Interest is often prepaid for the life of the loan. For these loans there tends to be little arrears risk from loans. The key risk is that a borrower defaults on the repayment of the loan amount.

The Manager requires borrowers to provide the payment strategy for the loan three months from the maturity date of the loan which provides for visibility regarding the borrowers ability to pay with time to work through any issues if they arise.

For a borrower experiencing difficulty in meeting payments or material loan obligations or where Pallas anticipates a general change to the risk profile of a loan, Pallas may implement loan management procedures to ensure the loan remains compliant. In certain circumstances where Pallas determines appropriate, the Lender may formally reserve its rights with the borrower as it works through any remedy actions set by Pallas.

The intent of this strategy reflects Pallas' pragmatic approach to loan management to maximise financial and reputational outcomes all the while taking a proactive 'high touch' approach to deal with any issues as they arise. Pallas will not waive obligations that affect the risk profile of loans.

Most instances of loan management deal with non-monetary defaults and usually involve a request from the borrower for additional time to meet a pre-agreed condition of the loan. In forming a decision to such a request, Pallas will consider factors such as the borrowers loan conduct, evidence for the
delay and proof of measures taken by the borrower to rectify the outstanding condition.

The Manager's loan management and default management process has proven effective to date with the loan book experiencing low levels of defaults. The difficult economic environment has seen the number of defaults experienced by the Manager increasing yet still low. We note that this also coincides with the increased number of loans made. The Manager has been able to refinance loans with other financiers and appoint receivers where necessary and sell the assets with all capital being recouped through this process. The Manager has been able to identify loans where the risk has risen to levels above what they are comfortable with and been able to move them off their books, highlighting the discipline of the loan management process.

Portfolio Management

The portfolio is required to adhere to eligibility and maximum exposure requirements. The portfolio construction considers these requirements before a loan is added to the portfolio.

The Fund is open-ended and as such the cashflow needs to be managed effectively to reduce any potential cash drag combined with the Fund having sufficient cash to fund loan drawdowns for construction loans.

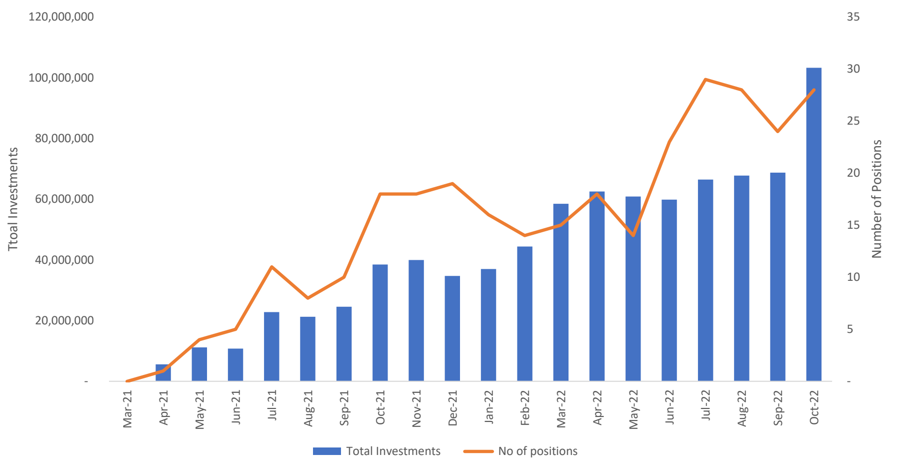
PORTFOLIO

The Fund initially commenced as a closed-ended fund in April 2021 before moving to an open-ended structure in November 2021. The portfolio comprised 28 investments at 31 October 2022 (including two Pool Lenders) with a total value of $97.5m. Throughout its history, the Fund has made 86 investments with a total committed capital of $1.55b. This includes the two Pool Lenders which provide exposure to a portfolio of loans.

Portfolio Summary as at 31 October 2022	
Units on Issue	$103.27m
Total Value of Investments	$97.45m
Number of Investments	28
Weighted Average Interest Rate	9.4%
Weighted Average LVR	62.2%
Weighted Average Term to Maturity	8.1 months
Largest Investment	$28.85m

The portfolio has grown as new units have been issued. At 31 October 2022, the portfolio was exposed to 28 investments with a value of $97.5m. This incudes an investment in two Pool Lenders, the Pallas NZ Lending Trust and the PFT Feeder Fund, which combined accounted for 41.1% of the total investments. The below chart shows that the number of investments in the portfolio will fluctuate with the Fund investing in short-term loan facilities. This means there will be investments frequently rolling in and out of the Fund.

Portfolio Growth



At 31 October 2022,the top five investments accounted for 62.76% of the Fund. The two largest investments are in Pool Lenders being the Pallas NZ Lending Trust and the PFT Feeder Fund A Units. Construction loans are drawdown as a project progresses through its various stages. As such the exposure to these loans will increase as capital is drawndown. For example, the investment amount in the Dover Street FM Trust No. 2, has increased from $4.8m in March 2022 to $10.3m in October 2022. The share of the Fund's exposure to these loans will be dependent on the percentage share of the Fund in the SPV Lender. We note two of the top three construction loans are related party loans.

Top 5 Investments as at 31 October 2022

Investment	Loan Type	% of Total Investments
Pallas NZ Lending Trust	Pooled Lender	27.94%
PFT Feeder Fund Class A	Pooled Lender	13.20%
Cremorne, VIC First Mortgage Class A	Construction	9.94%
Woollahra, NSW First Mortgage Class A	Construction	5.81%
Malvern, VIC First Mortgage	Construction	5.87%
		62.76%

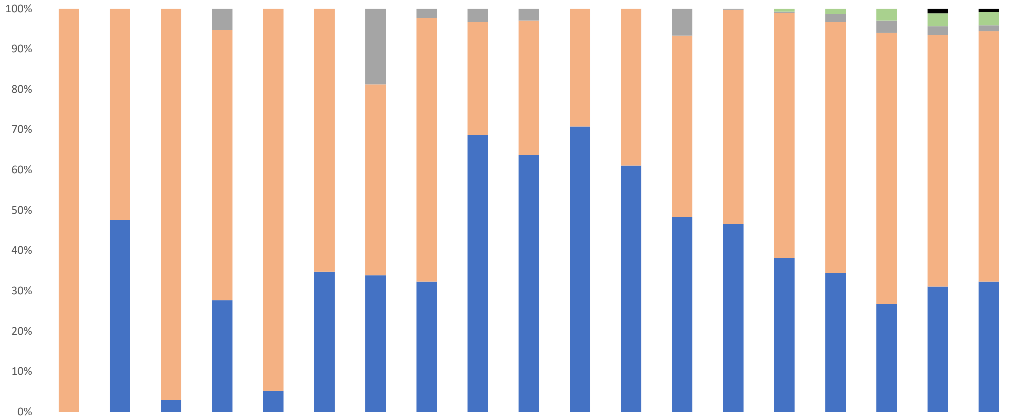
The Pallas NZ Lending Trust was first included in the portfolio in July 2022 and the PFT Feeder Fund was included in April 2022. The Pallas NZ Lending Trust invests in qualifying loans in New Zealand. At 31 October 2022, the Pallas NZ Lending Trust comprised five loans with a weighted average LVR of 57.2%. The PFT Feeder Fund provides exposure to the Pallas Funding Trust No. 1, which provides CRE debt loans to Australian SMEs secured by a first mortgage against Australian property. The trust cannot make related party loans or construction loans. At 31 October 2022, the Pallas Funding Trust No. 1 comprised 57 loans for a total value of $242.4m. The PFT Feeder Fund - A Units pay an interest rate in line with the Fund of 30 day BBSW + 6.50%p.a.

Pallas Funding Trust 1 & Pallas NZ Lending Trust Portfolio Overview as at 31 October 2022

	Pallas Funding Trust 1	Pallas NZ Lending Trust
Number of loans	57	5
Weighted Average LVR	59.4%	57.2%
Percentage of Variable loans	65%	100%
Total investments	$242.4m	$20.8m

The portfolio (excluding the two Pool Lenders) has historically been predominantly exposed to properties located in Victoria and NSW. At 31 October 2022, 62.1% of loans were exposed to VIC properties, 32.3% exposed to NSW properties, 3.4% to SA properties, 1.5% to QLD properties and 0.8% to TAS properties. The SA and TAS property exposures relate a single investment in each of these states. The Pallas Funding Trust 1 is primarily exposed to projects on the east coast of Australia, while the investment in the Pallas NZ Lending Trust provides exposure to the New Zealand market.

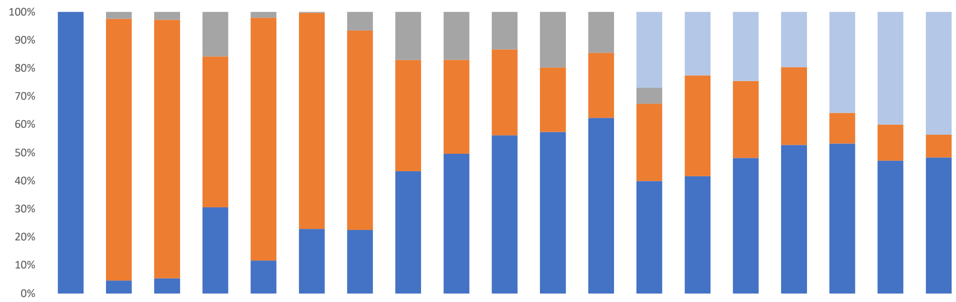
Historical Geographic Diversification (excluding Pool Lenders)



	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
TAS	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.4%
SA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	1.1%	1.9%	1.9%	1.9%
QLD	0.0%	0.0%	0.0%	5.3%	0.0%	0.0%	18.8%	2.3%	3.3%	2.9%	0.0%	0.0%	4.9%	0.2%	0.2%	1.6%	1.9%	1.3%	0.8%
VIC	100.0%	52.4%	97.1%	67.0%	94.8%	65.2%	47.4%	65.4%	28.0%	33.3%	29.2%	38.9%	32.9%	41.2%	46.0%	50.0%	43.2%	37.4%	35.0%
NSW	0.0%	47.6%	2.9%	27.7%	5.2%	34.8%	33.9%	32.3%	68.7%	63.7%	70.8%	61.1%	35.3%	36.1%	28.7%	27.7%	17.1%	18.6%	18.2%

At 31 October 2022, excluding the investment in the Pool Lenders, the portfolio was predominantly exposed to construction loans, which are at the higher-end of the risk scale for CRE loans. We note that one of the two Pool Lenders the Fund is currently invested in cannot invest in related party loans or construction loans. The investment in the Pool Lenders has reduced the exposure of the portfolio to construction loans and provided further diversification to the portfolio. As is highlighted by the below chart, the allocation to loan types will differ over time depending on the loans made the Manager.

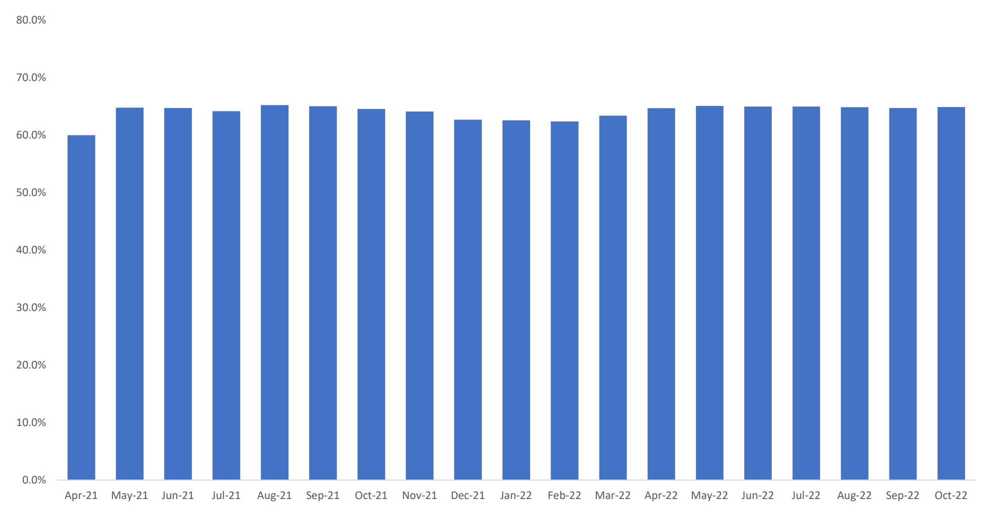
Historical Loan Type Allocation



	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Pooled Lender	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	26.9%	22.6%	24.5%	19.7%	35.9%	40.0%	43.6%
Residual Stock	0.0%	2.4%	2.8%	15.9%	1.8%	0.3%	6.3%	17.1%	17.1%	13.3%	19.8%	14.5%	5.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pre-DA	0.0%	93.0%	91.8%	53.5%	76.1%	71.0%	67.5%	39.5%	33.3%	30.5%	22.9%	23.1%	27.4%	35.8%	27.3%	27.6%	10.9%	12.8%	8.1%
Construction	100.0%	4.6%	5.4%	30.6%	10.3%	21.2%	21.5%	43.4%	49.6%	56.2%	57.4%	62.4%	39.9%	41.6%	48.1%	52.7%	53.2%	47.2%	48.3%

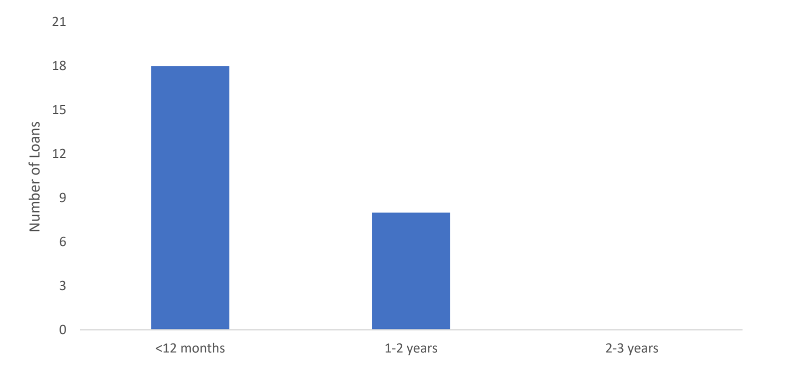
Maximum LVRs for loans made by the Fund range from 65%-70% depending on the loan type. The portfolio has had an average weighted LVR of 63.4% to 31 October 2022 with a high of 65.3% throughout its history.

Historical Portfolio Weighted LVR



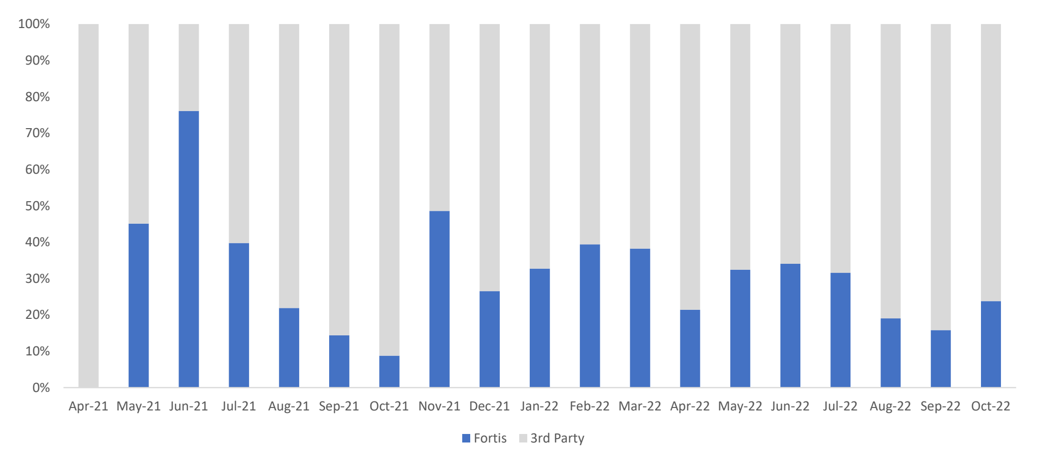
The Fund has a maximum loan term of 36 months (3 years). 64.3% of the portfolio (excluding the Pool Lenders) had a term to maturity of less than 12 months with all investments having a term less than 2 years. The units issued by the Pool Lenders have a minimum initial investment term of 1 November 2023 and then provide monthly redemptions subject to 12 months' written notice being provided to the Trustee. The Fund is exempt from the standard notice period ordinarily required by the Pool Lenders.

Portfolio Maturity Profile as at 31 October 2022



The Fund has the ability to invest in related party loans including loans to Fortis, which is an operating business of the Pallas Group, and discretionary funds issued by the Pallas Group. At 31 October 2022, 23.8% of the Fund was invested in related party loans. The value of loans to Fortis has declined as the Fund has grown and Pallas Capital has become less reliant on Fortis as a source of business. The exposure to related party loans has also reduced as the exposure to the Pool Lenders has increased with one of the Pool Lenders unable to invest in related party loans as part of the mandate.

Loans to Fortis vs 3rd Party

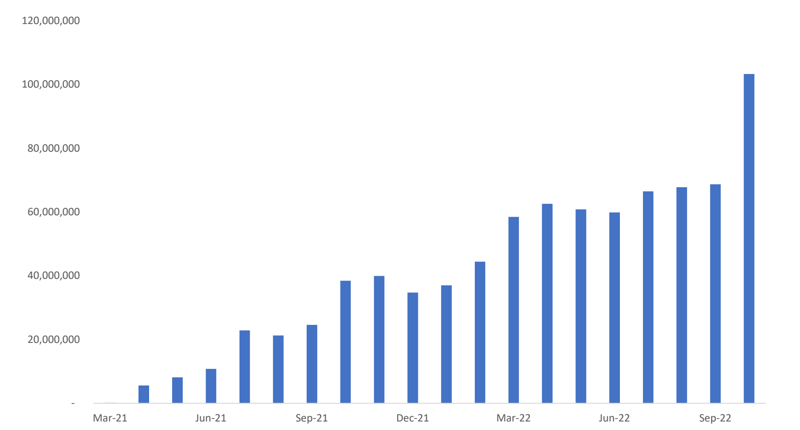


PERFORMANCE ANALYTICS

Returns to investors are purely in the form of income, with monthly distributions based on the interest generated from the portfolio of loans, net of the fees and costs. Upon redemption, investors will receive the capital invested plus any outstanding interest payments, subject to no capital impairments being experienced.

The Fund has an initial target issue size of $150m. The Fund has steadily increased the units on issue with $103.27m units on issue as at 31 October 2022.

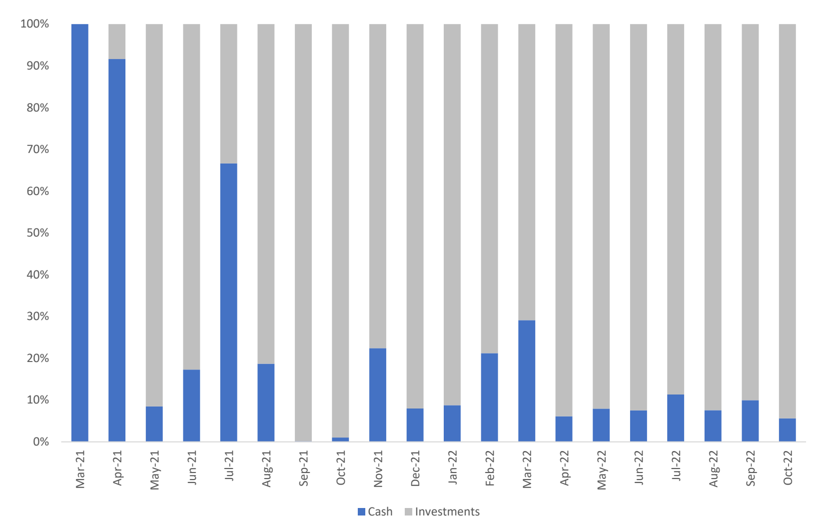
Units on Issue



Source: Pallas Capital

The below graphic shows the growth in the Fund with a breakdown of the total loans made by the Fund and cash available. The Manager has been able to deploy cash in a timely manner reducing the cash drag for unitholders.

Fund Growth

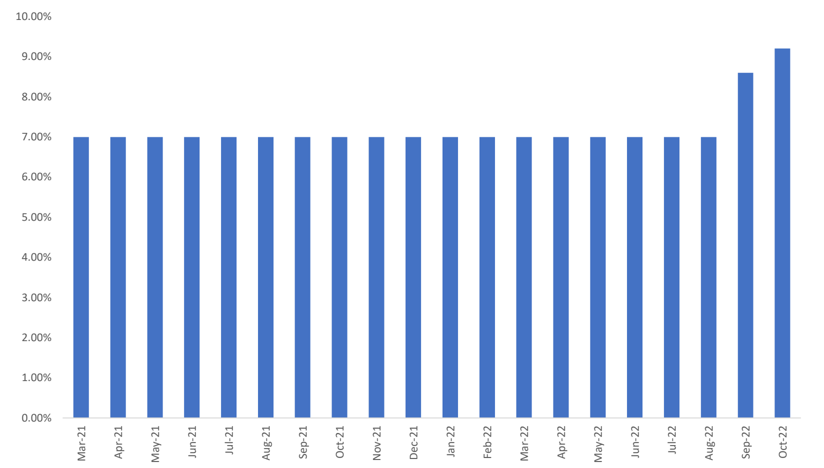


Source: Pallas Capital

On an annualised basis, the Fund has met its interest rate payment obligations since distributions commenced in March 2021. Effective from 1 September 2022, the Fund moved from a fixed interest rate payment of 7%p.a. to a floating rate of 30-day BBSW + 6.50%p.a. Based on the 30-day BBSW as at 29 March 2023 of 3.63%p.a., this would represent an interest rate of 10.1%p.a. In the increasing interest rate environment, we view the change to a floating rate payment to be beneficial to unitholders. New loans made by the Manager are on a floating rate basis to ensure the payment profile of the portfolio matches the interest rate profile of the Fund.

The low level of defaults of the Pallas Group loan book bodes well for investors, although we note that default risk is a key risk for investors and defaults that equate to an amount exceeding the Investment Protection Amount may result in a capital loss to investors. Investors should note that a capital impairment will only be incurred in the event the loan amount cannot be recouped in full. Conservative LVRs provide an element of protection from declines in valuations and personal guarantees from borrowers provides an additional layer of protection.

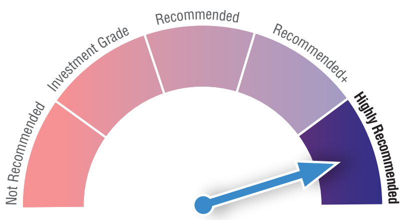
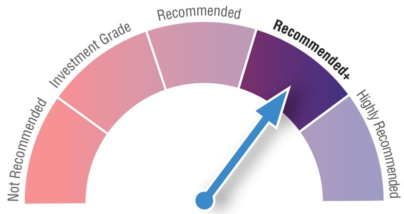
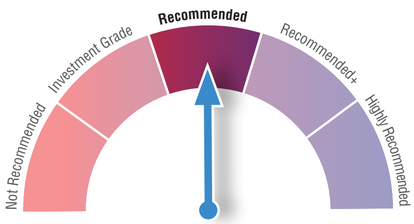
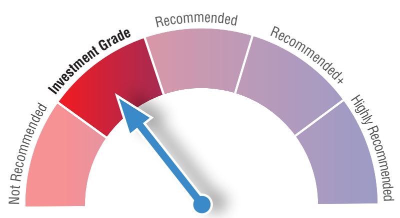
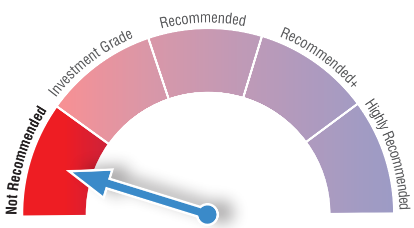
Annualised Monthly Distributions



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

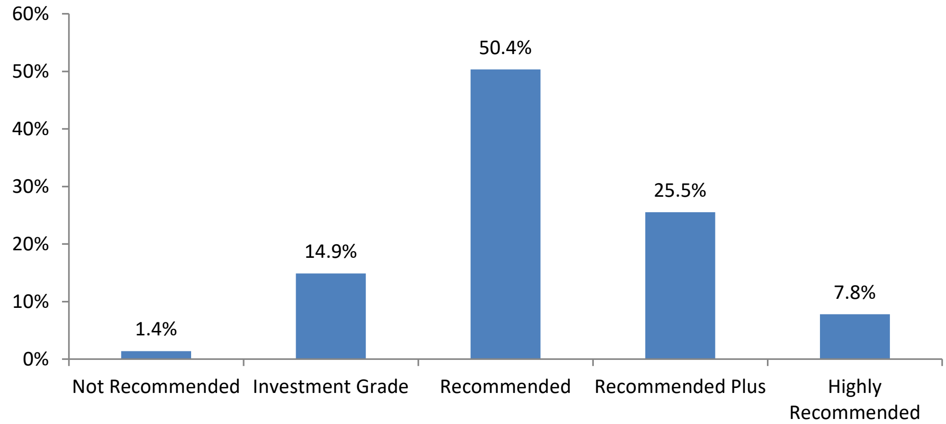
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	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.
Recommended +	**79–83**
	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.
Recommended	**70–79**
	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.
Investment Grade	**60-70**
	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.
Not Recommended	**<60**
	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.

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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