AUSTRALIAN
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INDEPENDENT INVESTMENT RESEARCH

Capspace Private Debt Fund

Research Review

24 February 2023

This Report is for Wholesale Distribution Only

INDEPENDENT
INVESTMENT RESEARCH

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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.

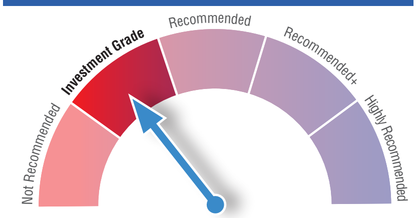
For more information regarding our services please refer to our website www.independentresearch.com.au.

Capspace Private Debt Fund

Research Review - 24 February 2023

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

Rating



Key Investment Information	
Name of Fund	Capspace Private Debt Fund
Trustee	Capspace Holdings Pty Ltd
Investment Manager	Capspace Investments Pty Ltd
Investment Structure	Unit Trust
Eligible Investors	Wholesale Investors
Minimum Investment	$50,000
FUM as at 31 December 2022	$47.21m
Target Distribution	8%p.a.
NAV & Unit Pricing Valuation	Annually
Distribution Frequency	Monthly
Issue Term	Open-ended
Redemption	Withdrawals will not be processed for 6 months from the date of the issue of units, after which withdrawals will be processed on at least 60 days written notice.
Offer Document	Information Memorandum

Portfolio Overview as at 31 December 2022	
Number of Active Loans	39
FUM	$47.21m
Outstanding Loan Amount	$43.36
Weighted Average Term to Maturity	12 months
Weighted Average LVR of Security	57%
Loans in Arrears	0.0%
Weighting of Top 5 Loans (outstanding amount)	39.2%

Fees Commentary

Fees are paid by the borrower, not directly by investors. Fees paid by borrowers differ for each loan. At 31 December 2022, the portfolio had a weighted average interest rate of 10.8%, which suggests fees and expenses represent ~2.8%.

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 Capspace Private Debt Fund (the "Fund") is a unit trust for wholesale, sophisticated and professional investors that provides exposure to a portfolio of loans predominantly to small and medium sized enterprises (SMEs) typically secured by real property. The Fund may provide personal/consumer loans, however this has not been and is not expected to be a prominent part of the portfolio. The Fund was established in September 2021 and therefore has a limited track record. The Trustee of the Fund is Capspace Holdings Pty Ltd and the Fund is managed by Capspace Investments Pty Ltd. Both the Trustee and the Manager are operated by Capspace, an alternative debt provider targeting SME loans ranging from $0.5m to $5m. Capspace was founded in 2018 and operated as a peer-to-peer lender prior to repositioning to a managed investment scheme in 2020.

The Fund seeks to provide investors a distribution yield of 8%p.a. with distributions paid on a monthly basis. Distributions will reflect the net interest earned from the portfolio of loans in any given month. Loans are short-term in nature with a maximum loan term of three years and the Manager will seek to maintain a diversified portfolio comprising at least 20 loans. Up to 25% of the Fund can be allocated to a single loan. Loans made by the Fund will typically be fully secured with real estate being provided as security in the majority of cases. The Manager will accept both residential and commercial real estate as security for a loan with a maximum LVR of 80% for residential property and a maximum LVR of 70% for commercial property. Loans may be secured by only a General Security Agreement (GSA) over all the assets of the borrower, however this is limited to a maximum of 10% of the total investments of the Fund.

The Fund is open-ended with units able to be redeemed six months from the issue of units, subject to 60 days written notice. Redemptions may be suspended at the discretion of the Trustee. The NAV and unit price will be formally provided on an annual basis with unitholders able to formally request a NAV and unit price throughout the year.

Fees are not paid directly by unitholders with the Manager receiving fees from the borrower. The Manager is eligible for a performance fee of 20% (plus GST) of the increase in the NAV over the prior year. The increase in NAV is only expected to result in the event of an equity position taken as a result of loan structuring. The performance fee can be fully or partially paid by the issue of units in the Fund or cash at the Manager's discretion.

INVESTOR SUITABILITY

An investment in the Fund is suitable for those investors seeking a fixed income stream with low capital volatility. Returns are expected to be primarily income and therefore investors should not be seeking capital appreciation from an investment in the Fund. An investment in the Fund is suitable as an addition to the fixed income component of a broader portfolio. Given the illiquid nature of the underlying investments, the Fund offers limited liquidity with redemptions not being processed for 6 months after the date of issue of units with redemptions to be processed with 60 days written notice, thereafter. As such, investors should not require ready access to the capital invested. The key risk associated with private debt investments is default risk. Capital impairments may be incurred in the event of a default by a borrower. To mitigate this risk, the Manager typically takes security over the loan amount to cover the loan in the event of default. The Fund will only experience a capital impairment in the event the loan amount cannot be fully recovered from the sale of the assets provided as security. IIR views an investment in the Fund to be at the higher-end of the risk scale. The increased risk is reflected by the target return of the Fund of 8%p.a. In the event interest rates continue to increase, the risk-adjusted return offered by the Fund may become less attractive. The target return can be changed at the discretion of the Trustee.

RECOMMENDATION

Independent Investment Research (IIR) has assigned the Capspace Private Debt Fund an **Investment Grade** rating. The Fund has a limited track record and is the first fund issued by the Manager. As such investors are exposed to the risks of a new fund. The founders and directors of Capspace have extensive experience across banking, finance and property, however, this is the first managed fund the Directors have operated. In it's short history, the Fund has met its target return of 8%p.a., has met all liquidity requests in a timely manner and has experienced no default events.

SWOT ANALYSIS

Strengths

- The Fund offers a fixed annual return providing investors with a level of return certainty, subject to the portfolio not experiencing any impairments which may impact its ability to meet the target return.
- The Manager nor the Fund has experienced any defaults to date. We note that Capspace was founded in 2018 and repositioned to a managed investment scheme in 2020 and therefore has a short history as a private credit manager.
- The security provided for loans made by the Fund has had a weighted average LVR ranging from of 44% to 64% throughout its history with a weighted average LVR of 57% as at 31 December 2022. This means that property valuations will have to decline substantially for the Manager not to be able to recover the loan amount in the event of default by a borrower.
- The Manager will seek to maintain a portfolio of at least 20 loans, providing diversification for investors and reducing the risk associated with a single loan. At 31 December 2022, the portfolio comprised 39 loans, with the number of loans expected to continue to increase as new capital is raised.
- The Directors of the Trustee and the Manager are invested in the Fund alongside unitholders, on the same terms as unitholders. This provides a strong alignment of interest with investors.
- The Manager has been able to deploy capital raised in a timely manner which has resulted in the cash drag having a minimal impact on the returns of the Fund.
- The portfolio is diversified by industry meaning the portfolio is not exposed to the risk of a downturn in a single industry.
- The Trustee ensures new investors in the Fund are fully aware of the terms and conditions of an investment in the Fund and that the Fund is a suitable investment given an investors investment objectives. This reduces the risk of the Fund experiencing unexpected redemption requests.
- The Fund cannot invest in related party loans. This significantly reduces the conflicts of interest associated with the Fund.

Weaknesses

- While the founders and directors of Capspace have extensive experience across banking, finance and property, this is the first managed fund the Directors have operated.
- Capspace is a relatively new company, founded in 2018, and the Fund is in its infancy. In addition to the limited track record, the Fund is the first fund issued by Capspace with investors taking on the risk associated with a new fund.
- The Fund has a flexible mandate with limited limitations for the portfolio construction. There are no parameters regarding the allocation to personal loans nor parameters or limitations to a particular industry, such as construction. While this provides the Manager flexibility and allows for the Fund to service borrower needs, the lack of parameters makes it difficult for investors to understand what they will ultimately be investing in and the level of risk associated with an investment in the Fund.
- There is limited independent oversight of the operations of the Manager of the Fund with the Trustee and the Manager being operated by Capspace which is wholly owned by the four Directors. We note the Fund is audited on an annual basis.

Opportunities

- The Fund provides the ability to access the SME debt market, which at present is dominated by the banks. There are limited investment opportunities available for investors with a focus on the target market of the Fund with the target market being too big for the small players and too small for the larger players.
- The Fund provides the opportunity to benefit from an attractive risk-adjusted return with a target return of 8%p.a., and low capital volatility, subject to no impairments being experienced. We note that the target return may not be achieved. The Fund has achieved the target return to date.

Threats

- The Fund is small and has a concentrated unitholder base at present. Redemption by a significant unitholder will likely have an adverse impact on the Fund with the potential for the diversification of the portfolio to decline until new capital can be raised. We note the Manager is actively seeking to grow the Fund and diversify the unitholder base.

- A key risk associated with an investment in private debt is the risk of default by a borrower and the Fund not able to recover the full loan amount potentially resulting in investors experiencing a capital impairment. The Manager seeks to reduce this risk through the security provided by borrowers, with loans typically secured by real property, as well as a loan assessment and approval process that seeks to ensure the borrower has the capacity to repay the loan.
- The largest exposure in the portfolio as at 31 December 2022 was to construction loans. Construction loans entail an added layer of risk and oversight to ensure the construction process is running on time and to schedule and cost. These risks are mitigated to some extent by the small size of the projects, the security and guarantees provided for the loans and the structure of the loans with a clear exit plan in place prior to a loan being approved. There are currently five construction loans in the portfolio, with LVRs on the security held ranging from 28% to 66%, providing significant downside protection to the property valuations.
- The Fund may take first and second mortgages as security for a loan. Second mortgages entail a greater level of risk than first mortgages as the provider of the second mortgage sits below the first mortgage provider in the capital stack. All but one of the loans in the portfolio at 31 December 2022 had additional security and/or GSA in addition to the second mortgage.
- The Fund can borrow up to 25% of the NAV of the Fund to facilitate the timing of withdrawals or additional or ongoing commitments to existing borrowers. The use of debt may adversely impact the net returns to borrowers. We note the Fund currently has no borrowings nor a facility in place.
- The deteriorating economic backdrop has the potential to provide some challenges for borrowers. Slowing growth and continued interest rates rises could result in increased borrower stress and put further downward pressure on property valuations, resulting in an increase of the LVR of security provided for loans.

PRODUCT OVERVIEW

The Capspace Private Debt Fund (the "Fund") is a unit trust for wholesale, sophisticated and professional investors that provides exposure to a portfolio of loans predominantly to small and medium sized enterprises (SMEs), typically secured by real property. The Fund may provide personal/consumer loans, however these loans have not and are not expected to be a prominent part of the Fund.

The Fund was established in September 2021 and therefore has a limited track record. The Trustee of the Fund is Capspace Holdings Pty Ltd and is managed by Capspace Investments Pty Ltd. Both the Trustee and the Manager are operated by Capspace, an alternative debt provider with a focus on SME loans ranging from $0.5m to $5m.

Loans are short-term in nature with a maximum loan term of three years (loans may be longer with the approval of the Credit Committee) and will be made for a range of purposes including scaling operations, acquisitions and construction. Loans made by the fund will typically be fully secured with real estate being provided as security in the majority of cases. The Manager will accept both residential and commercial real estate as security for a loan with a maximum LVR of 80% for residential property and a maximum LVR of 70% for commercial property. Loans may be secured by only a General Security Agreement (GSA) over all the assets of the borrower, however this is limited to a maximum of 10% of the total investments of the Fund.

The Fund may hold equity positions as a result of loan structuring. This will be dependent on the circumstances of the loan and the assessment of the business. Equity may take the form of common equity, warrants or options. The allocation to equity is not expected to be more than 5% of the Fund's value at the time of the loan.

The Fund's investment objective is to generate a net cash yield to investors of 8%p.a., paid on a monthly basis. We note there is no guarantee the Fund will achieve the return objective. Distributions will be paid within 15 business days after the month-end. Returns will be predominantly income with the potential for capital appreciation through any equity held as a result of loan structuring. Equity is expected to only be a small portion of the Fund and investors should not make an investment in the Fund based on the expectation of capital appreciation.

Redemption requests will not be processed for six months from the date of the issue of units. Redemptions will be processed on at least 60 days written notice thereafter. The Trustee will seek to meet redemption requests as quickly as possible with the timeliness of redemptions dependent on the amount of cash holdings of the Fund as well as the loan term of active loans in the portfolio. The weighted average loan term of the Fund has been 12 months or less since inception. Redemptions can be suspended at the Trustee's discretion. The NAV and unit price will be formally calculated on an annual basis with unitholders able to formally request a NAV and unit price throughout the year.

Investors will not pay fees directly to the Manager with the Manager receiving fees from borrowers. The Manager is eligible for a performance fee of 20% (plus GST) of any increase in the NAV of the Fund over the prior year. The increase in NAV is only expected to result from an increase in the value of any equity held by the Fund. The performance fee can be fully or partially paid by the issue of units in the Fund or cash. The nature of the payment will be at the discretion of the Manager, however will likely be determined by the liquidity of the Fund at the time a performance fee is scheduled to be paid.

The Fund does not intend to borrow as a core part of managing the Fund, however the Fund may borrow up to 25% of the NAV of the Fund to facilitate redemptions and ongoing or additional commitments to existing borrowers if the Manager deems borrowing necessary and in the best interests of the Fund. We note that the Fund does not currently have a debt facility with the Manager seeking to organise a debt facility when they are of a size where attractive financing terms can be obtained. The use of debt will enable the Manager to grow the size of the Fund in the event capital cannot be sourced in a timely manner, however the interest repayments may adversely impact the net return to investors.

TRUSTEE & INVESTMENT MANAGER

The Trustee of the Fund is Capspace Holdings Pty Ltd and the Fund is managed by Capspace Investments Pty Ltd. Both the Trustee and the Manager are operated by Capspace. Capspace was founded in 2018 by John Encina, Julio Labraga and Daniel Dusevic before being repositioned in 2020 from a peer to peer lending structure to a managed investment scheme. Capspace is 100% owned by the family trusts associated with the four Directors, with ownership equally split at 25% each.

Capspace was established to meet what the founders saw as a gap in the market for small and medium sized enterprises (SMEs) to access capital. More than 95% of loans to SMEs are provided by banks with limited alternatives available to SMEs. The target market of $0.5m to $5m is considered to be a market that is too large for the small alternative fintech lenders and too small for the larger alternative lenders. Capspace seeks to provide a fast, flexible solution to SMEs who are unable to secure a loan from a bank due to restrictive credit requirements or the loan is unable to be attained in a timely manner.

Capspace Directors

Name	Role	Independent	Years at Capspace	Years in Industry
Tim Keith	Managing Director	Non-Independent	3	23
John Encina	Director	Non-Independent	5	25
Julio Labraga	Director	Non-Independent	5	23
Daniel Dusevic	Director	Non-Independent	5	16

Investment team

The business is relatively new with Capspace commencing operations as a managed investment scheme in 2020 and this being the first Fund issued by the company. Reflecting this, the investment team is small, comprising six professionals, four of which are the Directors of Capspace. The Manager will seek to grow the investment team as required.

The investment team have a significant amount of experience across banking, finance and property, however this is the first managed fund that a large majority of the team have been involved in. Not included in the below table is the General Counsel, Sarina Roppolo, who is a Partner at Kardos Scanlan. Sarina provides advice and Kardos Scanlan provide legal services to the Fund regarding loan and security documentation as well as advice on loan structuring.

Investment Team

Name	Position	Experience (years)
Tim Keith	Managing Director	23
John Encina	Director, Head of Borrower Origination	25
Julio Labraga	Director, Head of Business Development	23

Investment Team		
Daniel Dusevic	Director, Head of Investor Origination	16
Paul Saba	Broker Engagement	10
Lea-Anne Warren	Operations Manager	15

- **Tim Keith - Managing Director:** Tim was formerly the Managing Director of Global Market Sales at National Australia Bank Limited (NAB). Tim has significant experience & expertise in banking and corporate governance. Tim is the Chair of the Credit Committee and is responsible for Fund strategy, governance, risk management, portfolio management and investment decisions.
- **John Encina - Director, Head of Borrower Origination:** John is a founder of Capspace and is also currently a Director of Experity Capital, a broker co-operative that has a loan book of commercial and SME borrowers in excess of $1b. John previously held the roles of Director at Macquarie Commercial Finance, Senior Relationship Manager and Senior Credit Analyst at Westpac Banking Corporation.
- **Julio Labraga - Director, Head of Business Development:** Julio is a founder of Capspace and is responsible for the positioning and growth of the Fund with his responsibilities extending to marketing, branding, client engagement, business development, M&A opportunities and execution of the marketing plan. Julio is also currently a Director at Experity Capital. Julio was the founder and Director of BuyerX Sydney, a property buyers' agency that assisted people buying property in Sydney. Julio has significant experience in the mortgage broking industry, previously a Director at Property Solutions and Two Lands Pty Ltd and Exception Pty Ltd working to grow the mortgage origination businesses.
- **Daniel Dusevic - Director, Head of Investor Origination:** Daniel is a founder of Capspace. Daniel specialises in property, fintech and emerging markets. Daniel is also currently a Director at Experity Capital. Prior to joining Experity Capital Daniel worked for a number of years at both Macquarie and Goldman Sachs in a number of roles including: (i) a Business Development Manager, responsible for supporting and advising Finance Brokers on compliance, credit risk assessment, credit policy, loan structuring, financial analysis and serviceability assessment; (ii) Private Wealth Analyst, responsible for managing the day-to-day management of relationship with Private Wealth clients and financial advisors, compliance and operations managers; and (iii) Mortgage Advisor, responsible for reviewing credit risk and providing residential loan advice.
- **Paul Saba - Broker Engagement:** Paul has 10 years experience as a commercial loan broker. Prior to joining Capspace, Paul worked at Finance and Systems Technology (FAST), an aggregator in commercial and asset finance. Paul's responsibilities included developing and managing a portfolio of finance brokers and lender partners on behalf of FAST. Paul also worked as a National Business Development Manager at Advantedge Financial Services responsible for managing a portfolio of mortgage managers who supported brokers via aggregator or direct channels as well as those who liaise directly via online and retail channels.
- **Lea-Anne Warren - Operations Manager:** Lea-Anne has 15 years experience in banking operations. Lea-Anne is responsible for managing the operations of the Fund including technology, processes, systems and back office support. Prior to joining the Manager, Lea-Anne was a Consultant at Athena Consulting, focused on communications and change management for private and public sector organisations. Lea-Anne has also worked as a Project Manager at Tesco Bank and Morgan Stanley & Discover.

Credit Committee

The Credit Committee meets on a weekly basis and as required if more urgent approvals are required. All loans must be formally approved by the Credit Committee. Loans must receive a unanimous agreement of all Voting Members for the Fund to be able to invest. The General Counsel, which is an external law firm retained by the Fund, will be at the Credit Committee meetings upon request.

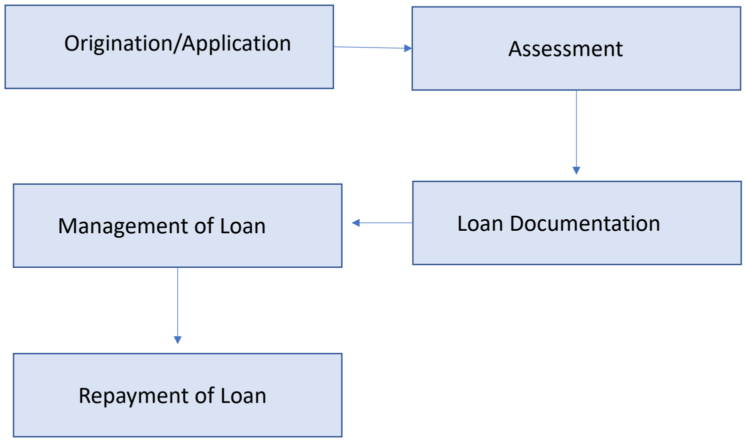
Credit Committee			
Name	**Position**	**Independent**	**Credit Committee Role**
Tim Keith	Managing Director	Non-Independent	Chair, Voting Member
John Encina	Director, Borrower Originations	Non-Independent	Voting Member
Daniel Dusevic	Director, Investor Originations	Non-Independent	Voting Member

Credit Committee			
Julio Labraga	Director, Business Development	Non-Independent	Voting Member
Sarina Roppolo	General Counsel	Non-Independent	Advisory Member (does not attend all committee meetings)

LOAN ASSESSMENT & MANAGEMENT PROCESS

An overview of the loan assessment and management process is provided in the below graphic. The process involves five stages, details of which are provided below.

Loan Assessment Process



1) Origination/Application

The Manager originates loans from its broker network. Initially the primary broker network used for the origination of loans was Experity Capital, which has over 4,000 clients and $1b in loans under administration. John Encina, Julio Labraga and Daniel Dusevic are all currently Directors at Experity Capital, with the three Directors founding Capspace after identifying a gap in the market through their work together at Experity Capital. The broker network has expanded with the Manager now having more than 20 member brokers. Brokers can apply to become a member network. The larger the broker network the more loan opportunities that are accessible by the Manager.

The use of brokers as opposed to direct origination means the initial due diligence is done by the broker before the opportunity is presented to the Manager. The Manager tells the brokers the types of loans they are looking for and the brokers will submit applications based on the loan application template provided.

John Encina and Paul Saba are in charge of origination and broker engagement with John reviewing all applications made by the broker network. Those loans that meet the criteria and are deemed appropriate after an initial review are submitted to the Credit Committee for assessment.

2) Loan Assessment

Loans submitted to the Credit Committee undergo a more detailed assessment to determine if the loan meets the criteria for addition to the Fund. The assessment will include an assessment of the borrower's ability to service the loan by reviewing the applicants income, credit rating, character, industry, real estate proposed as security and other forms of security as required. When assessing an application there are six central questions that must be answered to the Credit Committee's satisfaction:

1) Benefit - Is there an economic benefit to the borrower?

2) Security - Does the applicant provide suitable supporting security?

3) Valuation - Does the Manager's valuation of the real assets proposed as security and other forms of security support the applicant's estimate of security value?

4) LVR - Is the loan within the Fund's maximum LVR limit for the security?

5) Policies - Does the application comply with the Manager's established Lending Policy, Risk Management Policy and Related Party Transactions Policy?

6) Exit - Does the application have a defined and reasonable strategy for repayment of the loan?

Approval of a loan for inclusion in the portfolio requires unanimous approval by the Credit Committee. If approved the terms of the loan will be finalised and loan documentation organised.

Security Requirements

The Fund is predominantly secured with the Fund able to provide unsecured loans up to 10% of the value of the Fund.

The Fund will hold as security:

- Registered Property - a 1st or 2nd registered mortgage, or a registered caveat in respect of an unregistered mortgage, over real estate; and
- Guarantee - a personal guarantee where the borrower is an individual or director's guarantees where the borrower is a body corporate (including acting as a trustee of a trust).

Where deemed appropriate, the Manager may also take the following additional security:

- Priority - a Deed of Priority from the 1st mortgagee, where relevant;
- General Security Agreement - a general security interest over all personal and after-acquired property (other than real estate) of the borrower; and
- Specific Security - a specific security interest over specific high value assets of the borrower, such as motor vehicles, boats, aircraft and the like.

With respect to the valuation of assets provided as security, the Manager will typically commission a licensed external valuer from its panel of valuers to prepare a valuation report. There may be some occasions that the Manager will produce its own internal valuation of real estate offered as security, however this is not common practice and only for loans with small face values.

The Manager will accept real estate zoned residential or commercial as security for a loan. The maximum LVR for a for residential property will generally be 80%, while a maximum LVR of 70% will generally be applicable for commercial property. Of the loans in the portfolio secured by real estate at 31 December 2022, there was one loan secured by residential property with an LVR of more than 80% and one loan secured by commercial property with a LVR of more than 70%.

The Manager will not accept property that is:

- In a flood prone area or otherwise environmentally affected;
- Has a building area of less than 100m^2;
- Is zoned rural or rural residential.

3) Loan Documentation

Once a loan is approved by the Credit Committee a Letter of Offer is sent to the borrower for approval of the terms. If the borrower wants to proceed with the loan, the loan documentation is finalised and funds are advanced to the borrower.

The Manager employs external lawyers who are responsible for all loan and security documentation.

As part of the approval process, the Credit Committee determines the pricing of the loan based on a number of risk factors. There are some pricing guidelines that the Manager will follow. The broad guidelines are provided below, however the actual loan pricing is at the discretion of the Credit Committee.

Loan Pricing

Loan Type	Annual Interest Rate
1st mortgage and/or caveat	8%-12%
2nd mortgage and/or caveat	12%-24%
Default Rate	24%+

Interest payments by the borrower may be paid on a monthly basis in arrears, capitalised or prepaid, depending on the borrower and the rationale for the loan. For example, a loan to acquire equipment may be paid monthly in arrears, while a construction loan may have prepaid or capitalised interest given the nature of the construction process.

5) Loan Management

Once a loan is made, the Manager is responsible for the day to day management of the loan. The Credit Committee meet at least weekly to review new applications. The portfolio is formally reviewed on a monthly basis.

6) Repayment of Loan

The final step in the process is the repayment of the loan. Once the loan is repaid the transaction is complete and the capital is redeployed to another loan.

In the event the loan is not repaid or the borrower is in breach of the loan agreement, the Manager will begin the loan recovery process. The Manager will seek to work with the borrower where possible to assist with the repayment of the loan however in the event the loan repayment is past due the Manager will engage external lawyers to manage the loan recovery process and sale of the assets provided as security, where applicable, to recover the loan amount.

Portfolio Construction

The Fund has some guidelines and limitations for loans in the Fund, which the Manager must take into consideration when assessing a loan application. The Fund can have a maximum 25% of the Fund allocated to a single loan to ensure a minimum level of diversification in the portfolio. The Manager will seek to have at least 20 loans in the portfolio to further ensure there is sufficient diversification in the portfolio. Loan terms will typically not be more than three years, however loan terms can be greater where Credit Committee approval has been received.

Investment Guidelines	
Target Loan Size	$0.5m-$5m
Allocation to a Singe Loan	Maximum 25% of NAV
Number of Loans	Seek to have more than 20 loans in the portfolio
Maximum Loan Term	3 years (although longer term is possible with Credit Committee approval)
Target Asset Allocation:	
Loans	90%
Equity	5%
Cash	5%
Unsecured Loans	Up to 10% of total investments

PORTFOLIO

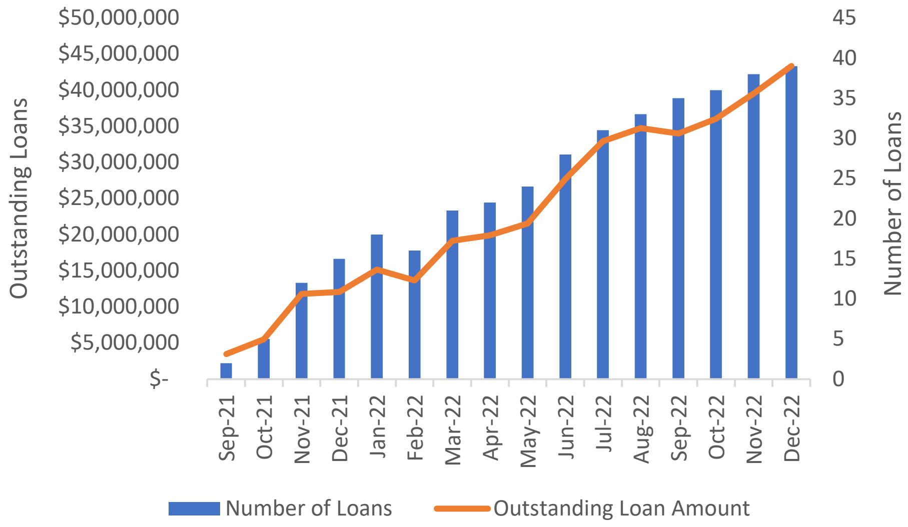
As at the 31 December 2022, the portfolio had 39 active loans with a total outstanding value of $43.36m. The Fund has raised $47.21m with the portfolio having a weighted average term to maturity of 12 months and a weighted average LVR of real estate provided as security of 57%. The longest term of an outstanding loan is 24 months.

Portfolio Overview as at 31 December 2022	
Number of Active Loans	39
FUM	$47.21m
Outstanding Loan Amount	$43.36
Weighted Average Term	12 months
Weighted Average LVR of Security	57%
Loans in Arrears	0.0%
Weighting of Top 5 Loans	39.2%*

*Based on total outstanding loan amount.

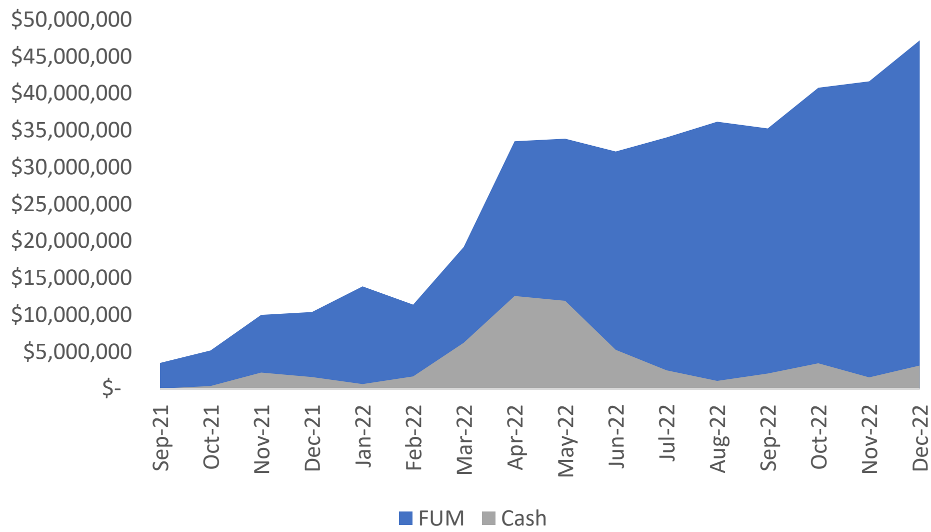
The number of loans in the portfolio has grown at a steady rate since the inception of the Fund with the portfolio comprising 39 loans with an outstanding value of $43.36m as at 31 December 2022. IIR expects the number of loans in the portfolio to continue to grow as additional capital is raised.

Number & Outstanding Amount of Loans (as at 31 December 2022)



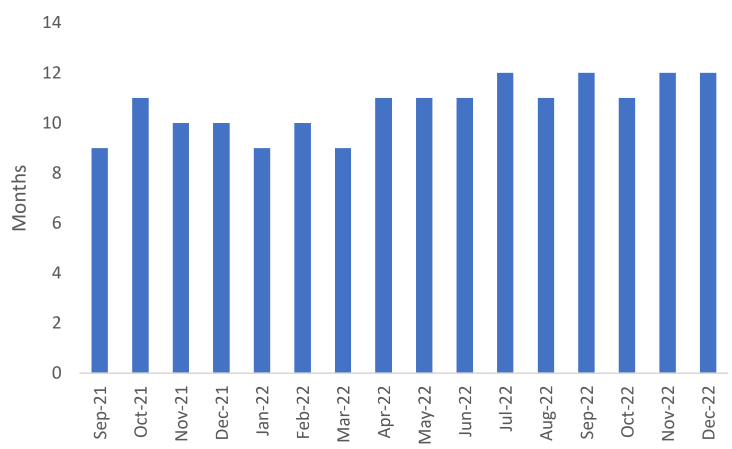
As at 31 December 2022, the Fund had grown to $47.21m with 47.21m units on issue at $1.00 per unit. The Fund is open-ended with units being issued upon application. With open-ended funds that invest in private credit, cash flow management is important as excess cash can be a drag on the performance of the Fund if it sits unallocated. To date the Manager has been able to invest cash in a timely manner. The Manager has a strong pipeline of loans and is therefore expecting to be able to continue to deploy capital raised in a timely manner. There have been a few months where redemptions have been larger than units issued which has resulted in a decline in FUM, however the decline has been short-term with the FUM growing the following month. The Trustee has been able to meet redemption requests promptly thus far.

FUM Growth & Cash



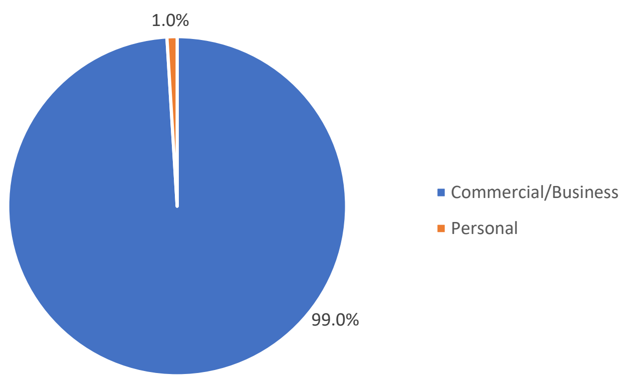
Loans are short-term in nature with a maximum loan term of 3 years. The portfolio has had a weighted average term to maturity of 12 months or less over its history with a weighted average term to maturity of 12 months as at 31 December 2022.

Weighted Average Term to Maturity



The Fund is expected to be predominantly exposed to commercial/business loans, however the Fund can provide consumer/personal loans at its discretion. As at 31 December 2022, the Fund comprised two consumer/personal loans, which accounted for only a small portion of the portfolio.

Commercial/Business vs. Personal Loans (as at 31 December 2022)



The Fund's portfolio is diversified by industry as highlighted in the below table. The Fund will lend to commercial borrowers across a range of industries, with capital used for a variety of reasons. At 31 December 2022, the portfolio was heavily weighted to Construction and Property Development loans with 46.6% of the portfolio allocated to these two loan types. Given the Fund intends to focus on loan sizes from $0.5m to $5m, the Fund is not expected to fund large construction and property development projects. There are additional risks associated with construction projects including delays and increased costs. All construction loans in the portfolio as at 31 December 2022 have conservative LVRs ranging from 28% to 66%, providing significant downside protection to the property valuations. In addition to property as security for these loans, the Fund also has a GSA and Director security. In the majority of cases borrowers also have other non-construction related income and security.

Industry Allocation (as at 31 December 2022)	
Building	3.0%
Childcare	8.6%
Cleaning Services	0.3%
Construction	31.0%
Eco Tourism	5.3%
Fuel Distribution	1.2%
Fund Management	7.8%
Hospitality	10.1%
Investment	1.6%
Mechanical	0.3%
Mining Services	1.9%

Industry Allocation (as at 31 December 2022)	
Mortgage Broking	1.2%
Other Services	6.1%
Pet Boarding	1.4%
Pharmacy	1.4%
Professional Services	0.1%
Property Development	15.6%
Property Services	0.3%
Retail	0.5%
Technology	2.2%

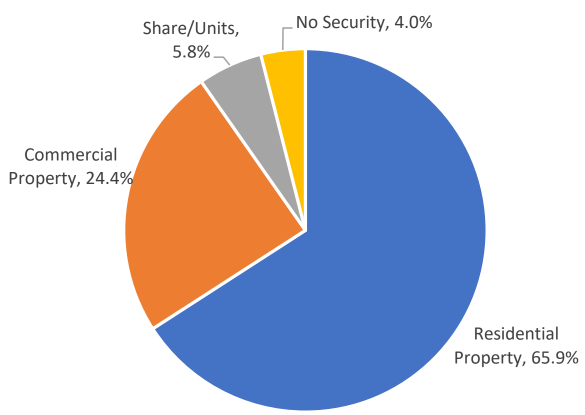
Security

The Manger will often take real estate assets as security for a loan. As at 31 December 2022, 90.3% of the outstanding loan amount of the Fund was secured by property. Residential property is the most common property type used for security with commercial property also provided as security. The Manager may take equity as security as opposed to property. As at 31 December 2022, shares/units in a company/fund were provided as security for two loans which represented 5.8% of the total outstanding loan amount.

The Fund may hold equity positions as a result of loan structuring, for example a loan may be structured as a convertible note whereby the debt converts into a predetermined amount of equity in a business. Equity is not expected to represent more than 5% of the Fund's value at the time of loan. The Fund currently has no equity-like loan structures. The value of equity may increase or decrease in value over time. As such in the event the Fund comprises equity, any change in the value of the units will be reflected in the NAV and the unit price.

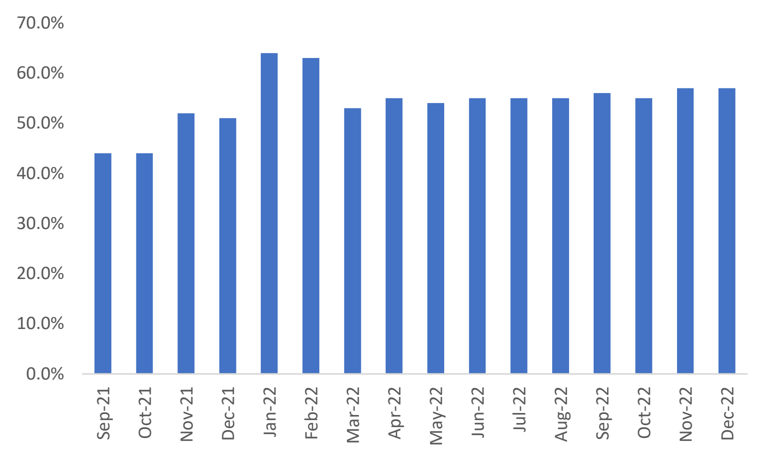
The majority of loans made by the Fund are expected to be secured, however, the Manager may make unsecured loans at its discretion. Some loans may be fully unsecured, while others will be secured by General Security Agreement (GSAs) with some loans also secured by an unregistered 2nd mortgage on a property. Unsecured loans entail a greater level of risk, however can generate additional return for investors. At 31 December 2022, 4.0% of the outstanding loan amount was to unsecured loans. All unsecured loans were less than $600,000 and therefore not a significant part of the portfolio. The portfolio can have a maximum of 10% of the portfolio allocated to unsecured loans, however there are no limitations regarding the maximum size of unsecured loans, therefore one unsecured loan could theoretically account for 10% of the portfolio.

Security Type (as at 31 December 2022)



The below shows the historical weighted average LVR of the security of the portfolio. The LVR of security has been conservative with a maximum weighted average LVR of 64%. The conservative LVR means the value of the security will have to fall significantly for the Fund not to be able to recoup the outstanding loan amount in the event of default While the weighted average LVR has been conservative, as detailed above, there are some loans where no security is provided and some are secured by second mortgages. The risks associated with each loan differs.

Historical Weighted Average LVR of Security



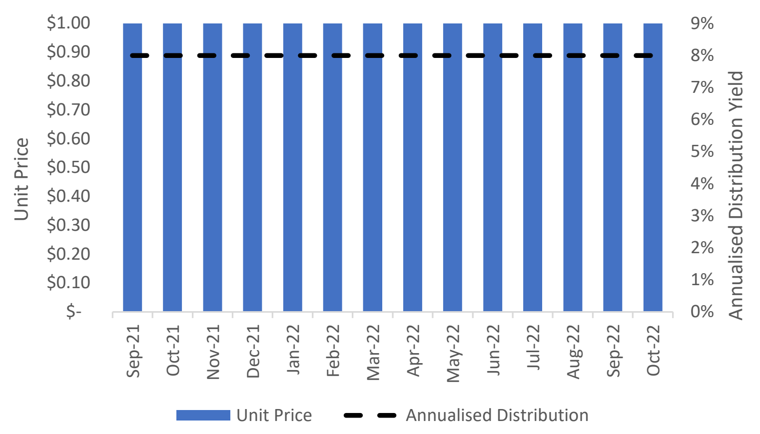
PERFORMANCE ANALYTICS

Returns will be largely income in nature with the unit price expected to revert back to $1.00 once the net interest earned during the month has been distributed. The unit price may increase in value based on the value of any equity taken as security for loans.

The unit price may fall below $1.00 in the event the Manager is unable to recoup the loan amount in the event of a default on a loan or in the event there are arrears from the portfolio. The unit price has consistently been at $1.00 to date, reflecting no defaults and no arrears in the Fund.

The Fund has a target distribution of 8%p.a, which the Fund has delivered on to date. The target distribution yield is fixed. In the event of further interest rate rises the attractiveness of the return may decline.

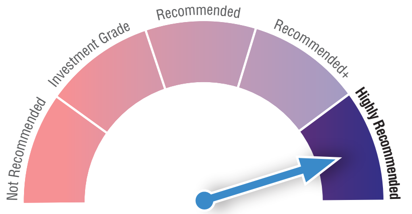
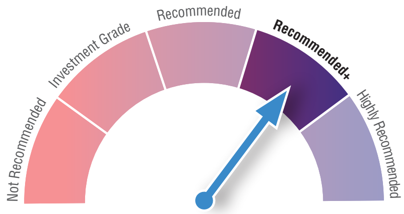
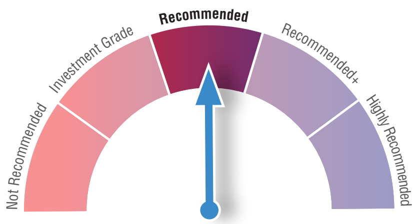
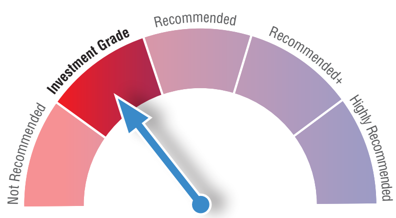
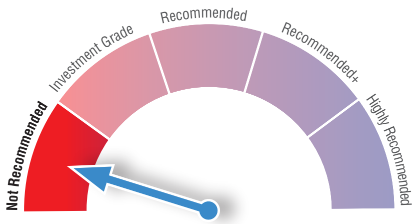
Historical Unit Price & Annualised Distribution Yield



APPENDIX A – RATINGS PROCESS

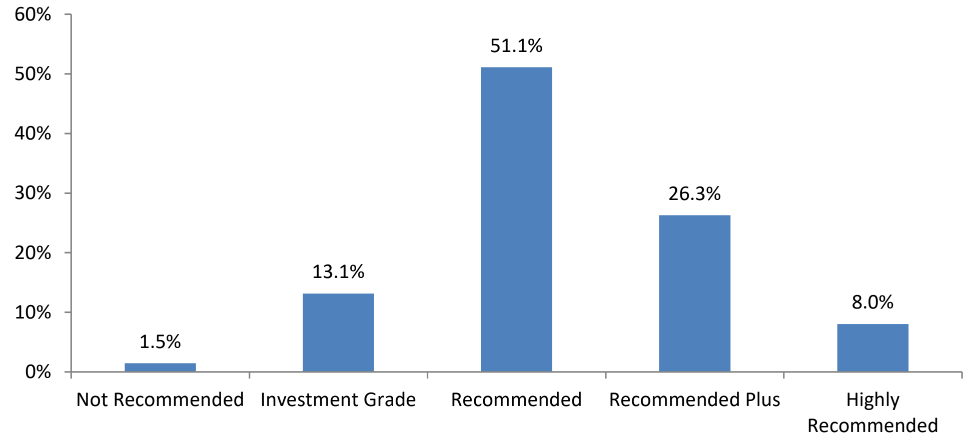
Independent Investment Research Pty Ltd "IIR" rating system

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.



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