SQM RESEARCH

Remara Private Credit Income Fund

This report has been prepared for financial advisers only

Favourable

October 2023

INTRODUCTION

Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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Report Date: 20 October 2023

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	**Highly suitable for inclusion on APLs** *SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.*	High Investment grade
4¼ stars	Superior	**Suitable for inclusion on most APLs** *SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.*	High Investment grade
4 stars	Superior	**Suitable for inclusion on most APLs** *In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.*	High Investment grade
3¾ stars	Favourable	**Consider for APL inclusion** *SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.*	Approved
3½ stars	Acceptable	**Consider for APL inclusion** *In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.*	Low Investment grade
3¼ stars	Caution Required	**Not suitable for most APLs** *In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.*	Unapproved
3 stars	Strong Caution Required	**Not suitable for most APLs** *In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.*	Unapproved
Below 3 stars	Avoid or redeem	**Not suitable for most APL inclusion**	Unapproved
Event-driven Rating		**Definition**	
Hold		*Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.*	
Withdrawn		*Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.*	

* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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SQM Rating ★★★★½

Favourable. Consider for APL inclusion.

Fund Description	
Fund Name	Remara Private Credit Income Fund
APIR code	MSC8502AU
Asset Class	Fixed income (Private Credit)
Management and Service Providers	
Parent Company of Investment Manager	Remara Capital Holdings Pty Limited
Investment Manager	Remara Investment Management Pty Limited is the investment manager - (ABN 26 644 751 815).
Responsible Entity	Melbourne Securities Corporation Ltd
Custodian	Perpetual Corporate Trust Limited
Fund Information	
Fund Inception Date	01-Aug-22
Fund Size	$8m as of Oct 2023 - Remara Group $700M+
Return Objective (as per PDS)	in excess of 4% p.a.(net of Fund fees) above BBSW Rate.
Internal Return Objective	The Manager seeks to deliver Target Return while seeking to preserve capital
Risk Level (as per PDS)	Low/Medium
Internal Risk Objective	Credit enhancement provides a 5% capital loss protection to the Fund in the event the aggregate loss of the loan portfolio is greater than the income
Benchmark	BBSW plus 4% p.a. (Net of Fund fees)
Number of stocks/positions	4160
Fund Leverage	The Fund will not borrow money to make investments
Investor Information	
Redemption Policy	Quarterly, subject to a 45-day notice period
Pricing Frequency	First business day of each month
Distribution Frequency	Monthly 15th of each month, reinvestment is available
Investment Horizon (as per PDS)	minimum 2 years
Investment Amounts	
Minimum Application	$10,000
Minimum Withdrawal	$10,000
Minimum Investment Balance	$10,000
Fees	
Management Fee	0.50% p.a., excl. GST
Frequency of Fee Accrual	Monthly
Frequency of Fee Payment to Manager	Monthly
GST and impact of RITC	Excluded
TCR - % of GAV	0.65% p.a.
Expense Recovery	cost recoveries up to 0.15% excl. GST
Buy Spread	NIL
Sell Spread	NIL

Fund Summary

Description

The **Remara Private Credit Income Fund** (**The Fund**) is an open-ended unlisted registered managed investment scheme. structured as a unit trust. Unit prices are calculated monthly. The Fund is intended to be suitable for investors seeking a stable portfolio investment with a preference for steady income and capital stability.

The Fund is actively managed and aims to provide capital security and returns mainly in the form of income at a rate that is in excess of 4% p.a. (net of Fund fees) above the RBA 30-day Bank Bill Swap Rate (BBSW Rate).

The Fund's investment portfolio will consist of Notes issued by Pools which are unit trusts managed by the Portfolio Companies which are owned and controlled by the parent company of the Manager. The asset portfolio of the Pools consists primarily of Australian credit investments with exposure to investments including syndicated loans, asset-backed securities and collateralised debt obligations.

The Portfolio Companies seek to add value through active allocations between individual securities and industries while maintaining a highly diversified portfolio. They use bottom-up analysis to select individual investments based on relative value within the capital structure of comparable companies and industries. This process is overlayed with a top-down macro-overview of borrower markets to limit exposure to sub-prime and risky industry exposures.

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
3.75 stars	Favourable	Consider for APL inclusion	Approved

SQM Research's Review & Key Observations

About the Manager

Remara Investment Management Pty Limited (ABN 26 644 751 815) is the Investment Manager of the Fund. It manages 4 fixed income funds in the private credit asset class including the Fund under review. In addition to the staff at the Portfolio Companies, the Manager has a 4-person investment team.

The Manager is 100% owned by Remara Capital Holdings Pty Ltd (Remara), the parent company. Remara is currently owned by the two Managing Partners through their personal investment vehicles.

Remara also owns:

- 100% of Remara Credit Pty Ltd and 60% ownership in Soda Capital Pty Ltd, both of which originate loans in which the Pools invest.
- 30% Grow Finance Limited. Remara holds an asset management agreement with Grow Finance which enables total management of all funding and capital needs of Grow Finance, which originates loans.

The Manager of the Fund, Remara Investment Management, is the lender of record for any loans originated by Remara Credit and Soda Capital, which together with Grow Finance are referred to as Portfolio Companies.

The Manager has the benefit of 80 staff at the Portfolio Company level who undertake originations, credit, servicing and collections. There is a uniform approach that is applied to every asset originated.

The Remara group has $700m of Funds Under Management across specific managed fund investment vehicles and management contracts for portfolio companies. The Remara group has been operating for 4 years and it is profitable.

The FUM includes $600 m originated by Grow Finance Limited, managed for entities associated with a major Australian bank ($350m), an Australian superannuation investor ($125m), a global investment bank ($80m) and $45m for others.

Investment Team

The investment team consists of five people, three of whom have extensive experience in managing private credit investments. It is led by the two Managing Partners, Andrew McVeigh and David Verschoor. The team works collaboratively with all members participating in the research and investment decision-making process. There is significant key person risk inherent in the Managing Partner roles.

The Investment Committee, comprising the two Managing Partners and an independent chair, Mark Hickey, is ultimately responsible for decisions to invest the Fund's portfolio in Notes issued by the Pools managed by the Portfolio Companies.

There are structured meetings of the investment team, the investment Committee and also of the Credit Committee which operates at the Portfolio Company level.

1. Investment Philosophy and Process

Investable Universe

The Fund invests in Notes issued by the Pools which are unit trusts managed by the Portfolio Companies. The asset portfolio of the Pools consists primarily of Australian credit investments with exposure to investments including syndicated loans, asset-backed securities and collateralised debt obligations.

This includes the following types of credit instruments (with an indication of the Investment Range within the portfolio:

Asset-Backed Securities - 20% to 95%
Collateralised Debt Obligations - 0% to 30%
Mortgage-Backed Securities - 0% to 45%
Mezzanine Loans - 0% to 15%
Corporate Loan s(Syndicated or Bi-lateral) - 0% to 10%
Project Finance/Real Estate loans - 0% to 50%
Securitised Loan Structures - 0% to 95%
Convertible Notes - 0% to 10%
Cash - 5% to 100%

SQM Research observes that the allowable allocation ranges are very wide and would not in practice impose tight constraints on investment decision making. This places significant responsibility on the judgment of the key decision makers: the two Managing Partners and the Independent Chair of the Investment Committee.

Philosophy / Process / Style

The vertical alignment via ownership and control of the Portfolio Companies means the Manager effectively controls the origination of credit assets generated within the Remara platform. The Manager believes that:

- this sharpens its focus on credit assessment and risk management with the aim of originating high-quality assets and
- allows response to market trends faster than its competitors.

The Manager:

- seeks to add value through active allocations between individual securities and industries while maintaining a diversified portfolio.
- uses bottom-up analysis to select individual investments
- and overlays a macro-overview of borrower markets to limit exposure to subprime and risky industries.
- employs a conservative approach to credit selection.
- selects securities based on relative value within the capital structure of comparable companies and industries.
- (via its investment into underlying portfolio companies) places 5% first loss capital behind all loans that the Fund invests in.

The Manager believes that:

- In periods of reducing credit availability results in higher credit quality borrowers paying high yields and improving the returns relative to risk for Fund investors.
- In periods of excess liquidity, there would be a slight negative impact as borrowers have more choice and therefore lower prices and margins but any negative impact to Fund investors would be extremely minor and would highly like not impact returns in any meaningful way.

2. Performance & Risk

Return Objective

The return objective stated in the PDS is: "The Fund aims to achieve a return in excess of 4% p.a. (net of Fund fees) above BBSW Rate.". The Fund's benchmark, as stated in the PDS, is BBSW plus 4% p.a. (Net of Fund fees).

Length of Track Record

The Remara Private Income Fund has a relatively short history of 14 months over which period it has almost matched its v Benchmark. Observations and analysis of returns will have limited statistical meaning.

Risk Objective and Level

The Fund's PDS does not have a stated risk objective but states that the risk level of the Fund is "Low/Medium".

Strengths of the Fund

- The Fund is managed by an investment team led by two managing partners who are very experienced in credit assessment and investment.
- A detailed and robust research process is used in the selection of credit assets for the Pools which effectively back the Notes issued by the Pools to the Fund.
- The selection of assets is approved under a well-structured credit policy by a Credit Committee with substantial experience in credit assessment of loan assets.
- The nature of the assets in the Pools allows attractive margins to be earned so that the average rate earned on the portfolio of loans should support a margin of 4% p.a. above the RBA 30-day BBSW rate, after fees.
- The Fund has competitive fees.
- The Fund is expected to provide attractive interest returns through monthly distributions with capital security over time.

Weaknesses of the Fund

- There is key person risk at both the Managing Partner and Investment Committee levels of the decision-making process.
- There may be restrictions on withdrawals from time to time.
- In some economic conditions, arrears on loans made by the Pools may rise significantly and reduce the margin available to pay interest to investors in the Fund although the risk of this is mitigated by 5% first loss capital effectively provided by the parent company of the Manager, which is behind all loans that the Pools invest in.

Key Changes Since the Last Review

- This report is an inaugural review.

Investment Process Diagram

Remara – Platform Level

Remara - David Verschoor/Andrew McVeigh
Approval – All Credit Policies
Approval - All Remara Investment Management
Approval – Any Grow deal above $500k

Portfolio Company Level

Grow Finance - Credit Team
Head of Credit – DLA $500k
Senior Manager – DLA $300k
Manager – DLA $150k
Analyst – DLA $100k
Jnr Analyst – 50k

Remara Investment Management
Credit Investment Team
No DLA's

Product Level

Asset Finance	Business Loans	Insurance Premium Finance	Business Loans (Real Estate Backed)	Real Estate Development Loan	Floorplan Finance

Controls	Warehouses Trusts	Term Out Trusts	Direct Lending
Credit Sign Off	Senior Lender	Arranger (Senior Financier) + Rating Agent	Investment Committee
Eligibility Criteria	Senior Lender	Arranger (Senior Financier) + Rating Agent	Fund PDS
Pool Parameter Settings	Senior Lender	Arranger (Senior Financier) + Rating Agent	Fund PDS
Pool & Eligibility Testing	AMAL Trustees	AMAL Trustees	Melbourne Securities
Pricing	Senior & Third Party lenders	Market pricing	Contract rate
First Loss Requirement	Senior Lender – 'Minimum risk retention'	Market Expectation + Rating Agent	Fund Mandate 5% minimum

Process Description

Investment Process

The following description of the Investment Process relates to the investment of the Pools into which the Fund invests by purchasing Notes issued by the Pools.

Research

The investment process applied to the Pools:

- uses bottom-up analysis to select individual investments
- and overlays a macro-overview of borrower markets to limit exposure to subprime and risky industries.
- employs a conservative approach to credit selection.
- selects securities based on relative value within the capital structure of comparable companies and industries.
- places 5% first loss capital (effectively provided by the parent company of the Manager) behind all loans that the Pools invest in.

Investment Process

Credit assessment

The Manager states that it employs a conservative approach to credit selection through the Portfolio Companies. The process of assessing credit risk is undertaken with the Manager having control over the credit policies of all the Portfolio Companies.

The Manager has implemented a consolidated and aligned credit risk oversight. It has credit policy approval and oversight on all Portfolio Companies and product-level credit policies.

- Grow Finance is a scaled business that operates an experienced credit team with discretional approval limits (DLA)
- All transactions above $500k are immediately referred to the credit committee that comprises Remara's Managing Partners
- Remara directly originates bespoke credit opportunities and therefore runs a credit investment team that underwrites all transactions.
- Remara's credit investment team has no DLA, and all transactions requiring the approval of Remara's Managing Partners

The metrics or filters that have been most effective in credit assessment have been: Director score, property ownership and time in business.

Asset Selection

The Fund purchases Notes issued by the Approved Investment Trusts (Pools) managed by Remara so that the Manager can be certain of the credit quality and servicing of the assets of those Pools.

In turn, assets are analysed and selected for the Pools based on:

- Expected risk and return
- Issuer-level credit risk
- Security-level credit risk.
- Capital Structure of the Borrowers
- Covenants and other contractual obligations

Remara via its ownership and control of its portfolio companies has a perceived conflict of interest and addresses this conflict of interest through Investment Committee approvals for each new investment requiring approval of non-conflicted members.

Portfolio Construction

The Fund invests in Notes issued by the Pools which are unit trusts managed by the Portfolio Companies.

Investment Process

The asset portfolio of the Pools consists primarily of Australian credit investments with exposure to investments including syndicated loans, asset-backed securities and collateralised debt obligations. This includes the following types of credit instruments (with an indication of the Investment Range within the portfolio:

Asset-Backed Securities - 20% to 95%
Collateralised Debt Obligations - 0% to 30%
Mortgage-Backed Securities - 0% to 45%
Mezzanine Loans - 0% to 15%
Corporate Loan s(Syndicated or Bi-lateral) - 0% to 10%
Project Finance/Real Estate loans - 0% to 50%
Securitised Loan Structures - 0% to 95%
Convertible Notes - 0% to 10%
Cash - 5% to 100%

The portfolios of the Pools are currently invested across 4 of these types of instruments.

Portfolio construction is undertaken via a review of the following contributing factors:

1. Credit Type Exposure (Asset finance/Business Loan/IPF/Real Estate Mortgage/Structured Finance (Trade/Invoice/Floorplan)
2. Duration of underlying credit
3. Exposure to underlying Industries
4. Credit Enhancement
5. Yield/Return for risk assumed

The Investment Analyst prepares a proposed Fund portfolio composition and proposed changes. The Managing Partners and the Investment Committee approve the allocation across the Pools with a focus on Credit Type, Yield, Maturity, Liquidity Needs, Look through Obligor exposures

There are several meetings which review this process:

- Portfolio Review: Monthly - Determines reallocation of assets/credit notes
- Investment Committee: Monthly - Approves reallocation or new investments
- Portfolio Company - Management Meetings are held Fortnightly

The manager has control over the underlying treasury management process of the portfolio companies and can realign the ownership of notes within warehouses supporting alternative product mixes if required to change the look-through composition of a Pool.

For example, an overinvestment in Real Estate Mortgages will reduce the number of obligors (borrowers) and increase the risk through large single loan concentrations. The Manager can sell real estate exposure and purchase Asset Finance exposure to increase the number of obligors and reduce the single contract exposures significantly to improve the credit quality of the Pool for investors.

Investment Process

Sell Discipline

There are limited circumstances in which an asset in a Pool would be sold unless there are material credit issues commenced within the Pool portfolio.

Risk Management

Risk is managed at the Pool level. A proprietary risk model which can be updated daily with assumptions is used. Historical losses and recovery rates have been used but may be increased in times of market stress. Assumptions are reviewed at least monthly. There are also reviews of the Pools by senior financiers (major Australian banks, superannuation investors and global investment banks) which lend to the Pools. Defaults have averaged 45bps over the last 4 years and this has been covered within Net Interest Margin NIM of the Pools so that no loss has been incurred of the First Loss capital or Investor capital.

Portfolio Characteristics

Portfolio Turnover

Portfolio Turnover is limited.

Liquidity

The control of the origination process within the Pools provides greater control of liquidity for Fund investors. The level of cash in the Fund is 15% to 20% of invested assets to allow for redemption requirements of the Fund investors.

Leverage

This Fund does <u>not</u> employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives)

Key Counterparties

Remara Capital Holdings Pty Limited
Parent Entity

Remara Investment Management Pty Limited is the investment manager - (ABN 26 644 751 815 AFSL Authorised Representative number 001283760 of Mantis Funds Services Pth Ltd)
Investment Manager

Perpetual Corporate Trust Limited
Custodian

Remara Private Credit Income Fund
Fund Under Review

Melbourne Securities Corporation ACN 160 326 545 AFSL 428289
Responsible Entity

Distributions
Investments

Investors

Parent Company

Remara Capital Holdings Pty Ltd (Remara) is the parent company. Remara is currently controlled by the two Managing Partners through their personal investment vehicles.

Remara owns:

- 30% of the common equity in Grow Finance Limited. Remara holds an asset management agreement with Grow Finance which enables total management of all funding and capital needs of Grow Finance, which originates loans.
- 100% of Remara Investment Management Pty Limited (ABN 26 644 751 815) which is the Investment Manager of the Fund.
- 100% Remara Credit Pty Ltd and 60% ownership in Soda Capital Pty Ltd, both of which originate loans in which the Pools invest.

Remara Investment Management is the lender of record for any loans originated by Remara Credit and Soda Capital, which together with Grow Finance are referred to as Portfolio Companies.

Remara therefore has 3 Portfolio Companies with 80 operational staff across all platforms. The integrated approach to the asset procurement and selection process means that Remara has the benefit of 80 staff at the portfolio company level who undertake originations, credit, servicing and collections. There is a uniform approach that is applied to every asset originated. The underlying credit policies and pool eligibility are overseen by third-party investors (such as major Australian banks, global investment banks and superannuation investors) which co-invest in the pools alongside the funds managed by Remara Investment Management. The implementation of investments by the pools is executed by an independent trustee (AMAL) which provides a level of transparency and independence to the process of asset procurement.

The Remara group has $700m of Funds Under Management across specific managed fund investment vehicles and management contracts for portfolio companies. It is profitable.

The FUM includes $600 m originated by Grow Finance Limited, managed for entities associated with Institutional Investors ($555m) and $45m for others.

Investment Manager

Remara Investment Management Pty Limited (ABN 26 644 751 815) is the Investment Manager of the Fund. It manages 4 funds including the Fund under review.

Governance

Responsible Entity

The Board of Directors of the responsible entity (Melbourne Securities Corporation Ltd) consists of **5** directors, 3 of whom are independent. Board members have an average of **24** years of industry experience.

SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight.

The Responsible Entity does not have an independent compliance committee as it has a majority independent board.

SQM Research views independence in an oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance.

Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that the Manager and associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Management risk is rated as low.

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Qualifications
Andrew McVeigh	Managing Partner	Sydney	4.0	15.0	Grad Dip Finance, Bachelor Accounting
David Verschoor	Managing Partner	Sydney	4.0	20.0	Bachelor of BSC
John Debevec	Partner - Investment	Sydney	0.3	15.0	Bachelor of Law & Applied Finance
James Drew	Senior Analyst	Sydney	0.1	4.0	Bachelor of Arts & Economics and Master of Commerce
Jingru Huang	Associate - Investment	Sydney	0.6	2.0	Grad Dip Finance, Bachelor Accounting

Investment Team

The investment team consists of four people, three of whom have extensive experience in managing private credit investments. The team works collaboratively. All members of the investment team are part of the research and investment decision-making process. There is significant key person risk inherent in the Managing Partner roles.

The Investment Committee, comprising the two Managing Partners, Andrew McVeigh and David Verschoor, and an independent chair, Mark Hickey, is ultimately responsible for decisions to invest the Fund's portfolio in Notes issued by the Pools managed by the Portfolio Companies.

There are structured meetings of the investment team, the investment Committee and also of the Credit Committee which operates at the Portfolio Company level.

Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
Meeting 1	Credit & Asset Performance Review - Arrears Reporting	Fortnightly	Managing Partners - Executives of Portfolio companies
Meeting 2	Portfolio Performance, Asset Composition	Monthly	Managing Partners & Investment Analysts
Meeting 3	Investment Allocation, Approval of New Investments	Monthly (or As Needed)	Investment Committee
Meeting 4	Fund Performance Review / Distribution	Monthly	Remara / AMAL
Meeting 5	Fund withdrawals, Liquidity Needs	Quarterly	Remara - Managing Partners

SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.

Staffing Changes

Additions / Hires			
Date	**Name**	**New Responsibility**	**Previous Position / Employer**
01-Feb-23	Jingru Huang	Analyst	Arch Finance
01-Jul-23	John Debevec	Partner - Investments	Moody's
4-Oct-23	James Drew	Senior Analyst	Deloitte

There have been no departures in the last three years.

SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.

Remuneration and Incentives

Salaries are reviewed annually in June. The Managing Partners have a uniform base salary.

Bonuses:

- are discretionary and are related to the achievement of Key Performance Indicators (KPIs) which are set annually each financial year.
- are set individually in each employee's contract.
- can range from Nil to 100% of the potential bonus.

Equity stakes are held only by the Managing Partners

SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results. It is not clear whether there is any alignment between remuneration (including bonuses) and outcomes for investors. There is a link between any potential losses for investors and negative effects on the personal wealth of the two Managing Partners via the 'First Loss' notes. The Managing Partners would lose significant personal wealth before investors in the Fund suffer a capital or income loss.

Fees and Costs	Fund
Management Fee (% p.a.)	0.50% p.a. (excluding GST.
Expense Recovery / Other Costs (% p.a.)	0.15%
Performance Fee (%)	None
Total Cost Ratio TCR (% p.a.)	0.65%
Buy Spread (%)*	Nil
Sell Spread (%)*	Nil

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

Management Fee

The management fee excludes GST.

Performance Fee

The Fund does not charge a performance fee

SQM Research observes that:

- ***The Fund management fee is broadly in line with other active fixed-income funds.***
- ***The Total Cost Ratio (TCR) is also broadly in line with other active fixed-income funds.***

Distributions

Distributions occur monthly subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

The Fund's Investment strategy imposes a 5% credit enhancement for direct or securitised loans. Credit enhancement provides a 5% capital loss protection to the Fund in the event the aggregate loss of the loan portfolio is greater than the income. This is effectively provided by the parent company with support from major co-investors.

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

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