remara.

Private Credit Quarterly

A comprehensive look into the markets
& what may lie ahead.

Q2-2024

Welcome

Welcome to the 'Private Credit Quarterly,' an in-depth resource for investors to explore the inner workings of the markets and what may be instore moving forward.

We discuss the resilience of the Australian market, expectations for future rate stability, and potential rate cuts in the coming fiscal year. Additionally, we highlight our expansion through First Nations Finance, credit underwriting activities, & the launch of a Cash Management Fund. The update also provides insights into the market performance and the impact of rate rises on different borrower cohorts, particularly within the SME sector.

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Insights

The divergence begins...Since commencing these quarterly updates, we have been in a unique market period after experiencing one of the fastest rate increase cycles in Australian history. A lot has been made about what will and is expected to break and when.

By Andrew McVeigh & David Verschoor

We have seen the Australian market be extremely resilient. A substantial amount of liquidity has been available moving into the rate rises, and the time required to drain this to tame inflation has taken longer than anyone had expected.

We have started to see the early signs of a slowing credit appetite within a broad market base. We expect that this will take further time to work its way through. We anticipate rates to stay stable for the remainder of FY24, with the potential for the RBA to look at rate cuts in early FY25 once the data catches up with the underlying sentiment. There is the risk/opportunity (depending on how you view it) that once the RBA cuts, it may need to be an aggressive rate-cut environment. We are monitoring this and will have further data available in future quarters as we see how the markets perform.

During the quarter, we increased to 5 originating businesses with the expansion of our platform via First Nations Finance (FNFC). FNFC allows First Nations people to become involved in the Finance and Investment industry with dedicated training and development programs for secondary and tertiary-educated people. FNFC will primarily fund corporations and consumers and expand our credit product offering for investors.

Insights

We are incredibly proud to support FNFC. The opportunity to offer pathways for First Nations people into Finance and Investment is part of our long-term strategy to support the community through our undertaking of sustainable social enterprise. We are also happy to confirm that FNFC was a finalist in the 2024 AFR (Australian Financial Review) Sustainability awards for the Banking, Investment & Insurance category.

Our platform underwrote 5,008 credit contracts during the June quarter, with us settling 3,460 of these for a total advance of $200m. At the June quarter close, our platform is invested across more than 16,700 contracts with AUM pushing above $1.6Bn at quarter's end.

> "The opportunity to offer pathways for First Nations people into Finance & Investment is part of our long-term strategy to support the community through our undertaking of sustainable social enterprise"

The consensus from our credit teams remains that our cohort of borrowers continues to perform well and is holding up with higher interest rates. We have stayed consistent with our credit methodology of Prime borrowers (those with a credit score of >600 and no past defaults) and coupled this with secured contracts against tangible assets (primarily equipment and real estate).

Our in-house view is that further time is still needed (this is the 3rd straight quarter we have said this) to allow the impact of rises to further work through the system. We are seeing the early signs now that they are starting to bite, and we anticipate economic data will begin to shift downwards as we head into the second half of FY24.

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During the quarter, we also launched our Cash Management Fund. This Fund will seek to provide investors with an "At Call" offering secured by AA or better-rated credit securities. The "At Call" will allow investors to invest excess cash to generate a return targeted at a minimum of 75bps above the RBA rate (currently we are offering 5.20% p.a. post fees).

The second offering within the Cash Management Fund is our Term Options. These units allow investors to lock their funds away for a 6 or 12-month period. The Term Units are secured by Invested Grade rated credit securities and offer a higher return than what is provided in the "At Call" unit class. Investors can pick a fixed or floating return. They can have distributions paid or capitalised through the Term (with the ability to change your election through the Term).

The Cash Management suite is integral to our offering as we build our cash enhancement solutions for investors. We have been pleased with the stable performance of our funds throughout the quarter:

Strategy	Fund	April Return (post fees)	May Return (post fees)	June Return (post fees)
Cash Enhancement				
	Remara Cash Management Fund			
	At Call	N/A	0.43%	0.43%
	6 Month Term	N/A	0.57%	0.57%
	12 Month Term	N/A	0.63%	0.63%
Income Investing				
	Remara Private Credit Income Fund			
		1.09%	1.24%	1.12%
Build your wealth				
	Remara Credit Opportunities Fund			
		1.24%	1.16%	1.19%

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We are seeing early signs of a slowing credit appetite, particularly within our SME borrower cohort. The book's performance has continued to maintain, with us being a Prime and Secured lender; however, solid and rational borrowers are starting to limit taking on new obligations. Real Estate debt continues to perform, however, challenges are still being seen within projects that were underwritten for different market conditions, and this will continue to limit new housing supply to meet demand.

01 Small & Medium Enterprise (SME)

In a noticeable shift, fewer Prime borrowers are now deciding to increase their financial obligations. Previously, campaigns such as the "Instant Asset Write Off" tax break for SME businesses have led to a rush of purchasing and finance pre-30 June. Its conclusion for this year has led to the market retreating in some sub-sectors with volumes down by as much as 30% vs FY23.

We see this as an early sign of the softening of demand in the economy, and this will make its way through the economic data in the coming 6-12 months. We have also noticed an increase in ATO payment plans. While this is not a negative if the business is performing with its obligations, it is a sign that liquidity within businesses is being drained from multiple sources.

We are seeing through our originators the following key types of businesses seeking finance:

Equipment & Asset Finance

- Established businesses with a clear credit history
- Operating in capital-intensive industries
- Typical Capex purpose is expansion to take on additional work
- Seeking price points outside the banks and mainstream leasing companies
- Businesses are family-owned/operated, and principals are property owners

Business Loans

- Well-established businesses with a clear credit history
- Facing working capital shortfall due to the nature of the industry (stock/debtors) or expansion
- Seeking price point outside the banks and below our key competitors
- Debtor Finance is seen as a complex option Businesses are family-owned/operated, and principals are property owners

Our book has continued to perform in line with the market with the S&P ABS SPIN (as at 30/6/24) currently recorded at ~1.35% against our book of 0.46%.

02 Insurance

As noted in past reports, the insurance market has seen a general capacity increase, particularly in financial lines.

While this is a positive way of addressing the aggressive increases in premiums, counteracting this is the continued consolidation within the insurance broker market. During the quarter, we have continued to see large broker cluster groups acquire smaller independent broker groups, leading to less competition within the industry and keeping insurance costs higher in the medium term.

03 Real Estate

Much to the surprise of many commentators, Real Estate continues to remain stable. The factors we identified in past reports remain in the market. We are yet to see any forced selling on a scale basis. Until this occurs, we see no meaningful decline in the market (and if this does happen, we believe there will be an initial wave of liquidity to backstop the market and soak up the offers).

Residential

We see prices remaining stable. Further time is needed for interest rates to result in a forced selling at-scale outcome. Until that occurs, we see no primary driver that will materially change the value of residential real estate prices. Our base case position is a continued sideways move into year-end, and we see the potential for some further depression of prices in FY25.

Industrial

Given the environment and prior commentary on the SME market, caution must be noted. If we see degradation in the SME market, this will affect industrial tenants and property values. Currently capitalisation rates do not reflect a 4.35% base rate market. While not our base case, if stress is incurred and forced selling is needed, Industrial could be materially impacted. Our position has stayed the same from prior quarters.

Commercial

We continue to have a negative view of commercial real estate. Our base case is that investment grade properties will maintain their values; however, B class or lower will be materially impacted, and prices will decline. Again, owners/investors have been able to hold on with the higher rates. However, we expect this dam will break. When it does, there will be a material decline in values for equity and potentially debt holders.

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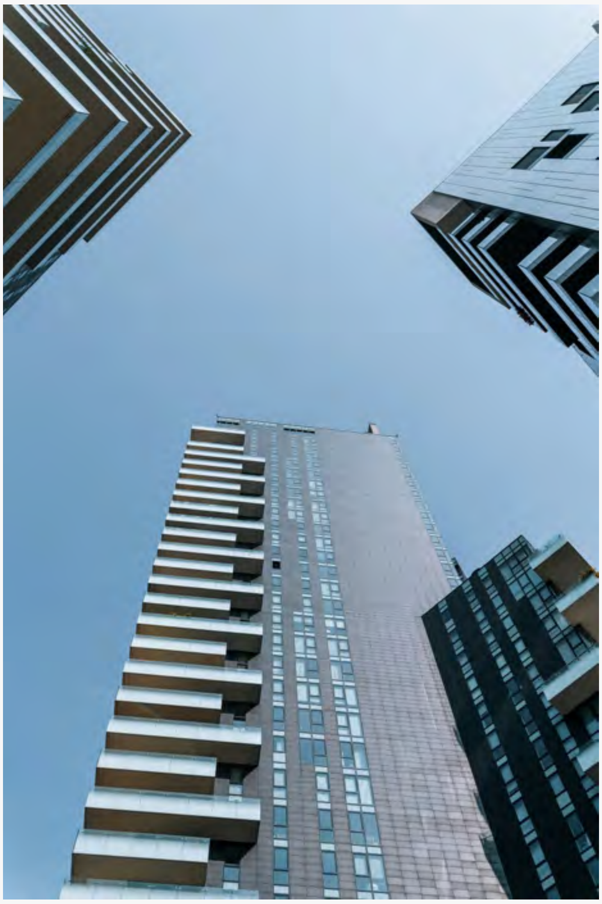


Market Overview

04 Development Finance

Remara participates across the equity & debt stack of Real Estate; a core aspect of our operations is development and construction finance. Through our activities as both a principal and financier, we have seen continuing challenge in the market, driven by a few key factors:

Planning & Approvals

Delays in approvals and now delays in the court system are leading to continued delays in new developments. NSW seems to be the worst state, with significant red tape in the planning process & inefficient councils not appropriately equipped to approve developments within acceptable timeframes. This is a challenge as deals are being underwritten in different market conditions to those during delivery.

Construction

Construction costs have continued escalating, and industry feedback is concerning due to the rise. It was anticipated that post-COVID supply chain issues would have dissipated, and we believe they have. The challenges now faced are rising insolvencies working through the industry and increasing the risk margins charged throughout the value chain as participants seek to recover lost funds from past deals.

Remara continues to focus on investment and funding for land projects. This area provides the greatest risk/reward opportunity as the stock can be delivered over a period of time to meet local market demand. Demand for detached housing post-COVID has escalated with both investors and owner occupiers seeking the security of their own stand-alone dwelling; we do not see this shifting back anytime soon and see a risk to mass-scale apartments that will be less desirable for owner occupiers and will be primarily investor and rental stock.

05 Dealer Finance

The floorplan finance market continues to perform nicely, with distribution networks making necessary adjustments to macroeconomic conditions, which impact our asset classes in different ways. Dealers are optimistic about the buying behaviour of end users despite seeing higher interest rates and normal seasonal purchase patterns slowing stock turnover towards the mean.

Following COVID and the subsequent period of heightened demand, dealers are adjusting their stock and inventory levels to manage market fluctuations. Demand for credit limits and requirements for various lenders continues within our channels as we continue to scale our operations with an eye to risk and operational controls.

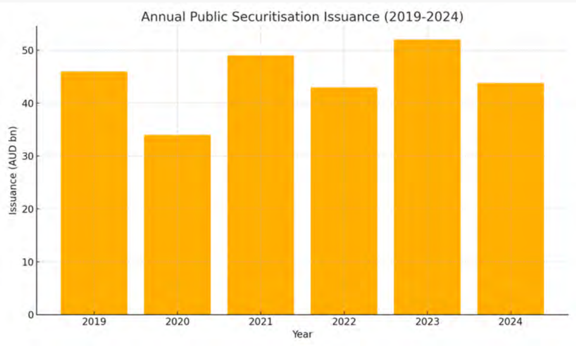
Market Overview

07 Australian Seucritisation Market

A significant surge in securitisation issuance occurred through the first six months of FY24, with $44Bn issued year-to-date (YTD), nearly double the amount from the same period in 2023.

The Residential Mortgage-Backed Securities (RMBS) sector dominated with $33Bn in issuance. At the same time, the 'Other ABS' category, including auto, equipment, and personal loans, reached just over $7Bn[1].

The non-bank sector contributed 67% of the total issuance. Although this is a decrease from previous years, it shows the strength and appetite for the credit assets generated by the well-established players in the market.



RMBS Insurance

The RMBS sector saw substantial activity, with ~$19Bn issued in Q2 across 21 transactions, bringing the YTD total to $33Bn.

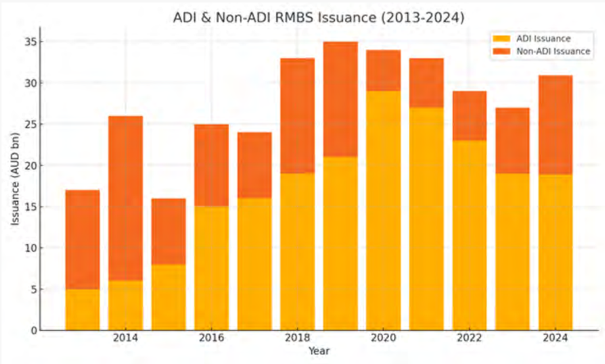
This sector remains the most significant within Australian securitisation, with prime, non-resident, & non-conforming deals all represented[1].

Prepayment Deceleration

The 'Other ABS' category, which includes auto, equipment, personal loans & consumer receivables, had a record quarter with $7Bn issued. This marks the busiest quarter ever for this asset class, driven mainly by non-bank originators. Remara participates primarily within the sector for its securitisation investment, & our portfolio companies hold a number of sponsored private warehouses, private term outs and also a public term out.

Non-Bank Sector

Non-bank entities contributed 67% of the total issuance, a slight decrease from 73% in FY 2023 and 80% in FY 2022[1]. This shift reflects changes in market dynamics and regulatory impacts.



07 Pricing and Spreads

RMBS Pricing

Major bank RMBS spreads tightened by 10 basis points (bps) over the first half of 2024, following senior unsecured trends. Notable transactions include Westpac's early January issuance at 1m BBSW+105bps and NAB's late June issuance at 1m BBSW+95bps1.

[1] Jacques, M. (2024, July 5). Westpac ABS Strategy 1H 2024 Australian Securitisation Market. Westpac Securitisation & Covered Bond Strategy
Source: Graphs - Jacques, M. (2024, July 5). Westpac ABS Strategy 1H 2024 Australian Securitisation Market. Westpac Securitisation & Covered Bond Strategy

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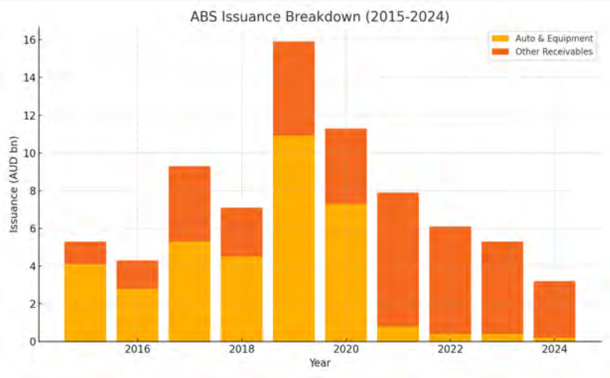
08 Market Trends and Future Outlook

We expect increased Issuance in 2024, with forecast volumes expected to surpass the post GFC record of $52Bn set in 2023[1]. Strong market fundamentals and a pipeline of new issuances support this.

The RMBS sector remains dominant, with a notable presence of both ADI and non-ADI issuers. However, the 'Other ABS' sector's growth highlights the diversification within the market, particularly towards auto and equipment loans.

The increasing Issuance of green bonds within the securitisation market, including RMBS and ABS, indicates a growing focus on environmental sustainability and compliance with global standards like the Climate Bonds Standard.

Overall liquidity remains strong for Australian securitised finance. This has and will continue to support the non-bank lending market in Australia. Our short-term expectation is for the demand for RMBS and ABS to continue to be strong for the second half of FY24.



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In the June 2024 quarter, the Australian economy exhibited mixed signals, reflecting both resilience and challenges. GDP growth slowed slightly, with the services sector remaining robust while manufacturing faced contraction. Inflation continued its slow descent, and the Reserve Bank of Australia maintained a cautious approach due to persistent inflationary pressures.

DP Growth and Economic Outlook

Australia's GDP growth slowed slightly, with a modest increase of 0.1% in Q1 2024, following a similar trend in the previous quarters. The services sector remained robust, while manufacturing faced contraction. Analysts forecast an annual GDP growth of over 2% in the coming years, buoyed by a large consumer market and abundant natural resources.

Inflation and Monetary Policy

Inflation continued its slow descent, recording a 1.0% rise in Q1 2024, driven by domestic demand and wage pressures. The Reserve Bank of Australia (RBA) maintained its cash rate at 4.35%. This signalled a cautious approach due to persistent inflationary pressures and potential economic uncertainties. Inflation is expected to ease to the RBA's target of 2.5% by 2026

Market Performance

The ASX 200 index saw a 1.0% increase, a slower pace than other global markets. The MSCI World index, for instance, rose by 2.4%, with the S&P 500 gaining 3.6%. This underperformance was partly due to Australia's higher valuation relative to historical averages, with a forward price-to-earnings ratio of 16.8x.

Economic Outlook

Unemployment and Labour Market

The tight labour market continues, with unemployment at historic lows but underemployment, indicating that not all job seekers are fully employed. This dynamic is partly due to population growth, which has kept the labour market mainly buoyant.

Trade and External Factors

Australia's economic outlook faces external risks, notably from its significant trade exposure to China and extreme weather events.

The country's reliance on commodity exports, such as minerals and agriculture, underscores the need for diversification, particularly in enhancing domestic refining capacity for critical resources like lithium.

While Australia's economy shows signs of resilience, particularly in the services sector and consumer spending, it is also grappling with challenges such as inflationary pressures, underemployment, and external vulnerabilities. The RBA's cautious monetary policy stance reflects these complexities as the country navigates post-pandemic economic recovery.

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