



SQM
RESEARCH

Centuria Bass Credit Fund

This report has been prepared for financial advisers
and wholesale clients only



Superior

May 2024

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

Currency of Reports

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Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:

www.sqmresearch.com.au

| Star Rating* | Description | Definition | |
|--------------------|-------------------------|---|-----------------------|
| 4½ stars and above | Outstanding | Highly suitable for inclusion on APLs <i>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.</i> | High Investment grade |
| 4¼ stars | Superior | Suitable for inclusion on most APLs <i>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.</i> | High Investment grade |
| 4 stars | Superior | Suitable for inclusion on most APLs <i>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.</i> | High Investment grade |
| 3¾ stars | Favourable | Consider for APL inclusion <i>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.</i> | Approved |
| 3½ stars | Acceptable | Consider for APL inclusion <i>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.</i> | Low Investment grade |
| 3¼ stars | Caution Required | Not suitable for most APLs <i>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.</i> | Unapproved |
| 3 stars | Strong Caution Required | Not suitable for most APLs <i>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.</i> | Unapproved |
| Below 3 stars | Avoid or redeem | Not suitable for most APL inclusion | Unapproved |

| Event-driven Rating | Definition |
|---------------------|--|
| Hold | <i>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.</i> |
| Withdrawn | <i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i> |

* 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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Report Date: 14 May 2024

CONTENTS

| | |
|--|-----------|
| Summary | 2 |
| Fund Summary | 3 |
| SQM Research's Review & Key Observations | 3 |
| Strengths | 5 |
| Weaknesses | 5 |
| Other Considerations | 6 |
| Key Changes Since the Last Review | 6 |
| Investment Process & Portfolio Construction | 7 |
| Investment Process Diagram | 7 |
| Process Description | 7 |
| Corporate Governance / Business Strategy | 14 |
| Key Counterparties | 14 |
| Parent Company | 14 |
| Investment Manager | 14 |
| Trustee | 14 |
| Management Risk | 15 |
| Funds under Management (FUM) | 15 |
| Management & People | 16 |
| Investment Team | 16 |
| Meeting Schedule | 17 |
| Staffing Changes | 17 |
| Remuneration and Incentives | 18 |
| Product Features - Fees, Redemption Policy | 19 |
| Management Fee | 19 |
| Performance Fee | 19 |
| Quantitative Analysis | 20 |
| Quantitative Insight | 20 |
| Return and Risk | 23 |
| Risk Constraints and Limits | 25 |
| Glossary | 26 |

SQM Rating 
Superior. Suitable for inclusion on most APLs.

| Fund Description | |
|---|---|
| Fund Name | Centuria Bass Credit Fund |
| APIR code | BSS8714AU |
| Asset Class | Mortgage Trust |
| Management and Service Providers | |
| Investment Manager | Bass Securities Pty Ltd |
| Trustee | Centuria Bass Financial Services Ltd |
| Fund Information | |
| Fund Inception Date | 30-Oct-21 |
| Fund Size | \$141m |
| Return Objective (per IM) | Target internal rate of return of 6% - 10% p.a. (net of fees and costs and before tax) |
| Internal Return Objective | To provide predictable capital stable income to investors |
| Risk Level | The IM notes that "Investments in the Fund are subject to varying degrees of risk" |
| Internal Risk Objective | Low to medium. Capital preservation is a fundamental investment principle |
| Benchmark | No formal benchmark. A return of return of 6% - 10% p.a. is targeted |
| Number of stocks/positions | 48 |
| Fund Leverage | Limited, as needed for short-term liquidity. Nil otherwise |
| Portfolio Turnover | Varies with average loan maturity. Over 100% currently as average loan maturity is under one year |
| Top 10 Holdings Weight | 52.5% |
| Investor Information | |
| Management Fee | 0.50% |
| TCR (Total Cost Ratio) | 0.60% |
| Buy Spread | 0.00% |
| Sell Spread | 0.00%* |
| Performance Fee Rate | Nil |
| Minimum Application | \$100,000 |
| Redemption Policy | Monthly |
| Distribution Frequency | Monthly |
| Investment Horizon | Medium to longer-term |
| Currency Hedging Policy | AUD denominated only |

* The Trustee may charge, at their discretion, up to 1% plus GST of the Net Asset Value of any Units withdrawn.

SUMMARY

Fund Summary

Description

The **Centuria Bass Credit Fund (the "Fund")** invests in mid-market loans secured by first mortgages over property. It may also invest in shorter-term 'tactical' loans with similarly strong security backing. The Fund is also planning to invest via warehouse facilities established by Centuria Bass Credit Pty Ltd ("CBC") as additional funding sources for the first mortgage loans it originates.

Mid-market loans are typically in the \$10m - \$100m range, a segment the Investment Manager observes is increasingly ignored by Australia's major and other commercial banks, partly for regulatory reasons. All loans the Fund invests in are originated by CBC, the parent of both the Investment Manager and the Trustee, and can be made directly or indirectly by the Fund. All loans have to date been made indirectly via special purpose vehicles (SPVs) established by CBC to facilitate individual loan transactions. In this circumstance, the Fund lends to the SPV, which lends to the end borrower. Fund investment in a CBC warehouse will take the form of notes that may be subordinated to the rights of a major financial institution which CBC is expecting will provide around 50-60% of the funding available to the warehouse.

Loans are primarily made to property investors or developers to fund real estate in different stages of development or construction. CBC typically categorises its loans as secured land, residual stock, or construction loans (including subdivision and others). Typically making 20 to 30 loans each year, CBC utilises much of its expertise on detailed due diligence, considered loan structuring and active loan management. Capital preservation is a key focus for all loan transactions. Interest earned on Fund investments is distributed to Fund investors monthly (in the past distributions were made quarterly).

The Fund is structured as an open-ended, unlisted, unregistered unit trust offered to wholesale clients via an Information Memorandum (IM).

Fund Rating

The Fund has achieved the following rating:

| Star Rating | Description | Definition | Investment Grading |
|-------------|-------------|-------------------------------------|-----------------------|
| 4.00 stars | Superior | Suitable for inclusion on most APLs | High Investment Grade |

Previous Rating: 4.00 stars (Issued March 2023)



SQM Research's Review & Key Observations

About the Manager

Bass Securities Pty Ltd (the "Manager") is a wholly-owned subsidiary of Centuria Bass Credit Pty Ltd, which is itself a joint venture ("JV") formed in 2021 when Centuria Capital Limited ("Centuria Capital") acquired 50% of Bass Capital. Centuria Capital now owns 80% of CBC following its acquisition of a further 30% in April 2024.

Centuria Capital is a publicly listed (ASX code: CNI) specialist investment manager with a market capitalisation of around \$1.7bn (as at 31 March 2024). It has \$21.1bn in assets under management, mostly in Centuria Property Funds, which include listed and unlisted funds. The 20% of CBC not acquired by Centuria Capital is owned by Giles Borten and Nick Goh, Co-CEOs of the business, and Yehuda Gottlieb, its Managing Director, Funds and Distribution. The Co-CEOs established the business in 2016. Yehuda Gottlieb joined Bass Capital as a Partner in 2020.

The Manager decides which property credit transactions the Fund will invest in and how much will be invested. It is responsible for the day-to-day management of the loans it invests in, though has delegated much of these duties to CBC in line with provisions in the IM.

CBC invests in a diversified pool of mid-market secured property loans. It uses various sources to finance these loans, including the Fund, which has around \$140m in funds under management (FUM), and the Bass Property Credit Fund, which is similar to the Fund but also lends against second mortgages, and has around \$220m in FUM. CBC manages a total of around \$1.7bn in FUM.

CBC has offices in Sydney, Melbourne, and Adelaide, and leverages the network of Centuria Capital Group, which has offices across Australia and New Zealand. CBC has 43 full-time equivalent staff, up from 28 in late 2022. One way it makes use of Centuria Capital's broader resources is by accessing its national distribution team of 10, which serves financial planners, other intermediaries, and high-net-worth investors.

Investment Team

The Investment Team is led by CBC's founders Giles Borten and Nick Goh, who established the business in 2016 and are Co-CEOs. The third key member of the leadership team is Yehuda Gottlieb, CBC's Managing Director, Funds and Distribution, who joined as a Partner in 2020. All three are members of the Investment Committee and have broad responsibilities across the entire business. The joint CEOs of Centuria Capital, Jason Huljich and John McBain, are also involved in decision-making

where transactions exceed \$20m. Beyond them, CBC's workforce can be characterised as being broadly split between loan origination, execution and management on the one hand, fundraising and fund management on the other, plus accounting and administration. Leadership roles within these different functions are also generally held by highly experienced financial professionals. Those in leadership positions across CBC's various functions regularly engage with each other in the committees that drive key decision-making for the Fund. Total employee numbers have grown rapidly in recent years, from 28 to 36 during 2023 alone (43 as at May 2024), and there have been no departures from key roles involved in loan of Fund management. There is some key person risk in the founders and Yehuda Gottlieb, though this has diminished somewhat with employee growth, including at more senior levels.

1. Investment Philosophy and Process

Investable Universe

The Fund will invest in mid-market commercial property loans in Australia, mostly for construction and investment. Loans can be to all property sectors, though most will be to residential. Investment loans include those that can broadly be categorised as pre-construction, such as to fund the holding of developable land while approvals are sought, or post-construction, such as to finance residual stock. The Fund will also invest in bridging loans.

Loans are 'mid-market' in that they will mostly be \$10m - \$100 m in scale. Lending is shorter-term and will always be secured by a first mortgage. The Fund may also invest in shorter-term 'tactical' loans with similarly strong security backing and in CBC first mortgage loan warehouse facilities. Loans will mostly be made by CBC SPVs, to which the Fund will lend. As such, loan mortgage rights for the Fund will be held indirectly via the SPVs.

Philosophy / Process / Style

The Fund is positioned as an alternative source of commercial property lending in Australia, a space the banking sector has increasingly withdrawn from, largely for regulatory reasons. The Manager believes the market for specialist private lenders will continue to grow and create high-quality opportunities for experienced lenders with institutional capabilities, strong relationships, and sound governance practices. It has particularly identified opportunities within the subdivisions and residential development subsectors.

The mid-market loans made by the Manager are subject to deep due diligence and designed to prioritise structural integrity, capital preservation, and investor returns. The Manager aims to lend only to good businesses and projects as opposed to 'approved sectors'.

Loans are originated by CBC and must be capable of being secured against real estate assets. These loans can be for various reasons, though they will mostly be for construction or investment, with a clear path or paths to exit within a relatively short timeframe.

Assessment and due diligence for loan applications are the responsibility of deal teams assigned to manage each property credit transaction throughout its lifecycle. Once CBC's Investment Committee approves a credit transaction a separate Fund Investment Committee convenes to consider whether the Fund should invest in the transaction. The Fund Investment Committee will assess the transaction's impact on the portfolio and eligibility against various portfolio guidelines.

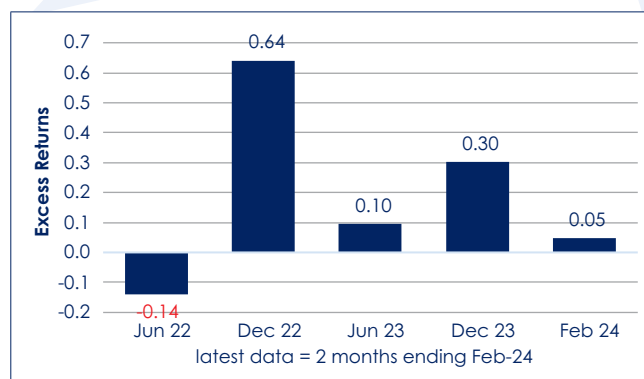
Portfolio construction aims to maintain a diversified portfolio and is governed by a range of sensible limits. Loans in arrears or default are closely monitored at various levels in the organisation, including by committees that regularly review all loans. Clear processes are followed to ensure CBC's and the Fund's interests are protected.

2. Performance & Risk

Return Objective

The return objective stated in the IM is: "The target IRR (internal rate of return) for the Fund is 6 - 10% per annum (net of fees and costs and before tax)." The Fund does not have a benchmark. As such, in our analysis, SQM Research uses the RBA cash rate + 4% p.a. as a reference index to provide context on the company's relative performance.

Fund Excess Returns %: Half-yearly (net of fees)



Length of Track Record

The Centuria Bass Credit Fund has a relatively short history of 2.3 years. Observations and analysis of returns will have modest statistical meaning. SQM Research notes that returns, volatility, and other risk measures can be “noisy” and less reliable when quantified using a small sample size of observations.

Risk Objective

The Fund's IM states that “An investment in the Fund is subject to investment risks” and that they are “different to (the risks inherent in) a cash deposit or investment in an ADI”.

The true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/ capital loss, liquidity, concentration, and interest rates risk. Advisers/Investors should read the IM to understand those risks.

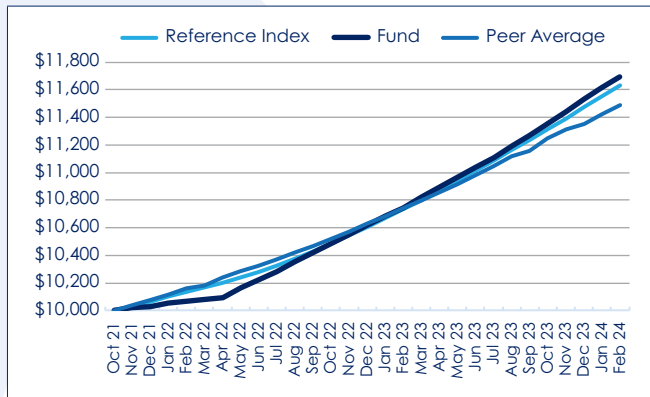
SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these funds have a low level of risk. The low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, fund metrics such as Volatility, Tracking Error, Information Ratio and Sharpe Ratio; add little statistical value within the Mortgage Funds sector.

| Fund Performance to 29 February 2024 (% p.a.) | | | | | | | |
|---|---------|---------|---------|--------|--------|--------|-----------|
| Total Return | 1-Month | 3-Month | 6-Month | 1-Year | 3-Year | 5-Year | Inception |
| Fund | 0.69 | 2.22 | 4.50 | 8.83 | . | . | 6.94 |
| Reference Index | 0.68 | 2.10 | 4.20 | 8.39 | . | . | 6.69 |
| Peer Average | 0.59 | 1.55 | 3.35 | 7.01 | . | . | 6.17 |
| Alpha | 0.01 | 0.12 | 0.30 | 0.45 | . | . | 0.25 |

With dividends reinvested. Returns beyond one year are annualised. Return history starts Nov-2021
Reference Index: RBA Cash Rate plus 4.00%

Growth of \$10,000



Strengths

- The Fund benefits from a highly experienced investment team with a high level of active engagement by the owners of the business across all aspects of its operations.
- The Manager has a detailed and highly active approach to loan management with clear lines of accountability.

- Centuria Bass Capital has demonstrated an ability to attract and retain highly experienced employees, which is important due to its strong growth and the hands-on nature of its lending processes.
- The Fund can tap into the strong lending growth achieved by CBC, which originates all loans in the portfolio.
- The Manager benefits from the resources and reputation of its 80% owner, Centuria Capital Limited, which is a publicly listed specialist investment manager focused on the property sector with a market capitalisation of around \$1.5bn.
- The Fund is entirely invested in loans secured by a first mortgage, with an average LVR of around 62% currently.

Weaknesses

- While the mid-market segment targeted by the Fund appears to offer significant opportunities, the relatively large size of its loans makes the Fund more susceptible to idiosyncratic risk. That said, much of the Manager's efforts in due diligence, loan structuring, and ongoing management are targeted at managing this risk, among other risks.

- The Fund's Trustee and Investment Manager are related entities. Detailed processes for managing perceived conflicts of interest are not clearly articulated. SQM research notes, however, that the interests of the Manager and investors appear to be closely aligned.
- While appropriate, the Manager's proactive and hands-on approach to loan management also requires significant expertise and exposes it more to key person risk. The Manager's ongoing growth in employee numbers, including at senior levels, has diminished this risk somewhat.

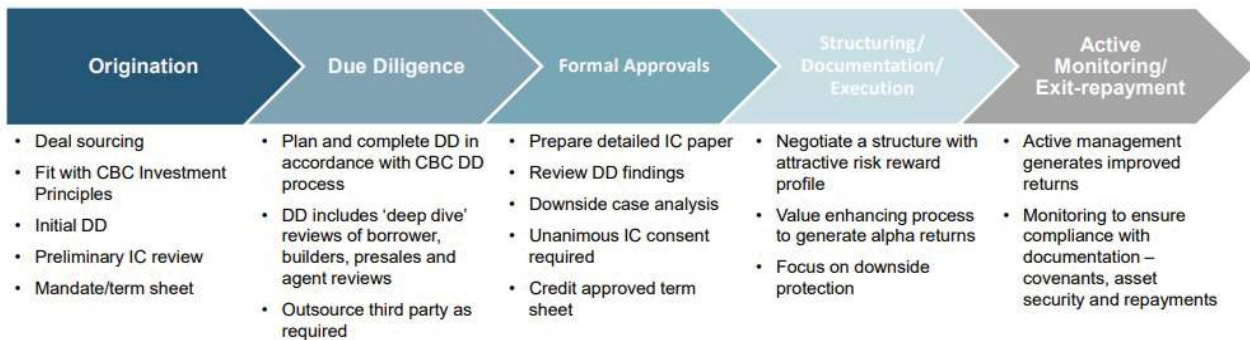
Other Considerations

- SQM Research has undertaken a concurrent review of the Bass Property Credit Fund (BPCF), a related fund managed by the same team applying similar processes. A key difference between the Centuria Bass Credit Fund subject to this review and the BPCF is that the latter includes a small allocation to loans secured by a second mortgage. As such, the Fund under review is a slightly lower risk/return proposition than the BPCF.

Key Changes Since the Last Review

- No changes to the investment process since the previous review.

Investment Process Diagram



• “End to end” integrated team: sourcing, underwriting, monitoring and management of repayment/exit

Process Description

Investment Process

Research and Portfolio Construction Process

Idea Generation

Loans are originated by CBC. Ideas and opportunities are primarily sourced through its extensive origination network, which includes financial brokers, corporate advisers, builders and developers, among others. CBC also keeps abreast of current themes and market trends through ongoing research. Its Pricing & Terms Committee, made up of its co-CEOs, distribution, and origination teams, also discusses new opportunities and market news in its weekly meetings.

Screening

The Manager primarily seeks mid-market loans as it believes this segment has less competition, resulting in greater opportunities for outperformance and stronger risk-adjusted returns. It finds that transactions in this segment typically have less complex completion risk and are generally shorter in duration, which reduces market risk. As noted previously loans must be capable of being secured against real estate assets. Loans can be for various reasons, though will mostly be for construction or investment, with a clear path or paths to exit within a relatively short timeframe.

Research

CBC uses primary and secondary research to keep abreast of economic and market developments relevant to its business and loan universe. Its primary research activities include ongoing discussions with a wide variety of experts and market participants, including brokers, agents, valuation professionals, legal advisors, quantity surveyors, town planners, competitors, investors, and borrowers.

Since the joint venture was established in 2021, CBC has increasingly tapped the wider expertise within Centuria Capital. This has been more useful for insights beyond the residential subsector, which was the focus of the business before the JV. These subsectors include office, retail, industrial, and healthcare.

Investment Process

Research and Portfolio Construction Process

Information gathered through primary research is generally communicated directly to the management and wider team, where relevant, via email or at weekly meetings. These include loan review and marketing meetings, or progress and management meetings for specific deals.

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Secondary research includes analysing publicly available and commercially sourced data. This helps identify macroeconomic, industry and regional trends, and broader trends, to support investment and management decisions. In addition, each loan is supported by third-party inputs, such as valuation or quantity surveyor reports.

Due Diligence

CBC has a set of credit guidelines or principles for staff to follow when making lending decisions. They cover broad subject areas including borrower characteristics, risk comprehension, and loan suitability for the portfolio. Some specific guidelines are 'assess the borrower's character for integrity', 'plan for the possibility of default', and 'build and maintain a diversified portfolio.'

Assessment and due diligence for loan applications are the responsibility of deal teams which are assigned to manage each property credit transaction throughout its lifecycles. This includes sourcing, reviewing and monitoring a transaction, to its final repayment and exit. Each deal team is overseen by a Head of Origination and typically consists of one Director, as well as a junior team member who could be an Associate Director, Associate and/or Analyst. The Manager believes that deal teams' active management of credit transactions throughout their lifecycles helps generate improved risk-adjusted returns.

Due diligence must consider a wide range of factors specified in a checklist the Manager has developed over time. Metrics typically analysed for each transaction include loan-to-valuation ratio (LVR), transaction return, and return on cost. Furthermore, non-financial information is researched, including the borrower's reputation and quality, resumes of key persons, planning and other related development risks and their implications. Examination of loan repayment capacity looks at numerous characteristics under the headings of Borrower Risk, Servicing Risk, Asset Risk and Exit Risk. The latter includes 'ability to refinance' and 'market depth' as characteristics that must be considered.

The Manager's approach to due diligence appears appropriately rigorous and involves deal teams conducting detailed interviews with the borrowers and other key members of the guarantor group as well as third-party specialists where necessary. These specialists or consultants can include legal experts, quantity surveyors, valuers, builders, and project managers, as well as Centuria Capital subject matter experts.

The progression of a loan application requires the deal team to prepare a credit paper that follows a clearly defined template. The due diligence/compliance checklist, with sign-off by the deal team, must also be completed. The Manager believes a standardised approach helps ensure consistency and completeness across various lending opportunities. Adding further discipline to the process is the Manager's requirement that all staff participating in preparing a credit paper accept responsibility for the proposal, including the decisions and recommendations made therein.

Investment Process**Research and Portfolio Construction Process***...continued***Loan Approval**

Each prospective property credit transaction is presented to CBC's Investment Committee which adopts a conservative, downside-review approach to each opportunity. The Investment Committee considers changing macro or microeconomic circumstances and may apply different risk and LVR limits by asset class or geographical location where it considers investor capital may be at risk. Deal negotiations may be informed by the Manager's Pricing & Terms Committee which is a forum for the origination team and meets weekly to discuss pricing and terms of prospective transactions.

The Investment Committee's unanimous approval is required for a transaction to proceed to the structuring and loan execution phase. Transactions over \$20m in value require additional approval from the CBC Board which includes two members from CBC and two from Centuria Capital. In certain circumstances where a potential conflict may arise, a transaction may require third-party review or other assessment before being approved by the Trustee.

Investment Selection

Once CBC's Investment Committee approves a credit transaction a separate Fund Investment Committee convenes to consider whether the Fund should invest in the transaction. The Fund Investment Committee will assess the transaction's impact on the portfolio and eligibility against various portfolio guidelines.

Portfolio Construction

Portfolio construction aims to maintain a diversified portfolio and is governed by a range of sensible limits. It is otherwise largely opportunistic while being mindful of the Manager's understanding of market and other risks that are identified in different sectors from time to time. Specific portfolio limits include a maximum 15% in a single transaction, a maximum 20% to a single borrower, and a maximum 65% in loans to a single Australian state.

At the end of December 2023 around one-third of the portfolio was in construction loans, a similar amount in land loans, and almost 20% in residential investment loans, which had been zero before 2023. The life of loans in the portfolio has thus far never exceeded two years. At the end of December 2023 the weighted average term to maturity for all loans in the portfolio was slightly more than six months, which is its lowest to date. Loans to NSW at this time comprised around 65% of the portfolio, which is at the geographic limit. Otherwise loans were mostly to Queensland, Victoria and the ACT. At times in the life of the Fund loans to Queensland have exceeded one-third of the portfolio, as have loans to Victoria.

Sell Discipline

Loans are generally held to maturity, refinanced by borrowers at their discretion, or divested by the Fund and financed by other sources available to CBC.

Risk Management

Risk management largely involves close loan monitoring at the portfolio and individual asset levels. Portfolio-level monitoring is coordinated by CBC's Loan Management team, which is independent of its deal teams and incorporates fortnightly meetings of the Loan Management Committee. These meetings involve a detailed portfolio review that takes a deep dive into each deal, partly to ensure lending terms are being met.

Investment Process

Research and Portfolio Construction Process

Specific activities of the Loan Management team also include daily risk analysis, scenario analysis and stress testing of the portfolio. Fortnightly reporting covering key portfolio metrics and individual loan updates is provided to all CBC staff. A 'traffic light' indicator is generated for each loan to identify those with a higher risk profile or management alert.

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A Compliance Committee, comprising CBC's Co-CEOs, CFO, and a Centuria Capital representative, looks to ensure compliance, regulatory and other requirements are implemented and followed appropriately.

Individual asset level monitoring is largely a deal team responsibility and varies based on the type of asset and, where relevant, stage in the development process. Typical monitoring activities for development projects include on-site attendance at monthly Project Control Group meetings comprising the development project manager, builder, quantity surveyor and other key project personnel. Monitoring also includes tracking market valuations, sales and settlements to gauge future settlement risk. Monitoring also occurs during the approval of payments to borrowers and investors and when ensuring key covenants and milestones are being met on an ongoing basis.

Arrears and Default Management

The Manager's active management and monitoring of loans following execution ensures it is always highly familiar with the progress of all loans on its books and can engage quickly if any fall into arrears or default. Its approach to managing these loans has three key objectives: capital preservation, risk mitigation, and dynamic intervention. Risks for loans that become troubled are thoroughly reassessed, including by engaging external experts where necessary. A case-by-case approach is taken to develop an appropriate response, which could range from no further action to something much more aggressive. Perhaps most importantly, the Manager will take immediate and decisive action where necessary to ensure capital is preserved.

Loans in arrears or default are closely monitored at various levels in the organisation, including by committees that regularly review all loans. Such loans are initially managed by the relevant deal team, who will contact the borrower about the issue. The Loan Management team will become increasingly involved if the problem persists or grows. Others who may become engaged in the process include internal asset recovery specialists and CBC's Enforcement Committee which includes one of its Co-CEOs and the Head of Loan Management. Clear processes are followed to ensure CBC's and the Fund's interests are protected. Steps leading up to the possible possession and sale of security property may include reservation of rights and issuing demand notices.

Material Risks

Risks associated with the Fund may have a material effect on the performance and value of the Fund. Many of these risks are listed in the IM, which also notes that not all risks can be foreseen and, as such, its list of risks is not exhaustive. Some risks listed in the IM include:

Liquidity risk: there may be restrictions on withdrawals from the Fund. The Fund is an illiquid investment. Investors may only withdraw in accordance with the terms of issue of the Units.

Documentation risk: a deficiency in documentation could, in certain circumstances, adversely affect the return on a Loan.

Counterparty risk: the risk that the other party to a contract fails to perform its contractual obligations, either in whole or in part.

Investment Process

Research and Portfolio Construction Process

...continued

Default and credit risk: there is a risk that a borrower under a Loan does not meet its obligations to pay interest and repay capital or other financial obligations on time under the Loan documentation.

Valuation risk: this is the risk that the valuation of the security property for a Loan may be inaccurate or not accurately reflect its true value.

Planning risk: relevantly where Loans or investment proceeds are used for development projects, it may be more difficult than anticipated, or even impossible, to obtain the requisite government or regulatory approvals and permits for a development project and this may increase costs and cause delays to a development project.

Related party transactions risk: the Investment Manager and the Trustee are related parties of Centuria Bass Credit. However, the contractual arrangements between the Trustee and the Investment Manager are negotiated at arm's length.

Concentration risk: concentration risk is the risk that the investment portfolio of the Fund may lack a diversification of assets. However, the Fund has investment guidelines that prescribe portfolio diversification requirements.

Among other risks listed are allocation, security enforcement, property performance, market, and construction and development risks.

See the IM for more information.

Portfolio Characteristics

Portfolio Biases/Preferences

The Fund will only invest in mid-market property loans secured by a first mortgage. The Fund aims to be diversified by property sector and geography. Most loans will be for construction or to finance assets that are pre or newly post-construction. NSW has had the largest allocation of loans by state since the Fund's inception. Loans to NSW averaged more than 60% of the portfolio during 2023 and were around 65% at year-end.

Portfolio Turnover

The shorter-term nature of the loans written by CBC means Fund turnover will often exceed 100% p.a.. This is the case currently given the weighted average term to maturity for portfolio loans is currently little more than 6 months.

Liquidity

CBC has a liquidity committee that meets weekly to discuss the current liquidity position, explore sources of liquidity and the timing of cashflows, and ensure funding is available for the deal pipeline. The liquidity situation for the Fund is reviewed separately and on a combined basis with all CBC-managed funds.

Liquidity is offered to Fund investors through withdrawal requests that are usually processed monthly.

Leverage

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives) other than through a working capital facility provided by Centuria, which is tapped as required to meet short-term liquidity needs.

| Key Metrics | Fund |
|----------------------|--------|
| Market Value (\$m) | 141.01 |
| No. Positions/Loans | 48 |
| Avg Borrower Rate | 11.74% |
| Weighted Average LVR | 61.5% |

| Interest Type | Weight |
|---------------|--------|
| Fixed | 21.98% |
| Variable | 78.02% |

| Sector Profile | Weight |
|------------------------------|--------|
| Residential - Investment | 18.50% |
| Residential - Owner Occupied | 0.00% |
| Construction | 31.00% |
| Commercial | 4.33% |
| Industrial | 8.23% |
| Vacant Land | 30.39% |
| Rural | 0.00% |
| Office | 0.00% |
| Retail | 7.54% |
| Cash | 0.00% |

| Maturity Profile - years | Weight |
|--------------------------|--------|
| 0-2 | 89.32% |
| 3-6 | 10.68% |
| 7-10 | 0.00% |
| 10+ | 0.00% |
| Cash | N/A |

| Geography Profile | Weight |
|-------------------|--------|
| NSW | 65.67% |
| QLD | 10.67% |
| VIC | 6.26% |
| WA | 3.34% |
| SA | 2.97% |
| NT | 0.00% |
| TAS | 1.32% |
| ACT | 9.77% |
| Other | 0.00% |

| Arrears | Weight |
|------------|--------|
| 0-30 days | 0.00% |
| 31-60 days | 0.00% |
| 61-90 days | 0.00% |
| >90 days | 0.00% |

| LVR | Weight |
|--------|--------|
| 0-20 | 0.00% |
| 20-40 | 0.00% |
| 40-60 | 30.56% |
| 60-80 | 69.44% |
| 80-100 | 0.00% |

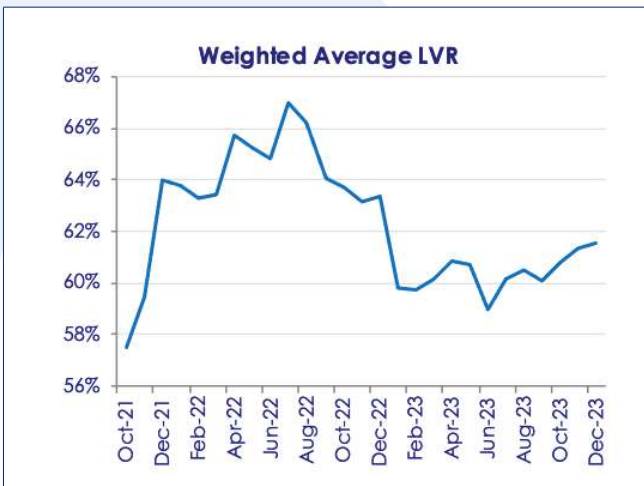
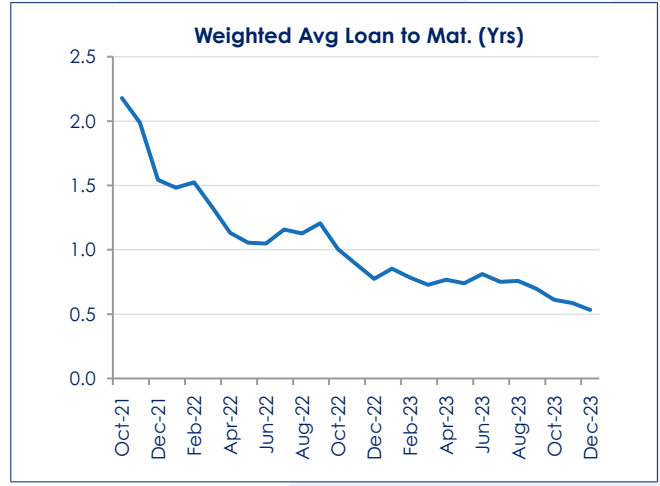
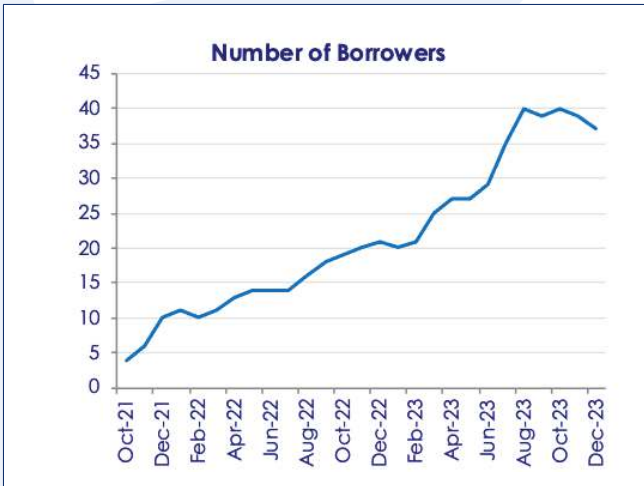
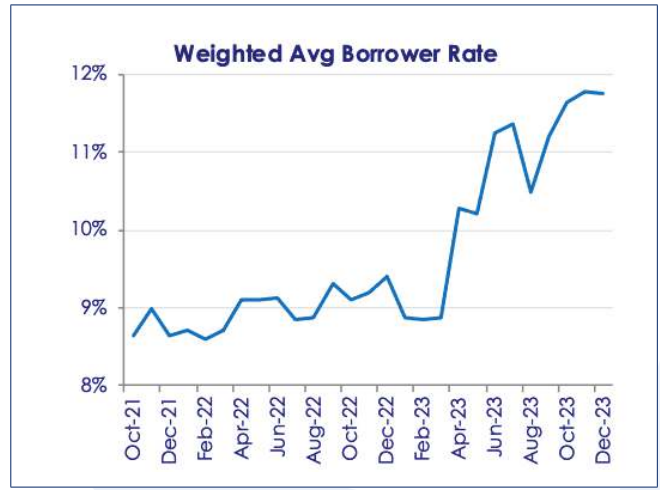
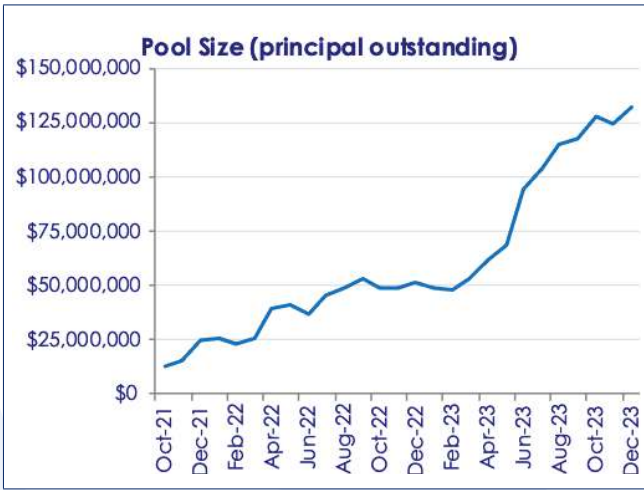
| Loan Type | Weight |
|-----------------|---------|
| First Mortgage | 100.00% |
| Second Mortgage | 0.00% |
| Other | 0.00% |

| | |
|----------------|-------------|
| Full doc | undisclosed |
| Low doc | undisclosed |
| Conforming | undisclosed |
| Non-conforming | undisclosed |

| Borrower Credit Strength | Weight |
|--------------------------|--------|
| Strong | 92.87% |
| Acceptable | 2.88% |
| Performing | 4.25% |
| Prime | 0.00% |
| In Arrears | 0.00% |
| Non-Performing | 0.00% |
| Other | 0.00% |

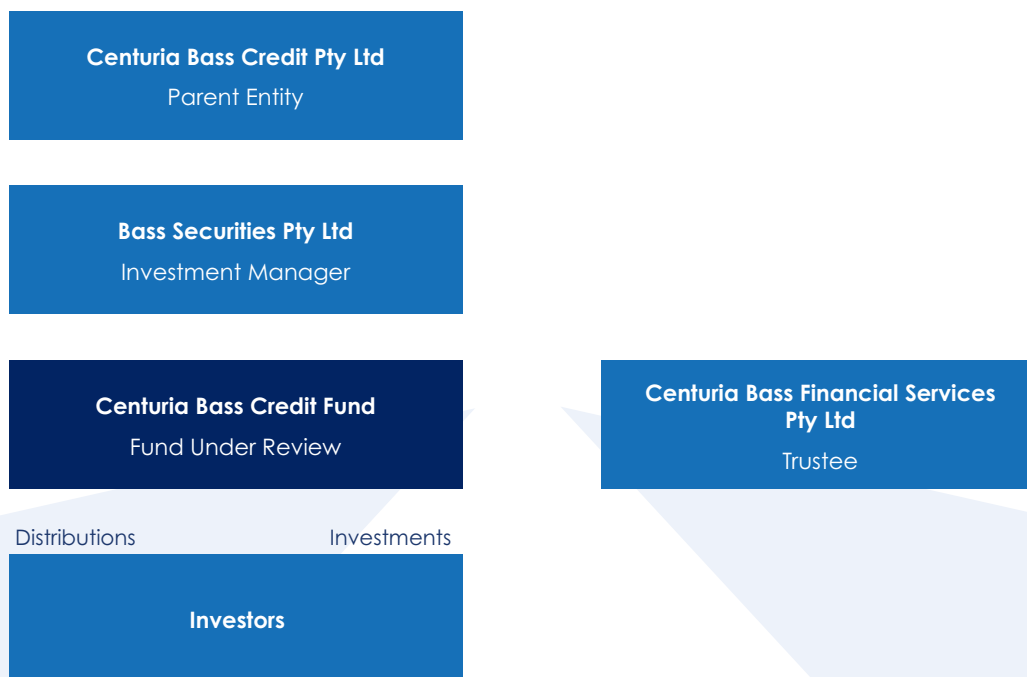
Note: all data in the tables immediately above are at the end of December 2023

Historical Trends



Note: all data in the charts immediately above are at the end of December 2023

Key Counterparties



Parent Company

Centuria Bass Credit Pty Ltd is a joint venture formed in 2021 when Centuria Capital Limited acquired 50% of Bass Capital. Centuria Capital now owns 80% of CBC following its acquisition of a further 30% in April 2024. Centuria Capital is a publicly listed (ASX code: CNI) specialist investment manager with a market capitalisation of around \$1.5bn. It has \$21.1bn in assets under management, mostly in Centuria Property Funds, which include listed and unlisted funds.

Bass Capital was formed in 2016 by co-CEOs Giles Borten and Nick Goh. They own the remaining 20% of CBC, along with Yehuda Gottlieb, CBC's Managing Director, Funds and Distribution, who joined Bass Capital as a Partner in 2020.

CBC invests in a diversified pool of mid-market secured property loans. It uses various sources to finance these loans, including the Fund, which has around \$140m in FUM, and the Bass Property Credit Fund, which is similar to the Fund but also lends against second mortgages, and has around \$220m in FUM. CBC manages a total of around \$1.7bn in FUM.

CBC has offices in Sydney, Melbourne, and Adelaide, and leverages the network of Centuria Capital Group, which has offices across Australia and New Zealand. CBC has 43 full-time equivalent staff, up from 28 in late 2022.



One way it makes use of Centuria Capital's broader resources is by accessing its national distribution team of 10, which serves financial planners, other intermediaries, and high-net-worth investors.

Investment Manager

Bass Securities Pty Ltd is a wholly-owned subsidiary of Centuria Bass Credit Pty Ltd. It decides which property credit transactions the Fund will invest in and how much will be invested. It is responsible for the day-to-day management of the loans it invests in, though has delegated much of these duties to CBC in line with provisions in the IM.

Governance

Trustee

The Fund's trustee is Centuria Bass Financial Services Ltd, which is a wholly owned subsidiary of CBC and also performs custodian functions for the Fund.

The Board of Directors of the Trustee consists of **3** directors, **none** of whom are independent. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. Board members have an average of **28** years of industry experience.

The Trustee's **Compliance Committee** is composed of **2** members, **none** of whom are independent. The Chair **is not** independent. SQM Research views independence in a Trustee oversight body such as a Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **26** years of industry experience.

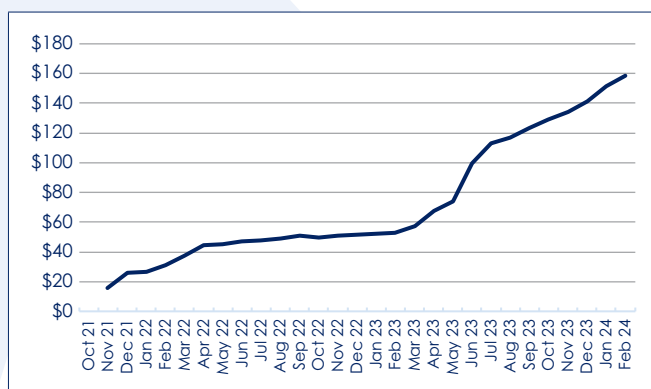
Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Trustee 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 modest.

Funds under Management (FUM)

FUM for Fund under Review (\$mill)



Distributions

Having previously occurred quarterly, distributions now mostly occur on a monthly basis, 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.

| Distribution Date | Distribution CPU |
|-------------------|------------------|
| Apr-23 | 1.97 |
| Jul-23 | 1.71 |
| Aug-23 | 0.72 |
| Sep-23 | 0.80 |
| Oct-23 | 0.77 |
| Nov-23 | 0.81 |
| Dec-23 | 0.79 |
| Jan-24 | 0.83 |
| Mar-24 | 0.74 |

| Name | Responsibility / Position | Location | Years at Firm | Years in Industry | Qualifications |
|-------------------|--|-----------|---------------|-------------------|--|
| Giles Borten | Co-CEO, Centuria Bass Credit | Sydney | 6.8 | 32 | B.Ec. (Comm), M. Fin., ACA |
| Nick Goh | Co-CEO, Centuria Bass Credit | Sydney | 6.8 | 32 | B.Ec., ACA |
| Yehuda Gottlieb | Managing Director, Funds and Distribution | Melbourne | 3.8 | 20 | B.Comm. & Bus. Sys., MBA |
| Charlie Robertson | Managing Director, Co-Head Origination | Sydney | 2.6 | 26 | B.Arch., LLB |
| Lachlan Tracey | Managing Director, Head of Capital Markets | Sydney | 0.3 | 25 | B.Eng.(Chem.), Gr.Dip. Fin. & Inv., MBA (Fin. & Econ.) |
| Brett Corfield | Executive Director, Loan Management | Melbourne | 3.0 | 30 | Chartered Accountant MBA |
| Izzy Chilcott | Fund Manager | Melbourne | 2.0 | 7 | BBA. Finance |
| Simon Holt | Investment Committee Member | Sydney | 7.0 | 25 | B.Bus. (Acc. & Mkt'g), ACA |
| Marshall Denning | Investment Committee Member | Sydney | 1.8 | 18 | B.Acc. & Fin., Gr.Dip. Ch. Acc. |

Investment Team

At the end of 2023, CBC had 36 employees (full-time equivalent), up from 28 at the end of 2022 and 14 when the JV with Centuria Capital was established in April 2021. It continues to be run by its founders Giles Borten and Nick Goh, who established the business in 2016 and are Co-CEOs. The third key member of the leadership team is Yehuda Gottlieb, CBC’s Managing Director, Funds and Distribution, who joined as a Partner in 2020.

Both founders are qualified accountants with extensive experience working in senior positions for investment banks in wholesale debt markets. Giles Borten’s previous roles include Head of Leveraged Finance for Europe and Asia Pacific at UBS Investment Bank, where he also held other senior roles. Nick Goh’s previous roles include senior positions in boutique investment banks Gresham Partners and Wingate Group, heading businesses whose activities included mid-market investment and high-yield lending. Both founders also have experience in a range of other finance sector companies. Yehuda Gottlieb has more than 20 years of experience in the finance sector in roles encompassing investment banking, structured finance and funds management.

All three are members of the Investment Committee and have broad responsibilities across the entire business. Beyond them, CBC’s workforce can be characterised as being broadly split between loan origination, execution and management on the one hand, fundraising and fund management on the other, plus accounting and administration. Leadership roles within these different

functions are also generally held by highly experienced financial professionals. For example, Charlie Robertson, Managing Director and Head of Origination, has over 20 years of experience in loan origination, property development, investment, and funds management. Lachlan Tracey, also Managing Director and Head of Capital Markets, has over 25 years of experience working for investment and institutional banks in Australia, the US, and Europe, in activities including debt origination, structuring and underwriting.

Those in leadership positions across CBC’s various functions regularly engage with each other in the committees that drive key decision-making for the Fund. Apart from the separate Investment Committees that exist for CBC and the Investment Manager, others include the Pricing & Terms Committee, the Liquidity Committee, the Loan Management Committee, and the Enforcement Committee.

While employee numbers have grown rapidly in recent years there has been only one departure from a key role, and none from key roles involved in loan or Fund management. There is some key person risk in the founders and Yehuda Gottlieb, especially due to the proactive and hands-on approach CBC takes to loan origination and management. This has diminished somewhat with employee growth, including at more senior levels.

Meeting Schedule

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

| Meeting | Agenda | Frequency | Participants |
|--------------------------------------|--|--|--|
| Investment Committee Meetings | To assess new credit transactions and seek approval for transactions to proceed and/or seek approval for entry into the Fund | Weekly (or on an as needs basis) | Co-CEOs, Centuria IC Members, Fund Manager, reps from CBC origination and distribution teams |
| Pricing & Terms Committee | Discuss new opportunities, market news and pricing and terms of deals in the pipeline | Weekly | Co-CEOs, distribution and origination teams |
| CBC Weekly Teams Meeting | Weekly meeting to discuss work in progress and assign responsibilities to upcoming tasks | Weekly | Entire Team |
| Loan Management Committee | Deep dive into each deal to ensure lending terms are complied with, reviews and discusses risks, portfolio and performance | Fortnightly | Head of Loan Management, Co-CEOs, Fund Manager, Origination, Members from deal team |
| Liquidity Committee | Discusses liquidity position and committed inflows/ outflows, long term forecasts and opportunities | Weekly | Co-CEOs, Fund Manager, Exec Director Origination, COO, FP&A AD, Head of Loan Management |
| Enforcement Committee | Discuss deals that are in default and undergoing enforcement with the purpose to address strategy, tactics and process with the aim of enforcing and recovering funds from transactions that are undergoing enforcement. | Fortnightly (or ad hoc if required more regularly) | Co-CEOs, Head of Loan Management, Head of Enforcement |
| Fund Pricing Committee | Discusses portfolio construction and performance of the fund, signs of pricing of the fund | Monthly | co-CEOs, Fund Manager and Finance teams |

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

As noted above, there has been only one departure from a key role in recent years, and none from a loan or funds management role, and numerous experienced hires.

| Departures | | | |
|------------|-------------------|-----------------------------------|---|
| Date | Name | Responsibility | Reason for Departure |
| Aug-23 | Mark Schwartz | Executive Director - Distribution | Another opportunity |
| Additions | | | |
| Date | Name | Position / Responsibility | Previous Position / Employer |
| Jan-21 | Brett Corfield | Loan Mgt | Executive Director - Hillcrest Capital Partners |
| Apr-21 | Simon Holt | IC Member | CFO WorleyParsons |
| Apr-21 | Marshall Denning | IC Member | Assistant Treasurer - Dexus |
| May-21 | Charlie Robertson | Origination | Executive Director, Gresham Partners |
| Sep-21 | Simon Blakers | Finance & Admin | Managing Partner, SWB Consulting |
| Feb-23 | Mark Schwartz | Distribution | Distribution Director, Pallas Capital |
| Feb-23 | Andrew Vamvakaris | Origination | Director - Assetline Capital |
| Nov-23 | Lachlan Tracey | Execution | Head of Acquisition, Leveraged & Syndicated Finance, ANZ - Citibank |

| Additions | | | |
|-----------|---------------|--------------------------------------|--------------------------------------|
| Date | Name | Position / Responsibility | Previous Position / Employer |
| Dec-23 | Tom O'Donnell | Distribution | Distribution Partner, Pallas Capital |
| Feb-24 | John Lindholm | Special Adviser - Loan Management | Partner – Restructuring KPMG |

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

Investment team members are remunerated with a base salary and performance bonus. Base salaries are reviewed annually and are a function of market benchmarking, salary banding and performance. Each team member's key performance indicators (KPIs) are set annually as part of CBC's annual performance review and promotional cycle. KPIs look to promote alignment of interests with key stakeholders including investors. Compliance, training, and development objectives are included in the KPIs for all employees. KPIs are reviewed and monitored monthly.

All staff are eligible for annual performance bonuses which are discretionary in nature according to the achievement of company, team and individual KPIs. Outcomes range from 0% to 100% of the target bonus depending on performance outcomes. Vesting periods for discretionary bonuses mostly range from 6 to 12 months or more and are largely a function of team member seniority. Partner equity is the chief alignment and retention mechanism for the Co-CEOs and Yehuda Gottlieb who own a combined 20% of CBC.

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.

| Fees and Costs | Fund | Peer Avg |
|-------------------------------------|-------|----------|
| Management Fee % p.a. | 0.50% | 1.71% |
| Expense Recovery/Other Costs % p.a. | – | – |
| Performance Fee % | 0.00% | 10.00% |
| Total Cost Ratio TCR % p.a. | 0.60% | 2.02% |
| Buy Spread %* | 0.00% | 0.00% |
| Sell Spread %* | 0.00% | 0.00% |

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets. The Trustee may charge, at their discretion, up to 1% plus GST of the Net Asset Value of any Units withdrawn.

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 0.50% p.a., which is 121 basis points lower than the peer group average of 1.71% p.a.*
- *The Total Cost Ratio (TCR) is 0.60% p.a., which is 142 basis points lower than the peer group average of 2.02% p.a.*
- *The Manager charges establishment and other fees to borrowers and typically earns a direct interest margin of 1.5% to 2% on each loan.*

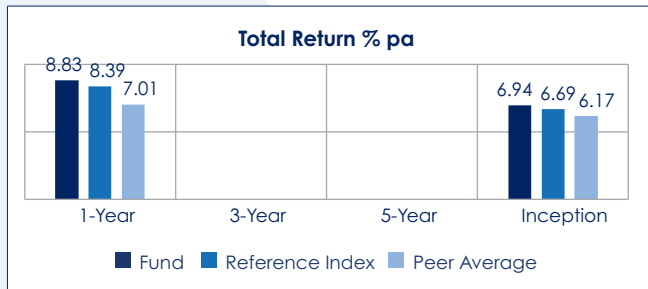
| Risk/Return Data to 29 February 2024 | | | | | | | |
|--|---------|---------|---------|--------|--------|--------|-----------|
| Total Return | 1-Month | 3-Month | 6-Month | 1-Year | 3-Year | 5-Year | Inception |
| Fund | 0.69 | 2.22 | 4.50 | 8.83 | . | . | 6.94 |
| Reference Index | 0.68 | 2.10 | 4.20 | 8.39 | . | . | 6.69 |
| Peer Average | 0.59 | 1.55 | 3.35 | 7.01 | . | . | 6.17 |
| Alpha | 0.01 | 0.12 | 0.30 | 0.45 | . | . | 0.25 |
| Metrics | | | | 1-Year | 3-Year | 5-Year | Inception |
| Tracking Error (% p.a.) - Fund | | | | 0.12 | . | . | 0.44 |
| Tracking Error (% p.a.) - Peer Average | | | | 0.65 | . | . | 0.64 |
| Information Ratio - Fund | | | | 3.60 | . | . | 0.56 |
| Information Ratio - Peer Average | | | | -26.71 | . | . | -2.51 |
| Sharpe Ratio - Fund | | | | 30.18 | . | . | 5.81 |
| Sharpe Ratio - Peer Average | | | | 19.03 | . | . | 15.41 |
| Volatility - Fund (% p.a.) | | | | 0.16 | . | . | 0.76 |
| Volatility - Peer Average (% p.a.) | | | | 0.74 | . | . | 0.65 |
| Volatility - Reference Index (% p.a.) | | | | 0.08 | . | . | 0.49 |
| Beta based on stated Reference Index | | | | 1.19 | . | . | 1.29 |

Distributions reinvested. Returns beyond one year are annualised. Return history starts Nov-2021
 Reference Index: RBA Cash Rate plus 4.00%

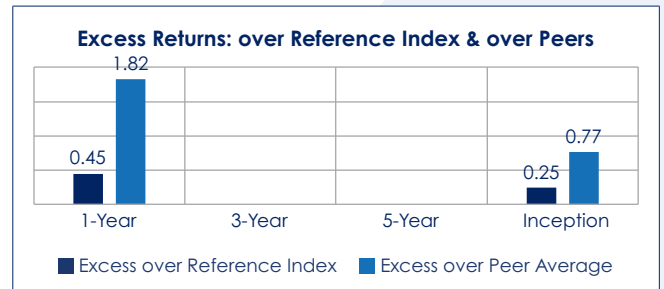
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Feb-2024**.

Returns



Excess Returns (Alpha)



The Fund has displayed strong performance across all periods when compared with peers. It has met its return objective to generate an internal rate of return of 6% - 10% p.a. (net of fees). Its returns have also exceeded the RBA cash rate + 4% p.a. we are using as a reference index.

The **return outcomes**, as described above, are consistent with the IM objective, and are in line with SQM's expectations for the Fund relative to its fee level and volatility.

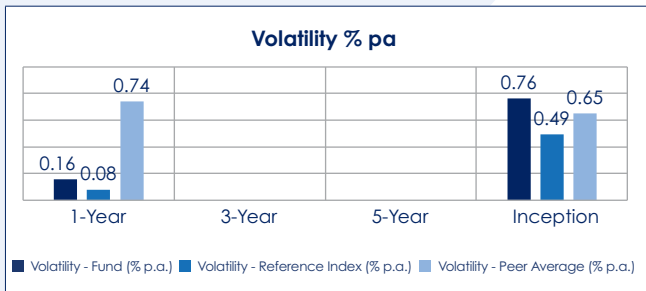
¹ **Note:** Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

Risk

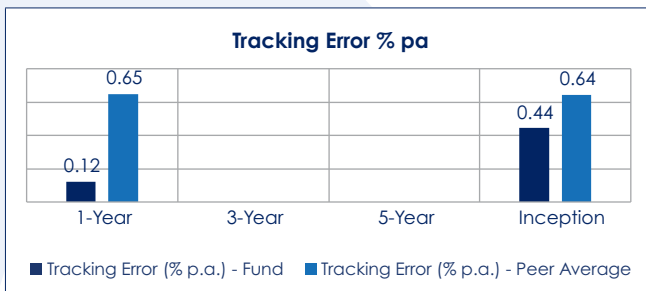
The true overall risk level in Mortgage Funds is determined by a range of risks, including (but not limited to): default/capital loss, liquidity, concentration, and interest rates risk. Advisers/Investors should read the IM to understand those risks.

SQM Research holds the view that the low volatility of returns often displayed by Mortgage Funds should not be interpreted as implying that these Funds have a low level of risk. Low volatility of returns (in this sector) is an artificial construct caused by an absence of frequent mark-to-market valuation of a Mortgage Fund's assets and the accrual nature of these products.

Therefore, Fund metrics such as Volatility, Tracking Error, Information Ratio, and Sharpe Ratio add little statistical value (within the Mortgage Funds sector).



The Fund's **volatility** (annualised standard deviation of monthly returns) has tended to be much lower than peers and around that of the reference index for the last year, but higher than both since inception.



The Fund's **tracking error** (annualised standard deviation of monthly excess returns) has tended to be lower than peers.

The **risk outcomes**, as described above regarding volatility and tracking error are consistent with the IM statements about risk, and are in line with SQM's expectations for this Fund.

Drawdowns

| Drawdown Summary | | | |
|--------------------------------|---------|------------|--------|
| Drawdown Size (peak-to-trough) | | | |
| | Fund | Ref. Index | Peers |
| Average | no data | no data | -1.25% |
| Number | 0 | 0 | 0 |
| Smallest | +0.00% | +0.00% | -1.17% |
| Largest | +0.00% | +0.00% | -1.32% |
| Length of Drawdown (in months) | | | |
| | Fund | Ref. Index | Peers |
| Average | no data | no data | 2.5 |

Length of Drawdown = time from peak to trough and back to the previous peak level

The Reference Index has had zero drawdowns, as expected from inflation or cash-based indexes.

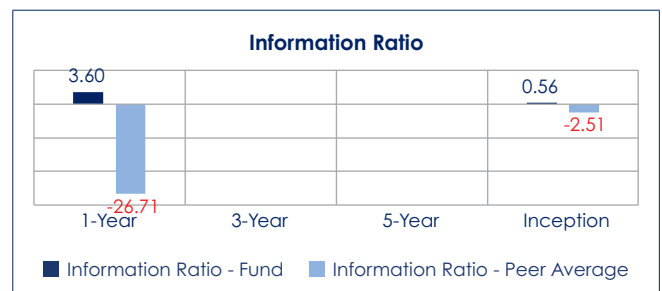
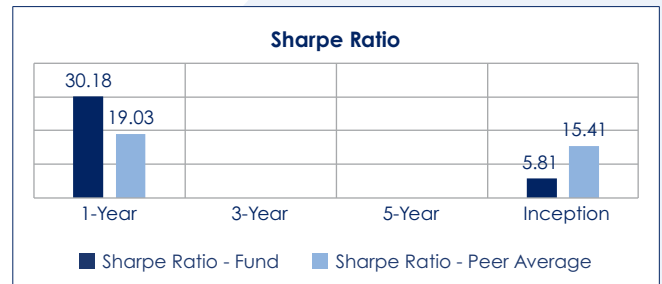
Given the Fund has yet to experience any drawdowns, **average** drawdowns have been the same as those of the reference index and better than those of the peer average.

Upside/Downside Capture

| Fund | Upside Capture | |
|--------------|----------------|-----------|
| | 3 years | Inception |
| Fund | . | 103.6% |
| Peer Average | . | 75.5% |

for a cash Reference Index, downside capture is not valid

Risk-Adjusted Returns



QUANTITATIVE ANALYSIS

The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been better than the peer average, other than the Fund's Sharpe ratio since inception, which is worse than peers.

Correlation of Fund to Asset Classes

| Market | 3 years | Inception | Market Indexes |
|---------------|---------|-----------|------------------------------------|
| Aust Bonds | . | +22.4% | Bloomberg AusBond Composite 0+Y TR |
| Aust Equity | . | -1.6% | S&P/ASX 300 TR |
| Global Bonds | . | +30.9% | Bloomberg Global Aggregate Hdg AUD |
| Global Equity | . | +27.3% | MSCI World Ex Australia NR AUD |

Correlation Key

| Low | High | Description |
|-----|------|-----------------------|
| 0% | 20% | low, weak |
| 20% | 40% | modest, moderate |
| 40% | 70% | significant, material |
| 70% | 90% | strong, high |
| 90% | 100% | substantial |

Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month

| Index: S&P/ASX 300 TR | | From Nov-21 to Feb-24 | | |
|-----------------------|--------|-----------------------|---------------|----------------|
| Rank | Date | Market | Fund | Difference |
| 1 | Jun-22 | -8.97% | +0.61% | +9.58% |
| 2 | Jan-22 | -6.45% | +0.22% | +6.67% |
| 3 | Sep-22 | -6.29% | +0.65% | +6.94% |
| 4 | Oct-23 | -3.80% | +0.76% | +4.56% |
| 5 | Dec-22 | -3.29% | +0.64% | +3.94% |
| 6 | Sep-23 | -2.89% | +0.72% | +3.61% |
| 7 | May-22 | -2.76% | +0.67% | +3.43% |
| 8 | Feb-23 | -2.55% | +0.58% | +3.13% |
| 9 | May-23 | -2.53% | +0.64% | +3.17% |
| 10 | Apr-22 | -0.84% | +0.13% | +0.96% |
| Totals | | -40.37% | +5.61% | +45.98% |

| | | | No. of Months |
|--------------------|--------|-----------------|---------------|
| Correlation | -8.9% | Positive Return | 10 |
| Capture | -13.9% | Outperform | 10 |

Tail Risk Observations:

The data in the table above indicate that the Fund displays strong **defensive characteristics** in the face of extreme Australian equity tail risk.

Snail Trail

The snail trail chart and tables below show the combination of the Fund's rolling 1-year excess returns and volatility.

There are 17 observations in total.

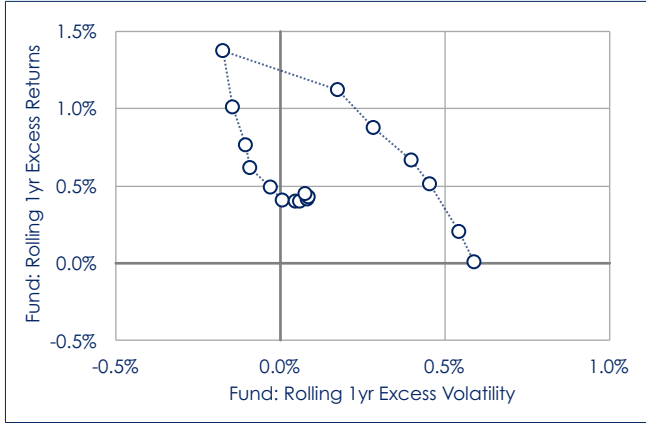
The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

| Snail Trail Distribution | | | |
|--------------------------|----------|-----------|-----------|
| Frequency | Lo-Vol | Hi-Vol | Total |
| Hi-Return | 5 | 12 | 17 |
| Lo-Return | 0 | 0 | 0 |
| Total | 5 | 12 | 17 |

17 rolling 1-year observations

| % of Total | Lo-Vol | Hi-Vol | Total |
|------------------|--------------|--------------|---------------|
| Hi-Return | 29.4% | 70.6% | 100.0% |
| Lo-Return | 0.0% | 0.0% | 0.0% |
| Total | 29.4% | 70.6% | 100.0% |

QUANTITATIVE ANALYSIS



In assessing a snail trail it is important to note the following:

Q1 upper left-hand quadrant - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

Q2 upper right-hand quadrant - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

Q3 lower left-hand quadrant - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

Q4 lower right-hand quadrant - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

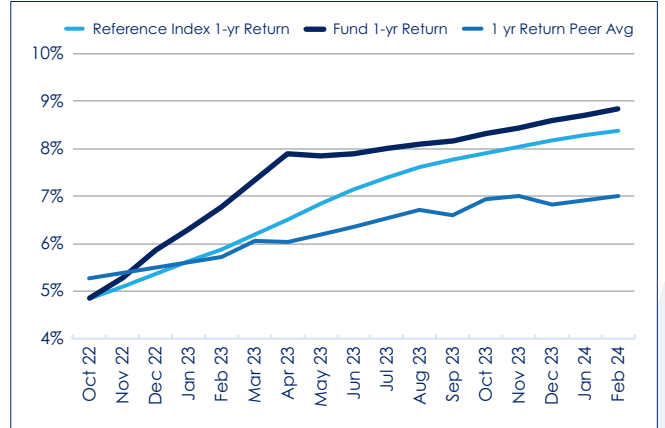
Annual Returns

| Year | Fund | Ref. Index | Peer Avg | vs. Ref. Ind. | vs. Peers |
|--------|-------|------------|----------|---------------|--------------|
| 2022 | +5.87 | +5.36 | +5.47 | +0.51 | +0.40 |
| 2023 | +8.58 | +8.17 | +6.81 | +0.41 | +1.78 |
| Feb-24 | +1.44 | +1.39 | +1.19 | +0.05 | +0.24 |

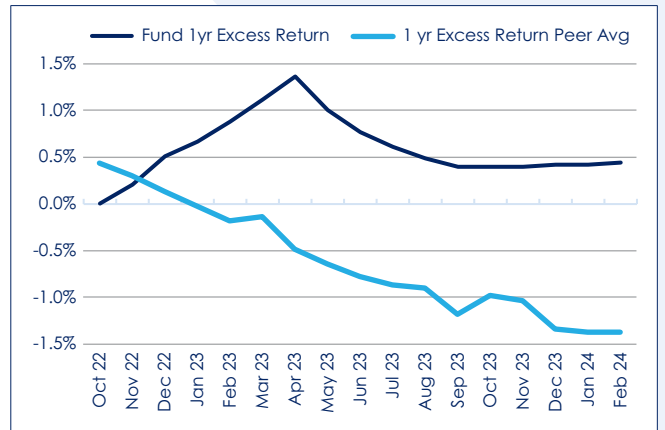
2024 data = 2 months ending Feb-24

Return and Risk

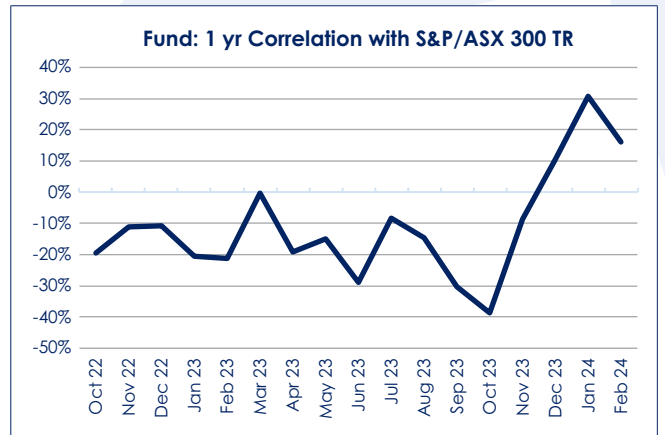
Rolling Returns



Rolling Excess Returns



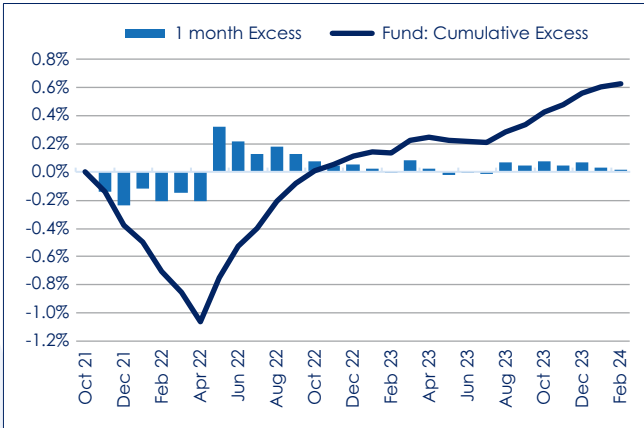
Rolling Correlation



QUANTITATIVE ANALYSIS

Return and Risk

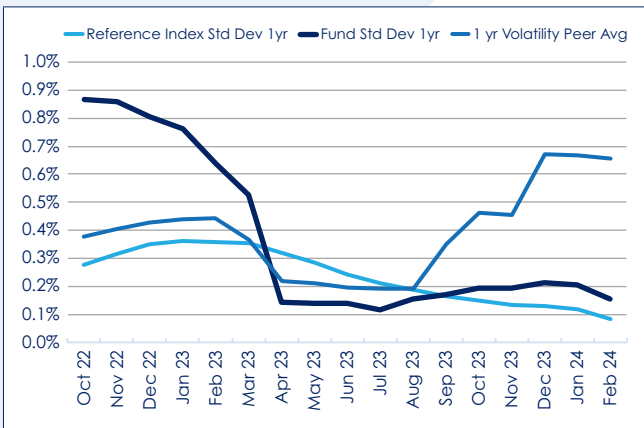
Cumulative Excess Returns



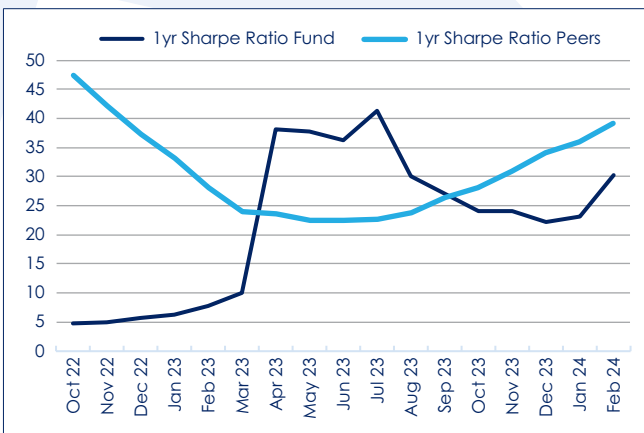
Drawdowns

There have been no drawdowns for the reference index, Fund or the peer group (based on the average of the peer returns each month).

Rolling Volatility



Rolling Sharpe Ratio



The table below outlines limits on the Fund's asset allocation and other risk parameters:

| Fund Constraints and Risk Limits | Permitted Range or Limit |
|---|---------------------------------|
| Loans secured by first mortgage | 100%* |
| Investment in a single loan | Maximum 15% |
| Loans to a single borrower | Maximum 20% |
| Loans to a state / geography | Maximum 65% |

* including investments in shorter-term 'tactical' loans with similarly strong security backing

Drawdown

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime.

Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

A General Note on Distributions for Managed Funds

The Trustee 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.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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