SQM RESEARCH

# DCF Private Debt Fund IV-B

This report has been prepared for financial advisers only

**Superior**

January 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: 25 January 2023

| Star Rating* | Description | Definition | |
|---|---|---|---|
| 4½ stars and above | Outstanding | **Highly suitable for inclusion on APLs**<br>*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**<br>*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**<br>*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**<br>*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**<br>*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**<br>*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**<br>*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 ★★★★☆

*Superior. Suitable for inclusion on most APLs.*

| | |
|---|---|
| **Fund Description** | |
| Fund Name | DCF Private Debt Fund IV-B |
| APIR code | AMT2564AU |
| Asset Class | Private Debt |
| **Management and Service Providers** | |
| Fund Manager | DCF Asset Management Pty Ltd |
| Trustee | AMAL Trustees Pty Limited |
| **Fund Information** | |
| Fund Inception Date | 14 September 2021 |
| Fund Size | $60 mil as of Nov 2022 |
| Return Objective (per PDS/IM) | "To provide monthly income returns, mitigating the possibility of capital loss, via a diversified portfolio of senior credit exposures including appropriately geared asset-backed loans (including real property mortgages) and robust structured covenants for cashflow backed loans" |
| Internal Return Objective | 8% p.a. to Investors, net of fees and expenses |
| Risk Level (per PDS/IM) | Low |
| Internal Risk Objective | Not applicable |
| Benchmark Proxy (Debt Proceeds Hurdle) as per IM | 6.50% p.a. |
| Number of stocks/positions | 12 |
| Fund Leverage | Not applicable |
| **Investor Information** | |
| Management Fee | 1.50% p.a. |
| TCR (Total Cost Ratio) | 1.70% p.a. |
| Buy Spread | 0.00% |
| Sell Spread | 0.00% |
| Performance Fee Rate | 18.5% on excess returns over 6.5% p.a. hurdle |
| Minimum Application | $50,000 |
| Redemption Policy | Monthly |
| Distribution Frequency | Monthly |
| Investment Horizon | 4 years |
| Currency Hedging Policy | Not applicable |

***As the Fund has no official benchmark mentioned in the IM, SQM Research has used the "Debt Proceeds Hurdle or Performance Hurdle" of 6.50% p.a. as the Benchmark Proxy for analysis purposes only***

## Fund Summary

### Description

The **DCF Private Debt Fund IV-B (the "Fund")** is an unlisted, open-ended Australian-managed investment scheme that is not currently registered with ASIC, offering investors an opportunity to gain access to the corporate credit market.

The Fund seeks to provide investors with direct exposure to the Australian and New Zealand corporate credit market, a market that is dominated by traditional regulated banks and is not easy to access for non-bank investors.

The Fund is seeking to raise AUD300 million and will comprise a diversified exposure of credit products to companies that broadly reflect activity in the corporate credit market and is diversified by borrower, industry and credit quality.

The Fund aims to provide stable monthly income returns, mitigating the possibility of capital loss, via a diversified portfolio of corporate credit exposures, including appropriately geared asset-backed loans (including real property mortgages) and robust structured covenants for cashflow-backed loans.

The Manager will strive to implement strategies to balance the delivery of targeted returns (8% to 10%) whilst preserving investor capital.

It is expected the Fund will invest in 20 plus direct secured credit opportunities with an average size of $10-50 mil across a diverse range of credit transactions, including corporate, asset-backed, growth capital, acquisition finance and property. The suggested investment timeframe is a minimum of four years.

The Fund will co-invest with or in DCF Private Debt Closed Funds.

All new co-investments will be made on a pari passu basis with DCF Private Debt Closed Funds, calculated by reference to the respective commitments to each of the relevant Fund class of units (Class) and DCF Private Debt Closed Funds from time to time.

DCF III's investment window closed on 30th November 2022. Its investors have been given an opportunity to roll their commitments into DCF IV & DCF IVB.

## 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 Jan 2022)**

## SQM Research's Review & Key Observations

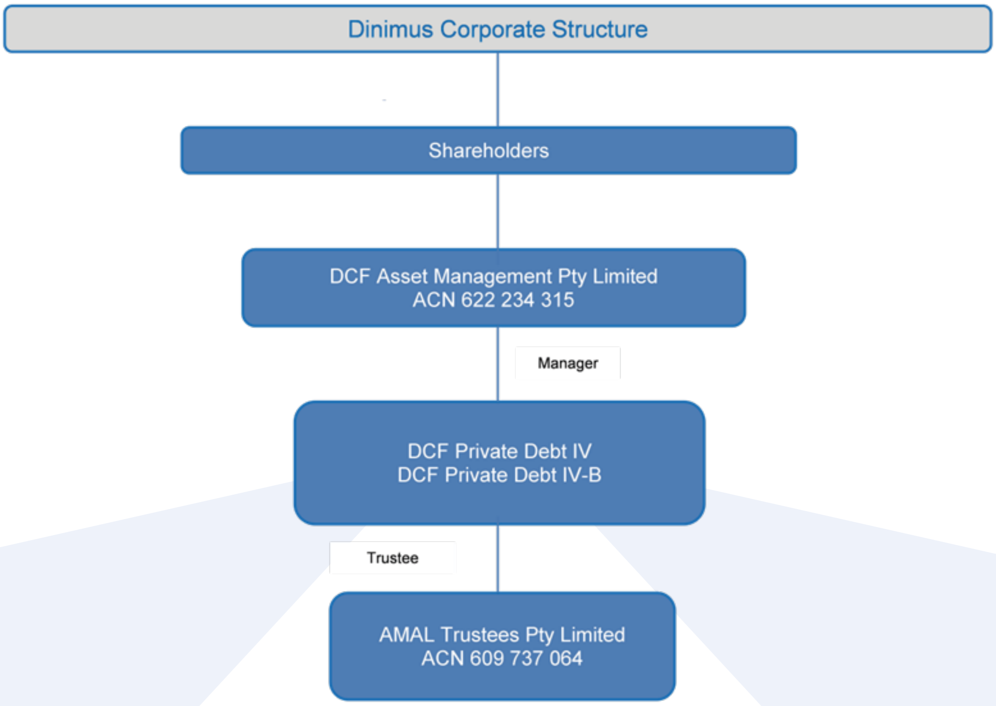
### About the Manager

**DCF Asset Management Pty Limited (ACN 622 234 315) (DCF)** is a private debt fund manager specialising in the provision of customised non-bank financial solutions to corporate borrowers in the Australian and New Zealand market.

By aggregating capital from wholesale investors, the Manager aims to deliver access to this market in a scalable and diversified manner. DCF was established to take advantage of the credit shortfall which exists for mid-market corporate borrowers.

DCF's principal credit investments include but are not limited to corporate finance, asset-backed finance, growth capital & acquisition finance.

DCF launched its first initiative in 2010 and has established three funds (DCF III and IV are currently active). DCF employs nine staff based in Melbourne, Sydney and Hong Kong.




### Investment Team

The team consists of seven banking and structured finance professionals from a diverse range of credit backgrounds.

The Senior Management team comprises **Ryan Donnar, Atiya Habib, Adam Howell and Nicolas Politopoulos**.

Senior Management Team is responsible for setting the strategic direction and ensuring overall IC and risk processes are managed effectively. All critical business decisions, other than IC, are made by the Senior Management Team.

Senior management of the group has joint responsibility for the Investment Committee approval process and overall management of the Portfolio of Investments.

Each key function has designated support from another member of senior management. The group can draw on professionals ranging from junior through to senior levels which it can leverage should the need arise.

The investment team has worked together successfully for more than five years, including for the entire duration of DCF's prior fund, DCF III (DCF Australian Private Debt Fund).

The ***key person risk*** of the Fund is deemed to be low.

## 1. Investment Philosophy and Process

### Investable Universe

The Fund will invest in mid-market corporate debt in a variety of approved forms, typically through structured facilities across the Australian or New Zealand corporate credit markets, mostly through direct lending.

The Fund will target credit opportunities with an average size of $10-50m across a variety of public and private companies and industry sectors.

These are predominantly senior secured: asset-backed, securitisation, senior secured cashflow or junior for asset-backed / securitisation only.

### Philosophy / Process / Style

The Fund aims to provide **stable monthly income returns**, **mitigating** the possibility of **capital loss**, via a diversified portfolio of corporate **credit exposures** including appropriately geared **asset-backed loans** (including real property mortgages) and robust structured covenants for **cashflow-backed loans**.

The Manager will strive to implement strategies to balance the delivery of targeted returns (8% to 10%) whilst preserving investor capital.

DCF's philosophy and vision are comprised of the following:

- Aim to preserve investors' capital
- Global expertise with local presence and focus
- Longevity: adding value and building prosperous long-term relationships by lending to sustainable and responsible companies
- Integrity: continuously act in the best interest of all stakeholders
- Dynamic: the ability to understand changing market conditions, trends and economic cycles and adapt accordingly to identify the most suitable solutions for each investment opportunity. Our approach to active investment management is based on an investment process that fully integrates sustainability analysis into our decision-making and is focused on long-term performance
- Evolution: continue to build on an established and successful platform
- Pragmatic: delivering premium risk-adjusted returns to Investors, with management capital invested across the portfolio alongside the investors
- Be a leading alternative credit capital provider to the Australian and New Zealand corporate sector
- Aim to deliver credit solutions that genuinely assist clients and investment partners in achieving their growth potential

The Funds Investment Objectives aim to:

- Deliver maximum principal protection through:
  - Rigorous upfront risk assessment and structural (covenants, business KPIs et al.) scaffolding built into the loans
  - Professionally executed documentation through external legal counsel
  - Proactive management of risk/loans in the Portfolio
  - Optimal diversification across sectors and borrowers
- Deliver monthly income returns:
  - Superior to the benchmark for the asset class
  - Uncorrelated to the equity markets
  - By keeping a balance between cash and non-cash returns charged to the borrower on the underlying loans
  - Through upfront fees on the loans
- Embed sustainability and ESG in our decision-making process and focus on long-term performance

The Fund will provide credit to Eligible Borrowers to create a pool of investments that comply with DCF's Credit Policy and Framework, reflective of activity in the corporate credit market and with a diversity of borrower, industry and credit quality.

**Borrowers:** Credit to a variety of public and private companies and no more than 20% of the Fund assets will be invested in a single borrower group

**Industries:** Credit across industry sectors and no more than 25% of the Fund's investments will be in a single industry

**Credit quality:** Mostly senior secured credit exposures provided across the credit risk spectrum of the corporate credit market, with a strong focus on established and growth businesses that sit just outside banking credit requirements or require customised funding that is no longer provided by banks

DCF's lending is directed at borrowers that either choose not to deal with traditional major banks or do not meet the rigid and cookie-cutter lending criteria set out by those financiers.

The credit process and portfolio management involve rigorous **bottom-up** analysis of each target borrower and credit exposure to ensure a high probability of returning its capital and interest income in whole and in a timely manner.

The team looks for **value opportunities** across the Australian and New Zealand corporate credit markets and focuses on opportunities that would provide a premium return versus risk to Investors. Each investment will be assessed in line with the DCF's Credit Policy and Framework.

## 2. Performance & Risk

### Return Objective

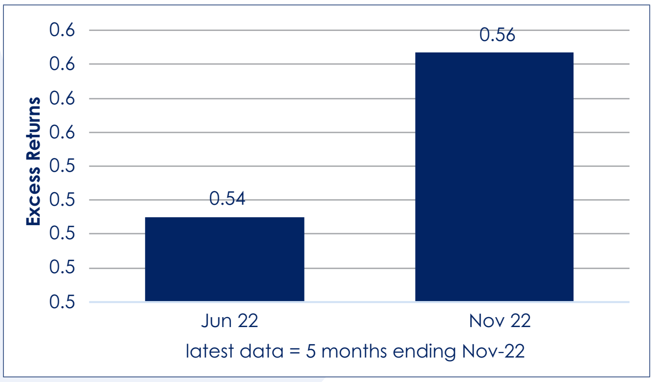
The return objective stated in the PDS is: "The Fund aims to provide monthly income returns, mitigating the possibility of capital loss, via a diversified portfolio of senior credit exposures including appropriately geared asset-backed loans (including real property mortgages) and robust structured covenants for cash flow backed loans.

The Manager will strive to implement strategies to balance the delivery of targeted returns whilst preserving investor capital."

The Fund's Debt Proceeds Hurdle, as stated in the IM, is 6.50% p.a.

***As the Fund has no official benchmark mentioned in the IM, SQM Research has used the "Debt Proceeds Hurdle or Performance Hurdle" of 6.50% p.a. as the Benchmark Proxy for analysis purposes only.***

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




### Length of Track Record

The DCF Private Debt Fund IV-B has a relatively short history of 1.2 years (or 14 months).

Observations and analysis of returns will have very little 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

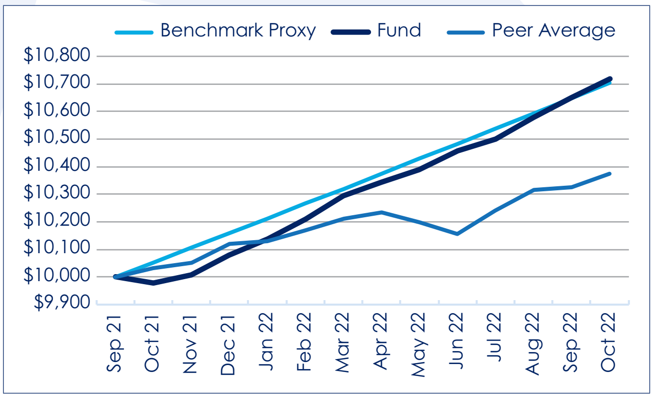
The Fund's IM states that the risk level of the Fund is "low".

| Fund Performance to 30 November 2022 (% p.a.) | | | | | |
|---|---|---|---|---|---|
| **Total Return** | **1-Month** | **3-Month** | **6-Month** | **1-Year** | **Inception** |
| Fund | 0.68 | 2.03 | 3.89 | 7.85 | 6.76 |
| Benchmark Proxy | 0.53 | 1.59 | 3.20 | 6.50 | 6.50 |
| Peer Average | 0.88 | 1.47 | 2.74 | 4.56 | 4.29 |
| Alpha | 0.15 | 0.45 | 0.69 | 1.35 | 0.26 |

With dividends reinvested. Returns beyond one year are annualised. Return history starts Oct-2021

Benchmark Proxy: 6.50% p.a.

**Growth of $10,000**




### Strengths of the Fund

- A robust and well-established credit assessment process designed to identify risky borrowers and price loans accordingly
- A strong pipeline for deal flow
- An experienced credit and investment team
- Fixed coupon payments, providing some predictability to the distributions to investors
- Relatively rapid turnover of loans, with term commitments between 12 and 36 months
- No immediate pressure for the deployment of the capital raised
- The FUM of the Fund has increased materially in the last 12 months

- The Fund has outperformed the benchmark proxy and its peers in all periods
- The key person risk of the Fund is low

**Weaknesses of the Fund**

- High performance fees, with a hurdle rate less than the net investment objective
- The management fee and the total cost ratio are materially higher than the peers' average
- A concentrated portfolio, in terms of sector exposures and number of investments, relative to more diversified income funds

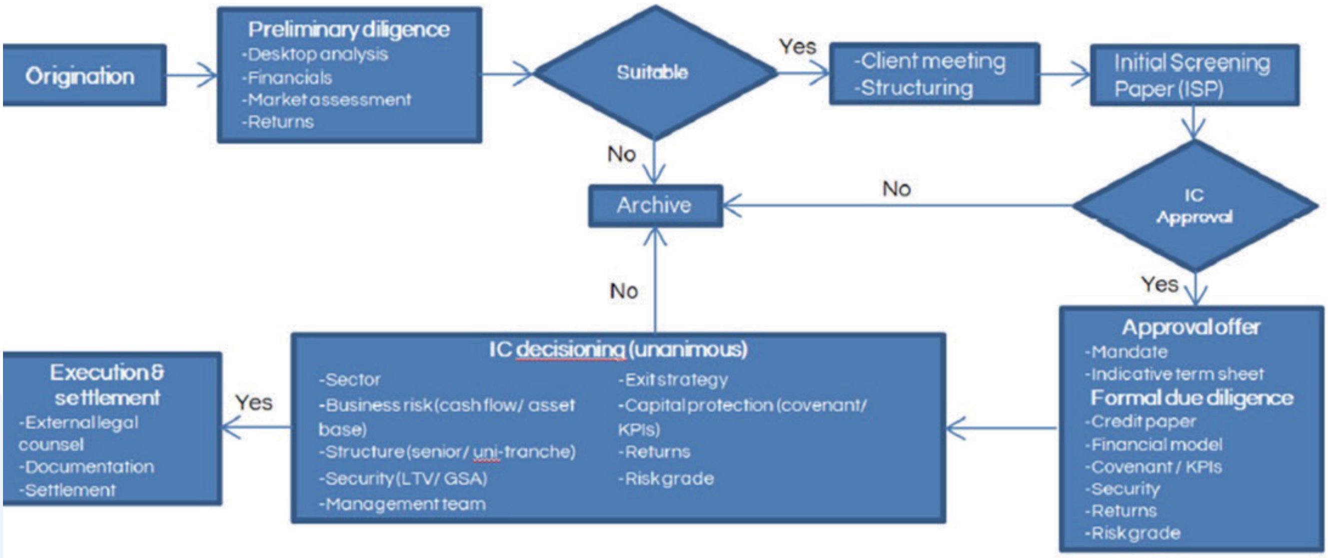
**Other Considerations**

- DCF IV is a dual structure fund – Open and Closed-ended
- The Fund has a short track record. However, SQM Research notes that since 2010, DCF has successfully operated three previous funds focusing on medium-term asset-backed and cashflow loans to SME and mid-market corporate borrowers
- Corporate debt can be a component in a balanced investment portfolio with a relatively low risk of capital loss. Domestic credit-based investment opportunities are somewhat limited for Australian investors, with few ways to access the risk-return characteristics offered by direct lending

**Key Changes since the Last Review**

- DCF continues the corporatisation of its operations. In addition to two senior team members covering each function, the group has added the Portfolio Manager as a floating / swinging IC Member in the absence of any one individual IC Member
- In addition to Netwealth, DCF IV-B (open-ended) was product approved with numerous platforms and successfully onboarded with State Street, Colonial First State, HUB24, Mason Stevens and Powerwrap
- DCF III's investment window closed on 30th November 2022. Its investors have been given an opportunity to roll their commitments into DCF IV & DCF IV-B

## Investment Process Diagram




## Process Description

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** | **Origination**<br><br>DCF has institutional relationships with financial advisors, retail and investment banks, mortgage trusts, family offices, specialists, private funders and various other third-party intermediaries (lawyers, accountants, advisors, etc.).<br><br>DCF also has its own origination personnel who deal directly with the borrowers and the market to source high-quality transactions prior to those transactions entering the usual referrer and intermediary networks. In addition, referrals will be sought from DCF's established relationship network, where the referrer has an existing relationship with the borrower so that the referrals are qualified, genuine borrowers.<br><br>DCF origination team meets with senior management of the prospective borrower multiple times during the credit and due diligence phase. Post-funding a transaction, portfolio management has at least monthly contact with the borrower.<br><br>The origination pipeline is actively discussed on a weekly basis and heavily filtered for viability, quality of credit, sponsors, various negative screening markers, probability of success in concluding the deal and profitability. SQM Research notes that demand for loans exceeds supply, so there is no pressure to deploy capital to more risky borrowers.<br><br>Weekly WIP calls (and other specific calls/meetings) are held with Pipeline review, early-stage information shared and using the collective intelligence of the group, considered across all functions, including Credit, Portfolio, Legal, Operations and ultimately the Investment Committee.<br><br>Formal Investment Committee meetings are held at the screening stage (ISP stage) and final approval stage, typically after due diligence has been completed. |

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** *...continued* | **Investment Process**<br><br>DCF has developed an extensive due diligence process to assess the underlying business in the transaction. Legal, valuation and financial due diligence are undertaken to validate the borrower-provided information to establish an accurate risk assessment.<br><br>The **credit process** comprises the following steps.<br><br>• *Step 1*: DCF confirms that the opportunity is within the mandate and then drafts an **Initial Screening Paper (ISP)**, which includes a preliminary assessment of the opportunity, summary financials, preliminary structure and economics, identifies key credit risks and conflict checks (company, directors and other related parties). This ISP summary is presented to the **DCF Investment Committee (IC)**<br><br>• *Step 2*: Formal decisions to lend (or not) are made by the Investment Committee based on a full credit assessment including any further external due diligence as and where needed. The IC's decision is unanimous and its conditions of approval form part of formal engagement and documentation with the borrower. If the preliminary assessment of the ISP meets initial Investment Committee approval, DCF issues indicative terms to the eligible borrower which contains a detailed list of diligence items<br><br>• *Step 3*: On borrower acceptance of the indicative offer and execution of a mandate agreement, DCF commences **formal due diligence** and moves towards **formal credit submission** approval. The due diligence includes meeting with the prospective borrower's management team, valuation of the security, detailed analysis of the operating business, its ongoing viability, industry sector, the creditworthiness of the eligible borrower and the client's exit strategy. The due diligence process includes, but is not limited to, client-audited financials (where applicable), tax statements, KYC checks and business reviews. The DCF origination team meets with the senior management of a company multiple times during the credit and due diligence phase. Where required, DCF will engage industry experts including lawyers for legal due diligence and structuring advice and accountants for financial and tax due diligence to assist with the diligence process<br><br>• *Step 4:* Following the completion of due diligence, the DCF Investment Committee considers the transaction and if appropriate, approve the transaction. Transactions are risk graded and priced by the Investment Committee in accordance with the Credit Policy depending on the assessed risk of the transactions<br><br>• *Step 5:* DCF then issues a **formal credit-approved funding offer** to the eligible borrower which includes terms, covenants and required conditions precedent<br><br>• *Step 6*: If the formal offer is accepted, DCF engages a panel law firm to prepare the finance documents that will govern the investment. The panel law firm must provide a **sign-off on the documentation** covering compliance with credit approval, the enforceability of the documents, satisfaction of conditions precedent to funding and registration of each security interest<br><br>• *Step 7*: Prior to funding, DCF must receive the sign-off from the panel law firm, confirmation that the transaction is compliant with the Fund's mandate and the Trustee and Custodian authorises release of funds<br><br>• *Step 8:* Documentary and financial close of the investment |

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

**Credit Assessment**

In assessing the creditworthiness of a borrower, DCF applies an internal rating to reflect the risk of payment default and recovery.

DCF uses a credit rating methodology to provide a shadow rating for these transactions to validate the credit assessment.

The credit assessment process examines the following:

- **Business Risk Profile:** The operating business risk of the borrower in the markets in which it participates defines its business risk profile. A borrower's strengths and weaknesses in the marketplace determine its capacity to generate cash flow in order to service its obligations in a timely fashion and as such, the business risk profile affects the amount of financial risk that a borrower can bear at a given point in time. Analysis of the business risk profile combines an assessment of the borrower within those markets, the competitive climate (its industry risk), the competitive advantages and disadvantages the company offers (its competitive position) and the stage of evolution of the industry as a whole
- **Financial Risk Profile:** The financial risk profile is the outcome of decisions that the management of a borrower makes in the context of its business risk profile and its financial risk tolerances. This includes decisions about how the company is funded and how its balance sheet is constructed. It also reflects the relationship of the cash flows the borrower can achieve relative to its financial obligations
- **Qualitative Analysis:** Quality of the borrower's management team and the governance structure. DCF undertakes in-depth due diligence benchmarking the management, including their experience, ability to drive business through unforeseen circumstances, professionalism and market referencing. DCF also looks at the enterprise-level as well as functional governance structures
- **Other factors:** Include capital structure, financial policy and access to liquidity

Risk is primarily measured through the classification of borrowers across three credit risk grades. This is dependent on the cashflow generating ability of the borrower and the underlying security package available.

The overall assessment is then summarised and a credit grade is assigned to the borrower.

| Rating | Description | Characteristics |
|---|---|---|
| A | Stable cash flow and strong asset coverage | Interest service: 100% cash paid.<br>Minimum interest rate: 7.0%. |
| B | Either stable cash flow or strong asset coverage | If stable cash flow: 100% cash paid.<br>If strong asset coverage Interest service - PIK (or a combination of PIK and cash paid).<br>Minimum interest rate: 9.0% (or as approved by IC). |
| C | Emerging cash flow and asset coverage | Interest service - PIK (or a combination of PIK and cash paid).<br>Minimum interest rate: 12.0% (or as approved by IC). Equity kickers where commercially possible. |

There is a pricing floor for each loan, which is then adjusted upwards to reflect any perceived increase in the individual risk level and the level of demand for loans in that risk level.

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

**Loan Management**

DCF takes into account the **structural strengths or weaknesses** of each loan while assessing the potential loss of a default. These include:

- The relative positioning and claim of its loan (principal repayment and interest payments) on the cashflow waterfall of the borrower. DCF aims to position its loans for servicing and repayment as first in line after the operating expenses of the business have been met. Financial covenants (e.g. leverage and interest cover ratio covenants) are supplemented by other covenants such as CAPEX limit, restrictions on distributions, financial indebtedness and granting security interests
- In most cases, DCF has senior security on all or substantially all assets, including specific security over any material assets such as commercial, industrial and corporate-owned residential real estate assets, and tangible corporate assets used within the operating businesses (plant and equipment, receivables contracts and other cash flows). LTV ratios and other security-driven covenants for loans are determined on a case-by-case basis
- Significant equity in the business. In particular, the equity percentage held by key sponsors/management teams in the business reflects their skin in the game. In this respect, DCF may request a minimum net worth covenant
- A focus on clear and defined exit strategies at the loan level, e.g. amortisation, refinance, capital event, sale or source of external funding

**Portfolio Construction**

On average, DCF would review approximately 80 to 100 opportunities per year. Additional diligence is conducted to refine perspectives before approaching such companies to initiate discussions. DCF will typically lodge an indicative bid for 20% of these opportunities every year. Full diligence is conducted on approximately 15 deals, which generally results in the DCF completing 10 investments per year.

The Fund will target 20+ investments, with a pipeline of between 1 to 3 investments per quarter, to reach 20 investments in approximately 12 to 18 months. The Investment Committee determines the relevant industry sector and borrower exposures through a combination of research, credit assessment and concentration limits.

DCF typically seeks term commitments between 12 and 36 months, with a fixed interest coupon for the period. Extensions through refinancing are possible to achieve a weighted average life to maturity for the Fund of 2 to 4 years. A natural exit from some investments will occur with the recycling of the proceeds into new investments.

**Portfolio Review and Monitoring**

Once a loan has been executed, the Portfolio Manager has day-to-day oversight over the risk profile of the borrower and the loan. Interactions with the management of investee companies will depend on the complexity of the deals.

Once the loan is part of the portfolio, it is monitored for risk and its impact on portfolio-level holdings through borrower and sector limits. This is accomplished through periodic site visits, monthly calls with the borrower, regulatory considerations, review of financial statements, compliance with covenants, monthly reporting from DCF's appointee to the board of the borrower (where applicable), and quarterly meetings with the borrower management team.

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** <br><br> ***...continued*** | If the risk profile of the underlying loan changes such that it is not in line with the acceptable risk or return requirements of the fund or the sector concentrations become sub-optimal, the Investment Committee directs portfolio management to execute partial sell-downs of such loans. The sell-down is achieved by actively seeking counterparties in the market for such placement. <br><br> The post-settlement process is briefly described below: |

| Loan Booking | Portfolio/ Risk Management | Operations | Amendments |
|---|---|---|---|
| • Booking of the loan in the Portfolio Management System  Providing all the information to MUFG to set up the loan<br>• Use of an external law firm to register a security interest on the PPSR | • Weekly review<br>• Monthly review with IC.<br>• Adhoc review, as required (e.g. Covid)<br>• Regular review with Borrower<br>• DCF often has a Board observer/ representation | • Disbursement<br>• Interest payments<br>• Principal repayments<br>• Administered through Amal (Trustee) and MUFG | • Any amendment to IC-approved terms will be referred back to IC for consideration & any subsequent approval |

**Sell Discipline**

While IC approves the lending opportunity, it actively considers the **size of the loan vs the overall portfolio holdings** and where required, specifies the requirement for sell down.

Once the loan forms part of the portfolio, it is monitored for the risk at the individual loan level and also its impact on portfolio-level holdings through borrower and sector limit utilisations.

Such impacts are discussed on a monthly basis at Portfolio Management Review with IC.

If, for instance, the risk profile of the underlying loan changes such that it is not in line with the acceptable risk or return matrix of the Fund or the sector concentrations become sub-optimal, IC directs portfolio management to execute partial sell-downs of such loans.

The sell-down is executed by DCF by actively seeking counterparties in the market for such placement and is typically undertaken through Funded Risk Participations. The outcomes are reported back to IC for compliance.

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

**Risk Management**

*Portfolio Constraints*

The Fund's investment portfolio will consist primarily of loans which typically will not be rated by any agency. Portfolio risks are managed to the constraints shown below.

| Portfolio Risk | Risk Management Constraints |
|---|---|
| Maximum exposure to a single borrower | 20% of the Fund's assets |
| Maximum exposure to a single industry | 25% of the Fund's assets |
| Credit quality | Mostly senior secured credit exposures |
| Maximum low credit grade exposure | "C" Credit Grade exposures to be <20% of Fund assets |
| Portfolio Holdings | Targeting 20+ investments |
| Currency Risk | All investments are in AUD |
| Cash Exposure | <5% of commitments available for liquidity |
| Use of Derivatives | Borrowers are required to hedge any FX risk |

No formal risk model is formally used to test the portfolios' sensitivity to specific risk factors or changed market conditions on a regular basis. Once the Fund is established, the risk control across the portfolio is essentially based on the level of communication between the Portfolio Manager and the underlying borrowers.

Covenants and other contractual obligations are structured to circumstances with monthly reporting, compliance certification, annual audited accounts where appropriate, and a variety of undertakings / negative pledges to be fit for purpose. When considering the Fund's portfolio diversification, likely cashflows and loan sizes, SQM Research notes that the Fund's design has some risk mitigation characteristics. In the event of an individual loan being a total loss, the maximum 20% fund exposure limit means that the investors' loss is likely to be less than the target 6.0% annual distribution rate. While investors may lose the capital value across any one year, it could be likely to recover in annual income.

Monitoring of rating upgrades vs downgrades is conducted as part of the monthly monitoring and/or annual review portfolio review process. The borrower's operating performance is monitored on the back of their regular reporting requirement. Any material outperformance/ underperformance, material development, covenant non-compliance then feeds into **rating reviews.**

On a more macro scale, there is a risk to the Fund if there should be a reversal of the trend for the mainstream banking industry to reduce the balance sheet. There may be greater competition for transactions. However, this is viewed as highly unlikely in the current regulatory environment. In addition, the emergence of new credit funds operating in the same market may provide greater competition for transactions. However, DCF has already established an originations network and a volume of available opportunities to fund which reduces this impact in the near term.

DCF believes in generating alpha on the back of end-to-end risk management.

One of the main differentiators is DCF's hands-on approach in relation to the management of risk once a loan has been approved, thus ensuring that capital and returns for the investors are protected to the maximum possible extent.

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process**<br><br>***...continued*** | The Portfolio/Risk Management process includes the following:<br>• Weekly review<br>• Monthly review with IC and the Borrower<br>• Adhoc review, as required (e.g. Covid)<br>• Regular review with Borrower<br>• DCF often has a Board observer/representation<br><br>Once Investment Committee has approved a loan, Portfolio Management (PM) has day-to-day oversight over the risk profile of the borrower and the loan.<br><br>This proactive monitoring is accomplished through periodic site visits, monthly calls with the borrower, competitor mapping, regulatory considerations, review of financial statements and testing of financial covenants, monthly reporting from the independent appointee to the board of directors of the borrower and quarterly meetings with the borrower management team.<br><br>DCF operates a systematic and coordinated portfolio monitoring and management system.<br><br>PM interfaces with:<br>• Borrowers<br>  ○ At least on a monthly basis<br>  ○ Business and financial reporting as per the loan documentation<br>  ○ Annual reviews, including discussions on forecast financial performance<br>• Investment Committee for internal risk management<br>  ○ At least on a monthly basis<br>  ○ Seek any clarifications on terms of approval<br>  ○ Seek any changes to terms of approval including any covenant waivers, resets etc.<br>  ○ Monthly portfolio reviews<br>  ○ Adhoc portfolio reviews are driven by macro factors (such as Covid-19)<br>  ○ Report any non-compliance by the borrower<br>  ○ Flag credit weakness and seek guidance on the next steps<br>• Head of Credit<br>  ○ At least on a fortnightly basis for a summary review covering any potential issues across the portfolio or individual borrower<br>  ○ Discuss action points from the monthly Portfolio Management Review (PMR)<br>  ○ Discuss the revision in risk grades – downwards/upwards, as applicable, across the portfolio |

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** *...continued* | • Other parties<br>◦ Specialised due diligence providers and valuers for any borrower/loan review as directed by the Investment Committee<br>◦ MUFG for portfolio reporting<br>◦ Operations for reconciling the payments from the borrowers |

*Default Management*

DCF will not entertain defaulting borrowers and will exercise commercial discretion in each individual circumstance.

DCF will exercise commercial discretion in each individual default occurrence. The Head of Risk, in conjunction with the Investment Committee, will manage the process following a default. Any enforcement process is undertaken in accordance with relevant laws and regulations but in an efficient manner with the aim to maximise the return to the Fund and minimise the possibility of a loss of capital or other amounts owing to the Fund.

Default interest rates are generally charged at the non-default interest rate plus 5.0%. In SQM's opinion, the default interest rate should provide the Fund with adequate protection against any additional costs arising from a default situation.

*Currency Risk*

DCF does not take currency risk. All loans are provided in AUD and borrowers are required to hedge any material FX risks.

*Valuation Risk*

Fund investments will have no or, at best, a limited, liquid market.

As a result, their fair value may not be readily determinable. Because valuations of loans of private companies are inherently uncertain, they are based on DCF's estimates of the prevailing creditworthiness of the borrower.

Determinations of fair value may differ materially from the actual values obtainable in an arm's-length sale of such investments to a third party.

*Concentration Risk*

The Fund's assets may be concentrated in certain commercial or industrial sectors but, overall, must remain within the required concentration limits.

In addition, some of the Fund's investments may be substantially larger than others. This limited degree of diversification increases risk because the overall return of the Fund may be substantially affected by the poor performance of just a small number of investments.

SQM Research notes that this risk is offset by having better insight into a smaller number of loans.

*Liquidity Risk*

Some of the Fund's investments will be highly illiquid and consequently, the realisation of those investments and repayment of capital back to the investor may require a long period of time.

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** | An investment in the Fund should be considered illiquid. The Closed Fund has a maturity of five years from the final closing date of DCF Private Debt IV and may be extended by a further two years at the discretion of the Manager. The units will not be listed on any investment exchange and there is no public market for the units. |
| ***...continued*** | The DCF Private Debt IV-B is open ended evergreen structure.<br><br>_Cash Management_<br><br>The Fund is expected to be fully invested.<br><br>A minimum of 5% of commitments is maintained in cash to be available to provide investors with liquidity for redemptions.<br><br>**Portfolio Characteristics**<br><br>**Portfolio Turnover and Active Share**<br><br>Terms are structured between 1 to 3 yrs, but with behavioural maturity showing signs that extensions through refinancing are possible to achieve weighted average life to maturity of 2 to 4yrs.<br><br>**Liquidity**<br><br>Open and Closed fund structures have supported origination and growth.<br><br>Originations and expected fund redemptions are balanced against fund size and return profile. DCF IV-B maintains a minimum of 5% of commitments in cash available for liquidity purposes.<br><br>**Leverage**<br><br>This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives). |

## Key Counterparties


## Investment Manager / Fund Manager

**DCF Asset Management Pty Limited** (ACN 622 234 315) is a private debt fund manager specialising in the provision of customised non-bank financial solutions to corporate borrowers in the Australian and New Zealand market.

DCF is a non-bank funder focusing on medium-term asset-backed and cashflow loans to the corporate debt market. DCF was established to take advantage of the credit shortfall which exists for mid-market corporate borrowers.

DCF's lending is directed at borrowers that either choose not to deal with traditional major banks or do not meet the lending criteria set out by those financiers.

DCF's core focus includes but is not limited to the following:

- Corporate finance
- Asset-backed finance
- Growth capital
- Acquisition / event-driven finance
- Capital restructure

DCF **Asset Management's board** is collectively responsible for the management and strategic direction of the Group. The executive directors of the group have joint responsibility for the **Investment Committee** approval process and overall management of the Portfolio of Investments.

The Group launched its first initiative in 2010, DCF I (viz. Australian Credit Enhanced (ACE) – Note Programme), which provided stretched senior facilities to SME and mid-market corporate borrowers, using credit enhancement provided via a AA S&P rated insurance product. The ACE Note Programme was institutionally backed by a major global bank.

The Group launched its second initiative, DCF II (viz. DCF No.1 Pty Limited), in November 2015, which was institutionally backed by a major global fund manager, targeted at short-term event-driven finance solutions for SME and mid-market corporate borrowers.

DCF III (viz. DCF Australian Private Debt Fund) was launched to continue to target the credit gap for corporate borrowers and was tailored for the wholesale investor marketplace. This fund is a closed-end unit trust offering investors an opportunity to gain access to the corporate credit market with strong investment returns to be delivered due to premium pricing achieved via a robust investment structure across a portfolio of diverse credit exposures. DCF III's investment window closed on 30th November 2022.

Its investors have been given an opportunity to roll their commitments into DCF IV & DCF IVB.

DCF IV-B continues the investment strategy and mandate of DCF III through the Fund, an open-ended fund (DCF IV-B) that intends to co-invest with a closed-end fund (DCF IV) on a pari passu basis on new investments.

## Governance

### Responsible Entity

The Board of Directors of the Responsible Entity (**AMAL Trustees Ltd**) consists of **5** directors, **3** of whom are independent. SQM Research views 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 **26.4** years of industry experience.

The Responsible Entity's **Compliance Committee** is composed of **2** members, **none** of whom are independent. The Chair **is not** independent. SQM Research prefers independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have an average of **22.5** years of industry experience.

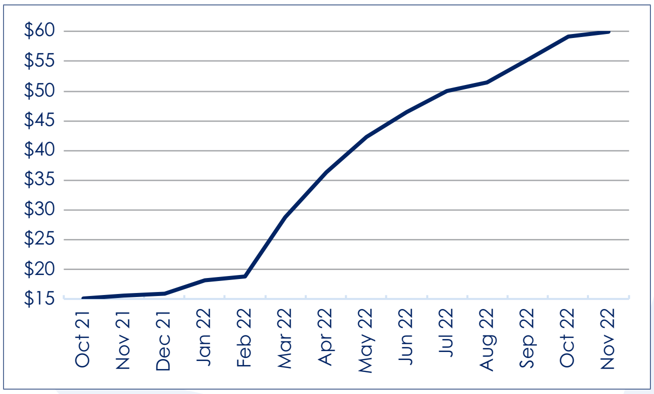
### Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the 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 DCF Asset Management Pty Limited and associated key counterparties are well qualified to carry out their assigned responsibilities. Management risk is rated as modest***

## Funds under Management (FUM)

**FUM for Fund under Review ($mill)**




**Distributions**

Distributions 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 |
|---|---|
| **Mar-22** | 0.52 |
| **Apr-22** | 0.50 |
| **May-22** | 0.52 |
| **Jun-22** | 0.50 |
| **Jul-22** | 0.52 |
| **Aug-22** | 0.52 |
| **Sep-22** | 0.50 |
| **Oct-22** | 0.52 |
| **Nov-22** | 0.50 |

| Name | Responsibility / Position | Location | Years at Firm | Years in Industry | Qualifications | Previous Employers |
|---|---|---|---|---|---|---|
| Ryan Donnar | Head of Originations and Execution | Melb | 6.0 | 21.0 | Bachelor of Business – Economics and Finance from RMIT University – Honours 1st Class<br><br>Master of Business Administration from Melbourne Business School | Westpac, Barclays, ANZ, Rapid Loans |
| Atiya Habib | Head of Credit | Hong Kong | 5.0 | 28.0 | MSc – International Accounting & Finance from the London School of Economics and Political Science (LSE)<br><br>MBA – Major in Finance – IBA from the University of Karachi – Pakistan | Barclays, Standard Chartered, Virtuoso Capital |
| Adam Howell | Head of Risk | Melb | 5.5 | 23.0 | Bachelor of Commerce (BCom) from Wollongong University, a Bachelor of Laws (LLB) from Wollongong University<br><br>Postgraduate Applied Finance degree from FINSIA | Gadens, K&L Gates, Freehills, Norton Rose, Rapid Loans |
| Nicolas Politopolas | Head of Capital | Syd | 13.0 | 26.0 | Bachelor of Commerce from the University of Western Sydney<br><br>MBA from the University of New England | AMP Capital, Bain & Company and Citigroup |
| Ross Anderson | Portfolio Manager | Melb | 1.5 | 31.0 | BSc from Melbourne University<br><br>MBA from Monash University | NAB, Westpac, Falcon Group |
| Anthony Luth | Investment Director | Melb | 1.5 | 26.0 | Bachelor of Commerce (BCom) and a Bachelor of Laws (LLB) from Melbourne University | Westpac, NAB |
| Kenley Chan | Operations Manager | Syd | 1.5 | 7.0 | Bachelor of Economics from the University of New South Wales<br><br>Advanced Diploma in Financial Planning from Kaplan Professional | Perpetual Limited |

## Investment Team

The investment team consists of banking and structured finance professionals from a diverse range of credit backgrounds located in Sydney, Melbourne and Hong Kong.

The investment team has worked together successfully for five years, including for the entire duration of DCF's prior fund, DCF III (DCF Australian Private Debt Fund). Two senior management members have worked together for at least nine years on three DCF vehicles. The other two senior management members have worked together over a period spanning over 15 years.

The Head of Capital, **Mr Nicolas Politopoulos**, is a co-founder of Dinimus and is integral to the strategic design and structure of Dinimus' four Private Debt investment vehicles.

The Head of Origination and Execution oversees and coordinates the origination and credit assessment process of each investment.

The Head of Risk oversees the structuring and documentation of each investment.

Each new transaction is assigned a deal team consisting of a designated deal lead and the most appropriately experienced analysts and deal support for the nature of the underlying structure, industry and nature of the investment.

Generally, two to three staff members will be involved in any particular transaction. The allocation of staff to each deal is based on previous sector experience and related deal types. Individual fit with investee management teams is also important when deciding staff allocations.

DCF continues the corporatisation of its operations. In addition to two senior members covering each function, the group has added the Portfolio Manager as a floating / swinging IC Member in the event of the absence of any one individual IC Member.

The **Senior Management Team** comprises **Ryan Donnar, Atiya Habib, Adam Howell and Nicolas Politopoulos**.

In line with Senior Management Team supporting other areas, in addition to their core key function, the coverage from a business continuity perspective is summarised below:

| | Primary Responsibility | Support |
|---|---|---|
| Origination | Ryan Donnar | Adam Howell & Nicolas Politopoulos |
| Credit | Atiya Habib | Ryan Donnar & Ross Anderson |
| Risk | Adam Howell | Nicolas Politopoulos & Ross Anderson |
| Capital | Nicolas Politopoulos | Atiya Habib & Adam Howell |
| Portfolio | Ross Anderson | Atiya Habib & Ryan Donnar |

## Meeting Schedule

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

| Meeting | Agenda | Frequency | Participants |
|---|---|---|---|
| **Borrowers** | Business and financial reporting as per the loan documentation. Discussion on forecast/projections | Monthly | Portfolio Manager |
| **Investment Committee** | Approval of Initial Screening Papers ("ISP"); Formal approvals of lending proposals/credit submissions; Internal Risk Management; Clarifications on terms of approval; Seek any changes to terms of approval including any covenant waivers, resets, portfolio reviews; Ad hoc portfolio reviews driven by macro factors; Report any non-compliance by the borrower; Flag credit weakness and seek guidance on next steps | Fortnightly or as required | Head of Origination, Head of Credit, Head of Risk, Head of Capital, Portfolio Manager (floating) |
| **Senior Management Team** | Investment opportunities, market intelligence, risk management | Weekly | Head of Origination, Head of Credit, Head of Risk, Head of Capital |
| **Credit - PM** | Summary reviews of any potential issues across the portfolio or individual borrowers; Discuss action points from monthly Portfolio Management Review; Discuss the revision in risk grades across the portfolio | Fortnightly or as required | Head of Credit, Portfolio Manager |

| Meeting | Agenda | Frequency | Participants |
|---|---|---|---|
| **Portfolio Review** | Review the risk (a) as portfolio credit grades; lending, sector and grades limits; returns; (b) review the risk of the underlying borrowers | Monthly | Head of Origination, Head of Credit, Head of Risk, Head of Capital, Portfolio Manager |
| **Investor** | To provide updates to investors, IFAs on fund performance and market developments | As required | Head of Capital and one other Senior Management Team member |
| **Origination & Portfolio WIP** | Screen the new lending opportunities at a high level; High-level updates across portfolio names; share market, structures & sector intelligence | Weekly | Head of Origination, Head of Credit, Head of Risk, Head of Capital, Portfolio Manager (floating), Investment Director, Operations Manager |
| **Risk, Capital & Operations** | Risk and governance updates; Capital updates; IR & Ops | Weekly | Head of Origination, Head of Credit, Head of Risk, Head of Capital, Portfolio Manager (floating), Investment Director, Operations Manager |

***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

| Departures | | | |
|---|---|---|---|
| **Date** | **Name** | **Responsibility** | **Reason for Departure** |
| 01-Jun-20 | Edward Plowman | Operations | Ed left to pursue other commercial opportunities outside of fund management |

| Additions / Hires | | | |
|---|---|---|---|
| **Date** | **Name** | **New Responsibility** | **Previous Position / Employer** |
| 01-May-21 | Ross Anderson | Portfolio Management | MD - Falcon Group (Aust) |
| 01-Jun-21 | Anthony Luth | Investment Director | Director - Westpac |
| 01-Jun-21 | Kenley Chan | Operations Manager | Relationship Manager - Perpetual |

***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

In principle, all investment professionals are paid salaries and bonuses at or below market, with the predominant financial incentive for such persons being in the form of carried interest payments.

Each investment professional's entitlement to carried interest is subject to vesting over time, which is based on their length of tenure at DCF. The payment of carried interest is also subject to 'bad leaver' provisions

Each senior management team member holds an equity interest in the firm.

***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 | Peers |
|---|---|---|
| Management Fee (% p.a.) | 1.50% | 0.61% |
| Expense Recovery / Other Costs (% p.a.) | – | |
| Performance Fee (%) | 18.50% | 14.33% |
| Total Cost Ratio TCR (% p.a.) | 1.70% | 0.61% |
| Buy Spread (%) * | 0.00% | 0.08% |
| Sell Spread (%) * | 0.00% | 0.08% |

* 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 includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

## Performance Fee

There is a performance fee charged as follows:

- In the case of Debt Proceeds, an amount equal to the lower of:
    - 18.5% of the increase of the Net Unit Value of the Debt Proceeds Sub-Class of Units for such Fee Period, calculated by reference to the prevailing Net Unit Value of such Debt Proceeds Sub-Class of Units on the first day of the immediately previous Fee Period, provided that the Debt Proceeds Hurdle is satisfied
    - The Debt Proceeds Hurdle, if satisfied and 100% of the amount which represents the Debt Proceeds Outperformance in excess of the Debt Proceeds Hurdle, in each case, multiplied by the Net Unit Value
- In the case of non-Debt Proceeds, 50% per annum of the Non-Debt Proceeds Outperformance ("Non-Debt Proceeds Hurdle")

**Borrower Fees**

Investment fees will be determined on a case-by-case basis contingent on the risk profile of the transaction.

The current fee structure is anticipated to be as follows:

- Establishment Fee (charged to the borrower at financial close)
- Interest Rate
    - Minimum 7.00% per annum, including fees (may be either current, payment in kind (PIK) or a blend of both)
    - Default Interest Rates (generally charged at a non-default Interest Rate plus 5.00%)

***SQM Research observes that:***

- ***The Fund management fee is 1.50% p.a., which is 89 basis points higher than the peer group average of 0.61% p.a.***
- ***The Total Cost Ratio (TCR) is 1.70% p.a., which is 109 basis points higher than the peer group average of 0.61% p.a.***

***As the Fund has no official benchmark mentioned in the IM, SQM Research has used the "Debt Proceeds Hurdle or Performance Hurdle" of 6.50% p.a. as the Benchmark Proxy for analysis purposes only.***

| Risk/Return Data to 30 November 2022 | | | | | |
|---|---|---|---|---|---|
| **Total Return** | **1-Month** | **3-Month** | **6-Month** | **1-Year** | **Inception** |
| Fund | 0.68 | 2.03 | 3.89 | 7.85 | 6.76 |
| Benchmark Proxy | 0.53 | 1.59 | 3.20 | 6.50 | 6.50 |
| Peer Average | 0.88 | 1.47 | 2.74 | 4.56 | 4.29 |
| Alpha | 0.15 | 0.45 | 0.69 | 1.35 | 0.26 |
| **Metrics** | | | | **1-Year** | **Inception** |
| Tracking Error (% p.a.) - Fund | | | | 0.44 | 0.91 |
| Tracking Error (% p.a.) - Peer Average | | | | 1.62 | 1.53 |
| Information Ratio - Fund | | | | 3.06 | 0.29 |
| Information Ratio - Peer Average | | | | -4.88 | -4.56 |
| Sharpe Ratio - Fund | | | | 15.51 | 6.46 |
| Sharpe Ratio - Peer Average | | | | 5.42 | 5.98 |
| Volatility - Fund (% p.a.) | | | | 0.44 | 0.91 |
| Volatility - Peer Average (% p.a.) | | | | 1.62 | 1.53 |
| Volatility - Benchmark Proxy (% p.a.) | | | | 0.00 | 0.00 |
| Beta based on stated Benchmark | | | | . | . |

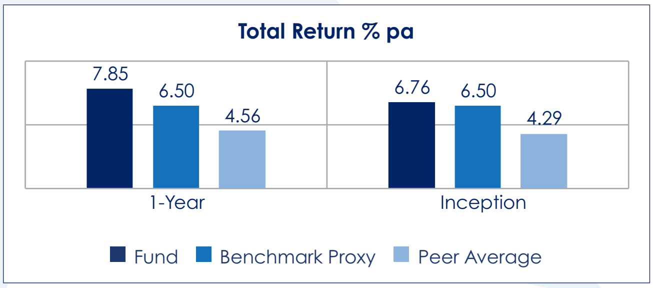
Distributions reinvested. Returns beyond one year are annualised. Return history starts Oct-2021

Benchmark Proxy: 6.50% p.a.

## Quantitative Insight[1]

**Note:** Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Nov-2022.**

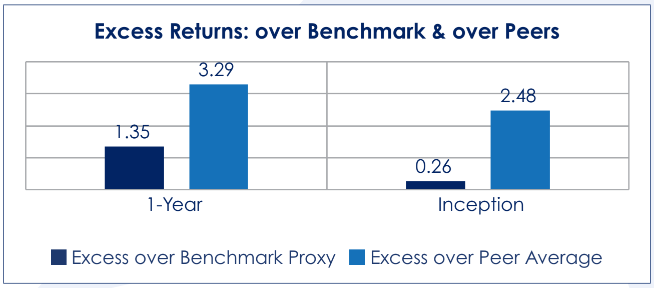
### Returns




The Fund has displayed strong performance across all periods when compared with benchmark proxy and peers.

The Fund has modestly outperformed the benchmark proxy and moderately outperformed its peers in all periods.

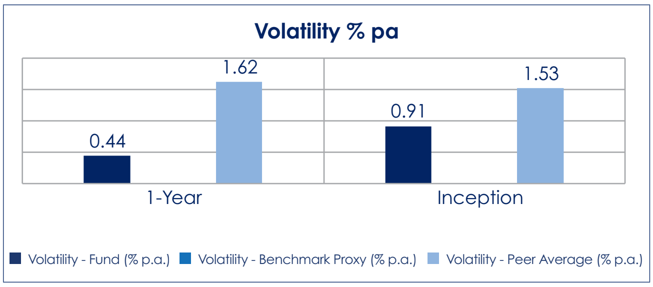
### Excess Returns (Alpha)



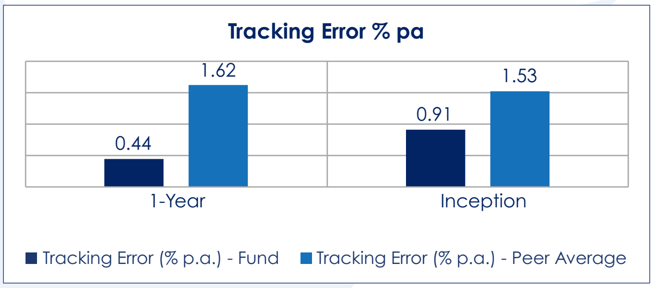

The **return outcomes** as described above are in line with the PDS objective and are consistent with SQM's expectations for the Fund relative to its fee level and volatility.

[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 Fund's **volatility** (standard deviation of monthly returns) has tended to be moderately lower than benchmark proxy and peers.




SQM has measured and reported tracking errors in the tables above. Since the Fund's benchmark proxy has almost no volatility, the tracking error readings add no new information to observations gained from studying volatility. The tracking error of the Fund is virtually identical to its volatility (standard deviation).

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

### Drawdowns

| Drawdown Summary | | | |
|---|---|---|---|
| Drawdown Size (peak-to-trough) | | | |
| | Fund | Bench | Peers |
| Average | -0.21% | – | -0.97% |
| Number | 1 | 0 | 1 |
| Smallest | -0.21% | – | -0.75% |
| Largest | -0.21% | – | -1.64% |
| Length of Drawdown (in months) | | | |
| | Fund | Bench | Peers |
| Average | 2.0 | – | 3.9 |

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

**Average** drawdowns have been modestly better than the peer average.

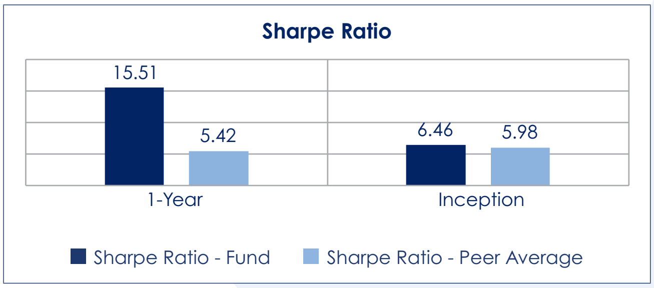
The benchmark proxy has had zero drawdowns, as expected from inflation or cash-based indexes.

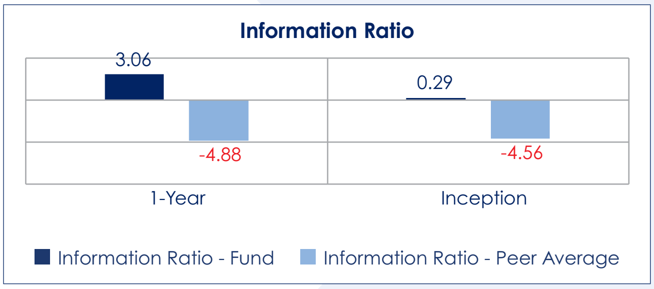
### Upside/Downside Capture

| | Downside Capture | | Upside Capture | |
|---|---|---|---|---|
| | 3 years | Inception | 3 years | Inception |
| **Fund** | . | . | . | 104.0% |
| **Peer Average** | . | . | . | 66.1% |

for a cash benchmark, downside capture is not valid

### Risk-Adjusted Returns




The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been materially better than the peer average.

### Correlation of Fund to Asset Classes

| Market | Inception | Market Indexes |
|---|---|---|
| Aust Bonds | +1.7% | Bloomberg AusBond Composite 0+Y TR |
| Aust Equity | +12.3% | S&P/ASX 300 TR |
| Global Bonds | -31.3% | Bloomberg Global Aggregate Hdg AUD |
| Global Equity | -27.4% | 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 Oct-21 to Nov-22**

| Rank | Date | Market | Fund | Difference |
|---|---|---|---|---|
| 1 | Jun-22 | -8.97% | +0.65% | +9.62% |
| 2 | Jan-22 | -6.45% | +0.59% | +7.04% |
| 3 | Sep-22 | -6.29% | +0.68% | +6.97% |
| 4 | May-22 | -2.76% | +0.43% | +3.19% |
| 5 | Apr-22 | -0.84% | +0.49% | +1.33% |
| 6 | Nov-21 | -0.53% | +0.29% | +0.82% |
| **Totals** | | **-25.84%** | **+3.13%** | **+28.97%** |

| | | | No. of Months |
|---|---|---|---|
| **Correlation** | -86.1% | Positive Return | 6 |
| **Capture** | -12.1% | Outperform | 6 |

### Tail Risk Observations:

The data in the table above indicate that the Fund displays moderate **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 rolling 1-year excess volatility.

There are 3 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** | **0** | 3 | 3 |
| **Lo-Return** | 0 | 0 | 0 |
| **Total** | **0** | **3** | **3** |

**3 rolling 1-year observations**

| % of Total | Lo-Vol | Hi-Vol | Total |
|---|---|---|---|
| **Hi-Return** | **0.0%** | 100.0% | 100.0% |
| **Lo-Return** | 0.0% | 0.0% | 0.0% |
| **Total** | **0.0%** | **100.0%** | **100.0%** |

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 | Benchmark | Peer Avg | vs. Bench | vs. Peers |
|---|---|---|---|---|---|
| **Nov-22** | +7.08 | +5.94 | +3.53 | **+1.13** | **+3.55** |

**2022 data = 11 months ending Nov-22**

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

| Fund Constraints and Risk Limits | Permitted Range or Limit |
|---|---|
| **Individual Borrower (max)** | 20% |
| **Industry Sector (max)** | 25% |
| **Direct Property Lending (max)** | 25% |
| **Negative Screening ESG** | Yes |
| **Negative Screening Construction** | Yes |
| **Other Constraints** | |
| **Maximum exposure to a single security** | 20% |
| **Maximum exposure to single stock/company** | 20% |
| **Maximum exposure to a single sector** | 25% |
| **Maximum exposure to a single country** | 100% (Australia and NewZealand) |
| **Maximum exposure to geographic region** | 100% (Australia and NewZealand) |

**Top 5 Holdings***

| Name | Weight | Currency | Mat (yrs) | Fixed/Float | Public/Private | % of Issue Size |
|---|---|---|---|---|---|---|
| **P019** | 17.10% | AUD | 1.75 | Float | Private | 10.00% |
| **P013** | 12.81% | AUD | 0.75 | Fixed | Private | 100.00% |
| **P012** | 10.97% | AUD | 1.00 | Fixed | Private | 100.00% |
| **P008** | 10.96% | AUD | 1.25 | Fixed | Private | 36.00% |
| **P017** | 10.85% | AUD | 2.50 | Fixed | Private | 100.00% |

* As reported to SQM at the report date – holdings will change over time.

### 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. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

### Alpha

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

Alpha = Fund Return – Benchmark Return

### 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.

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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