AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Moelis Australia Secured Loan Series - Class A and Class B

January 2020

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3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
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5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

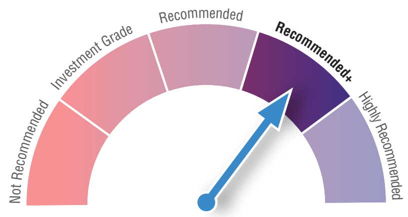
For more information regarding our services please refer to our website www.independentresearch.com.au.

INDEPENDENT INVESTMENT RESEARCH

Moelis Australia Secured Loan Series Class A and Class B

Note: This report is based on information provided by the company as at January 2020

Rating



Key Investment Information

Name of Fund	Moelis Australia Secured Loan Series
Investment Manager	Moelis Australia Funds Management Pty Ltd
Trustee	Moelis Australia Asset Management
Investment Type	Wholesale Unit Trust Class A and Class B units
Fund Term	Open-ended Trust
Inception Date	30 April 2018
Application Close	Open ended
Unit Issue Price	$1.00 per unit
Min Investment	$100,000
Target Distribution	Class A: 6.0% to 6.5% p.a. Class B: 10.0% p.a. Both net of fees
Redemption Date	As soon as practicable, subject to loan maturities and within the Redemption Notice Date
Redemption Notice	Last day of each calendar quarter
Distribution Policy	Monthly
MER	0.85%

Fees Commentary

In the context of managed funds in general, the 0.85% MER is in-line / at the more affordable end of the cost spectrum. IIR notes that investment strategies with lower FUM levels do often need to charge a higher MER as a matter of economic necessity, so the fact that the Fund is in line with broad averages is commendable.

OVERVIEW

The Moelis Australia Secured Loan Series ("the Fund") was established in April 2018 and provides investors with a diversified exposure to a portfolio of commercial loans secured by a first lien mortgage on Australian real property. As an open-ended vehicle, the Manager has the ability to accept additional applications, with the current application process a continuation of the general bi-monthly capital raises. The Fund was established by Moelis Australia Asset Management Limited (the Trustee) which, in turn, appointed Moelis Australia Funds Management Pty Ltd (the Manager) as investment manager. In response to changing market conditions and Moelis' intention to remain ahead of market developments and provide attractive risk-adjusted returns to investors, the existing Fund was restructured to a two class basis - Class A and Class B effective December 2019. The distinction between the two is the maximum LVR, specifically 60% vs 75%, and the target LVR of 55% and 70%, respectively. We also note maximum loan tenor has been extended from 12 months to 24 months. Consistent with the different risk profiles, the Manager is targeting a distribution yield of 6.0% p.a. net of fees for Class A and 10.0% p.a. net of fees for Class B. IIR stresses that all loans will be first mortgage and subject to exactly the same due diligence processes which have held the Secured Loan Series in good stead to date. This restriction to first mortgage loans is a critical point, as the difference between first and second mortgages is very considerable. Under a first mortgage, at all times, the Manager retains control of the loan and is aware, through monitoring and either direct or indirect contract with the borrower, the status of the loan. This level of control, information flow, and ability to act can be considerably greater than that of a second mortgage. Class B unitholders represent the first loss component on any co-invested loans in which a default and forced sale recoups less than the principal amount. IIR stresses that the property market would have to experience unprecedented declines in value for such a situation to arise on any given loan. Unitholders with an existing investment in the Fund were invited to nominate their preferences as to allocation of their investment between the Classes.

INVESTOR SUITABILITY

Existing and new investors have the choice, based on their preferred risk-return profile, of choosing the lower risk-return option of Class A, the higher risk-return option of Class B, or a mix of both in their desired proportion to generate a melded risk-return profile. In IIR's view, we agree with the Manager that this is a superior structure to simply increasing the risk parameters of the existing Fund, as the former has the benefit of choice for investor based on their investment preference. From a risk spectrum, we view the Class A units as being at the very lower end of the spectrum, especially as Class B units represents the first loss component and in the event of a default and where the Manager takes control of the property and proceeds to seek to recover the outstanding principal (and any interest payments) through enforcement, the Class A component of the loan must be fully repaid before Class B unitholders begin to receive repayment proceeds. For Class A, IIR views the 50% - 60% LVR as a particularly prudential level, and even more so given the short duration of the loans. IIR deems Class B units to be at the mid-level of the risk spectrum, with the risk elevated by the first loss aspect.

RECOMMENDATION

IIR ascribes a "**Recommended Plus**" rating to the Moelis Australia Secured Loan Series. The investment strategy is managed by an experienced team and an investment manager with an established history in the property sector. The Manager has delivered on its performance objective on the Fund and existing comparable investment strategies to date, which has enabled the Fund to continue meeting its performance objectives. While there is a material difference in the risk profile of Class A versus Class B, in IIR's view we believe Class B unitholders are being attractively rewarded with a target return of 10% p.a. For Class A, the 55% target LVR is extremely conservative, and even more so for any given loan in which Class B is co-invested.

SWOT ANALYSIS

Strengths

- Since its inception in April 2018 the Fund has performed well, meeting or exceeding the targeted rate of return. All loans, irrespective of Class A or Class B loans, are secured by a first-lien mortgage and are backed by personal and corporate guarantees.
- Unlike other debt products targeting returns in the 10% vicinity, Class B Unit investors will benefit from the Manager having a higher degree of control as the first registered mortgagee. Other debt products targeting a comparable rate of return typically include mezzanine loans, which involve second registered mortgages and where the manager has markedly less oversight and control on such loans.
- The two class structure is somewhat unique and enables investors to invest in manner to match their preferred risk-return profile.
- The Manager has stress tested both the Class A and Class B proposed portfolios to understand the impact of both recent declines in the NSW and VIC residential property markets and potential future impacts under two downside scenarios. The first is based on a downside scenario analysis provided by a leading provider of property analytics. The second based on a highly conservative Moelis analysis that assumes two times the degree of downside. Even under the latter, collective property values would have to fall over 44% and 30% to impair the portfolio for the proposed Class A and Class B portfolios, respectively, representing historically unprecedented property declines.
- The Manager provides a high degree of transparency in relation to the strategy, loan book and performance, assisting investors to make an informed assessment of Fund risk. We note that many competing participants in the non-conforming loan segment are substantially less transparent.
- As an organisation as well as its key principles in the business, Moelis Australia has a strong pedigree and long history in both residential and commercial real estate investing. The Manager also has a history of co-investing alongside investors, serving to further increase an alignment of interest with investors.

Weakness

- Based on indications from the Manager that the latent demand for Class A and Class B units appears to be roughly 50/50, we would expect many existing investors opting solely or significantly for Class B units will be significantly scaled back. However, over time as the Manager may progressively reshape the overall loan book based on latent investor demand we would expect this to improve.
- While there is substantial real estate experience within Moelis Australia, mitigating any potential key person risk issues, we note the team is small and the investment manager relatively new to Moelis Australia.

Opportunities

- Low yields in cash investments is also a commonly cited concern about the current investment environment in Australia. For investors with such concerns, fixed income and credit investments having the potential to offer attractive incremental spreads on a risk-adjusted basis when managed by an adept and proven investment manager.

Threats

- The Manager acknowledges the risk of an increasing supply of lending in the second tier, non-conforming loan segment, with the potential to adversely impact returns over the medium term.
- As an open ended structure, there is the potential for a high degree of distribution yield dilution risk if the capital raising / cash inflow process is not managed carefully. However, we note the Manager has carefully managed this process to ensure yield dilution risk is minimised and the performance objectives of the Fund are not compromised.
- Loan impairments may adversely impact distributions paid to investors. However, we note the Manager has a strong track-record in this regard to date. The restriction to first mortgage loans has been integral to this strong track record. Under a first mortgage, at all times, the Manager retains control of the loan and is aware, through monitoring and either direct or indirect contract with the borrower, the status of the loan.

PRODUCT OVERVIEW

The Fund is structured as an unlisted wholesale unit trust. The Trustee of the Fund is Moelis Australia Asset Management Limited which has appointed Moelis Australia Funds Management Pty Ltd as Manager of the Fund to assess, acquire and manage loan exposures on behalf of the Fund. Each of the Trustee and Manager are wholly owned subsidiaries of Moelis Australia Limited (ASX: MOE).

The Fund was established by the Trustee on 30 April 2018 and follows on from its predecessor fund, the Moelis Australia Secured Loan Fund ('SLF'). In contrast to SLF, which is a close-ended vehicle, the Fund is an open-ended vehicle. As such, the Manager may accept additional applications after the initial capital raise.

The open-ended structure, tied with the Manager's intent to only raise capital it is confident will be predominantly invested (subject to appropriate cash and liquidity requirements), represents a more efficient investment structure for investors. Specifically, it mitigates cash dilution risk which is created while-ever the Manager has not fully invested all capital raised. The ability to accept additional applications after the initial capital raise (rather than simply the one, larger capital raise at inception) permits the Manager to raise smaller amounts which can be fully invested over a shorter time frame. It is in the Manager's best interests to adhere to this approach lest the ability to deliver on the targeted rate of return be adversely impacted and investors are being provided certain redemption options.

The Fund provides exposure to a diversified portfolio of loans secured by a first lien mortgage on Australian real property with a target portfolio loan-to-value (LVR) of 55% and 70% for Class A and Class B units respectively. Properties are limited to metropolitan and regional centres only. The loans are short duration in term, typically with maturities of 6 to 12 months, although the Manager has now given itself the ability to issue loans of a tenor up to 24-months. Individual loan LVRs will be based on either 'as is' or 'on completion' independent valuations for real property deemed to be supported by a solid market dynamic that underpins liquidity and sale price. Given these factors combined with individual loan LVRs not expected to exceed 60% for Class A units and 75% for Class B units and the Manager's depth of experience in the sector, IIR views the Class A loan book as at the low end of the risk spectrum for urban based residential and commercial property loans and Class B loan book at the mid level of the risk spectrum.

In addition to directly originating loans, SLF can invest in third party platforms that provide first mortgage loans, where the Manager has pre-approved loan management policies and are able to take control of decision making where a default occurs. Such loans are in respect of loans held directly by the Fund and not loans held indirectly via third party platforms.

Investors wishing to redeem units are required to notify the Manager prior to the last day of each calendar quarter, being the Redemption Notice Date. The Manager will seek to meet redemption requests as soon as practicable and: where cash balances are sufficient to meet redemption requests, within 20 business days of the Redemption Notice Date; or where cash balances are insufficient at the relevant Redemption Notice Date, with the proceeds of maturing loans and within the 24 months.

The MER is 0.85% p.a. of the NAV of the Fund. There are potential 'other costs', specifically any direct or indirect costs associated with the acquisition, funding, management or recovery of loans may be reimbursed by assets of the Fund.

REVISED FUND STRUCTURE

The Manager has identified significant volume of attractive transactions which sit slightly out of the existing fund parameters with respect to current gearing (current max 65%) and loan tenor (current max 12 months).

To ensure the Fund remains relevant and attractive to borrowers, whilst also considering that some investors may prefer to remain at a lower gearing level and others preferring high return metrics, the Manager has proposed to restructure the Fund into two classes of Units, Class A and Class B, which may be selectively chosen by investors.

Effective December 2019, existing investors may apply for both Class A and/or Class B units, or alternatively request a redemption of all or some of current units in accordance with the Fund's redemption policy.

Target Return and LVR by Unit Classs					
	Max LVR	**Target LVR**	**Target Net Return**	**Term**	**Security**
Current:	65.0%	60% (currently 59%)	6.5% - 7.5% p.a.	Max 12 months (current average <10 months)	Registered 1st Mortgage
Future Allocation:					
Class A	60.0%	55.0%	6.0 - 6.5% p.a.	Max 24 months (target average <12 months)	Registered 1st Mortgage
Class B	75.0%	70.0%	10.0% p.a.	Max 24 months (target average <12 months)	Registered 1st Mortgage

While the medium and longer term target return of Class B units is 10% p.a., the Manager expects the current yield to equate to approximately 12% p.a. due to the relatively higher pricing achieved through the current loan book, whereby loans were secured under more favourable market conditions. Given the average tenor of the current loan book is approximately 10 months, we would expect Class B target returns to trend to the target return level over the shorter to medium term.

As at December 2019, the initial split is expected to be a 86% / 14% Class A / Class B basis. This proposed split is indicative only and the final allocation between the classes may change (subject to any changes in the loan book during the interim period up until the allotment date of 19 December 2019).

The Manager may scale back initial investor allocations to appropriately allocate Units into approximately 86% Class A and 14% Class B. This will enable the appropriate matching of current loan assets into the revised structure.

As such, those existing investors who opt to be wholly or partially invested in Class B (via a selected mix of Class A and Class B units to meet their preferred risk-return option) may not be able to achieve their desired allocation. However, moving forward given the Fund is an open ended structure with periodic open period for new investor allocations, such investors may opt to progressively rebalance over time to achieve their desired allocations.

Furthermore, IIR would expect that the material allocation of cash currently in the portfolio (approximately 24% of the total portfolio and which in itself is largely a consequence of the Manager's inability to fund opportunities beyond the pre-existing maximum LVR and tenor parameters) will be allocated in a timely manner to loan opportunities befitting the Class B maximum LVR parameters, as/if required by investor demand.

The Manager will raise future capital for each Unit Class as required. Over time, Class B is anticipated to represent circa 20-30% of total invested capital. Loans in excess of the current 65% LVR maximum are anticipated to only account for 5-10% of total AUM.

The revised structure will not only enhance the Manager's ability to originate well secured loan transactions but should also substantially increase the Manager's capacity to accept investor applications.

Unitholders with an existing investment in the Fund will be invited to nominate their preferences as to allocation of their investment between the Classes ("Elections"). Final allocation of Elections between the Classes will be determined by the Manager and approved by the Trustee in its full discretion. Existing Unitholders that do not specify Elections for their investment by the nominated Cut-off Date will be allocated Class A units. Existing Unitholders requesting redemption will have their requests processed in accordance with the Fund's current redemption policy

RATIONALE FOR FUND RESTRUCTURE

The Manager reviews all its funds on a regular basis, partly from the perspective of keeping ahead of the respective markets to ensure on an ongoing basis it has products relevant to the borrowing target market and, in turn, its investors. More recently with respect to the Fund, the Manager has had to pass up a number of loans that were deemed attractive on due diligence grounds but exceeded the maximum LVR and loan tenor parameters of the Fund. Partly as a consequence of this, the Fund has been sitting on a level of uninvested cash (from investor inflows) at a higher than ideal level, creating a degree of cash drag.

From a borrower perspective, on account of the progressive reduction in the cash rate and the degree of new lending capital entering the market from other non-ADI alternative lenders, borrowers expectations regarding the degree of manageable leverage and applicable interest rate levels have both rationally changed.

In response to these changing market conditions, the Trustee has determined the best course of action would be to restructure the Fund on the basis of a two class structure based on maximum LVR and loan tenor. New investors would then have the choice, based on their preferred risk-return profile, of choosing the lower risk-return option of Class A, the higher risk-return option of Class B, or a mix of both in their desired proportion to generate a melded risk-return profile. In IIR's view, we agree with the Manager that this is a superior structure to simply increasing the risk parameters of the existing Fund, as the former has the benefit of choice for investor based on their investment preference.

While the Class B option has increased the maximum LVR ratio and loan tenor to 75% and 24 months, respectively, the Manager stresses it does not anticipate to execute anywhere close to a majority of its Class B to levels approaching the maximum levels of these increased parameters. Rather, the intention is simply to give the Manager the latitude to not miss out on executing some loans that require that higher leverage or indeed a lower leverage and a lower return hurdle.

Importantly, while there is a Class A and Class B structure all loans are structured on a first mortgage basis. Class B is prevented from second mortgage loans. This point is critical as the difference between first and second mortgages is very considerable. Under a first mortgage, at all times, the Manager retains control of the loan and is aware, through monitoring and either direct or indirect contract with the borrower, the status of the loan. This level of control, information flow, and ability to act can be considerably greater than that of a second mortgage.

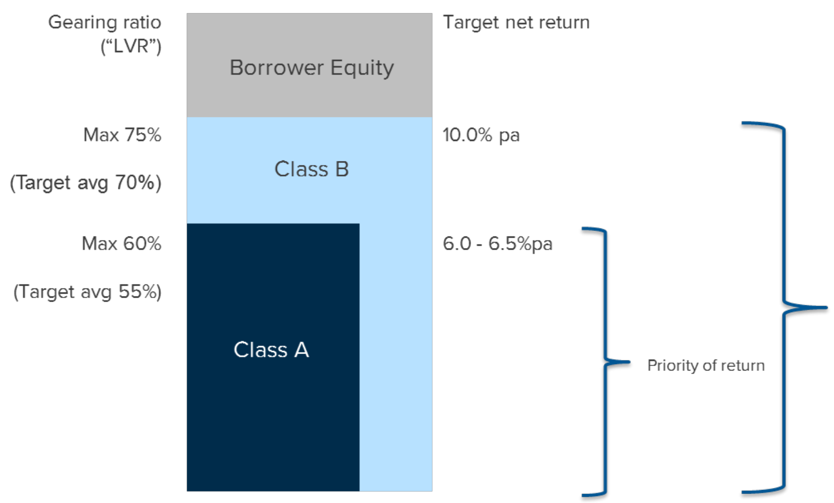
The increase in the maximum LVR and loan tenor limits in Class B are designed to provide greater flexibility. However, based on its internal limits, the Manager has stated that it is expecting to do only around 5% of the Class B Fund above 65% LVR.

LOAN STRUCTURING WITH CLASS A AND CLASS B UNITS

Class A and Class B units will generally invest in the same loans. The difference between the Class A and Class B investment in any given loan is the priority structure. That is, in the event of a default and where the Manager takes control of the property and proceeds to seek to recover the outstanding principal (and any interest payments) through enforcement, the Class A component of the loan must be fully repaid before Class B unitholders begin to receive repayment proceeds.

In the event that the realised proceeds are less than the loan LVR then Class B unitholders will incur a loss on their principal amount. The split between any given loan between Class A and Class B unitholders in terms of the proportion lent to any given loan amount is important. While the absolute loss amount for Class B unitholders remains constant for a given realisation amount, as a percentage of the loan investment, the loss may increase significantly the greater the proportion of the loan the Class A unitholders represent.

There may also be loans in which only Class A or only Class B invest. In relation to the latter, this will likely only occur if Class A participation in a new loan would lead to the portfolio parameters being breached. For example, sector, geographical, and segment maximum limits applicable to both Class A and Class B units.



Investors should note that all loans irrespective of Class A or Class B will be subject to exactly the same process of due diligence, monitoring, and, if necessary, enforcement. The latter will also include the Manager seeking to recover any loss out of the personal guarantees. This is an important point, in particular for Class B unitholders given the higher degree of risk associated with an enforced loan recovery process.

In addition to the increased LVR for Class B, the other change is the longer maximum tenor for both classes. The Manager is still targeting an average loan tenor of less than twelve months (currently the average is approximately 10 months), but the Manager wants the ability and flexibility to extend up to 24 months if the appropriate opportunity presents.

INVESTMENT TEAM

The investment process and portfolio is managed by a four member dedicated investment team and overseen by a five member investment committee. The investment team is responsible for origination, credit assessment, credit analysis, portfolio construction, loan management and portfolio operation. The investment committee is primarily responsible for considering loans identified and proposed for investment by the Fund.

The four member investment team is led by Drew Bowie. The team comprises of seasoned lending professionals who are across all aspects of the investment process and loans management. While the team is small we do not believe it is stretched. Further, Moelis is committed to growing the team as the scale of the investment strategy grows, as it has done so over the last 18-months with two additional hires. Additionally, the team is able to draw on substantial resources internally should the need arise.

We note that certain team members are invested in the investment strategy and on the same terms as investors (subject to same fees, etc). Remuneration is in no way tied to AUM levels of the Fund, which could have the potential to ultimately create a misalignment of interest.

The key members of the investment team are detailed below.

- **Drew Bowie.** Managing Director. Drew's background is as a qualified property valuer and has over 27 years real estate credit, portfolio management and capital market experience across multiple asset classes. Drew has successfully completed an extensive number of development and investment portfolio finance facilities during varying market cycles, incorporating senior and mezzanine debt and equity participations. Prior to joining Moelis Australia, Drew was responsible for deal origination and portfolio management at MaxCap Group, Pepper Group, RBS and Macquarie Bank.
- **Cathy Houston.** Executive Director. Cathy is a credit asset management specialist and has over 25 years' experience in real estate finance, advisory, structuring, turnaround and capital market experience. Cathy has completed an array of development and investment portfolio finance facilities, incorporating senior and structured credit and equity participations. Prior to joining Moelis Australia, Cathy provided real estate focussed advisory services at Archerfield Partners, managed portfolios of distressed credit exposures at HSBC and RBS. In previous roles she has provided real estate finance origination, structuring and advisory services at RBS, NAB and Bankers Trust Investment Bank.
- **Stanley Hsieh.** Vice President. Stanley has over 10 years real estate experience in NZ and Australia with over $14bn worth of investment made/advised across: real estate equity and credit, private equity and venture capital, infrastructure equity and debt. Plus 3 years in strategy consulting. His previous experience in Australia includes KPMG Direct Investment, CP2 ($AU2.7bn infrastructure fund manager) and Castalia Strategic Advisor. Has responsibility for the day-to-day operation of secured-loan-strategy based funds.
- **Anthony Goodwin.** Analyst. Anthony is an associate with 10 years' experience including corporate, infrastructure, and real estate transactions. Anthony is a CFA level III candidate (June 2019). Anthony was previously employed with Ernst & Young, Summit Rock Advisors, and Protiviti Inc.
- **Arya Loodin.** Analyst. Arya is an associate with two years experience in property valuations & advisory, real-estate credit and asset management. Prior to joining Moelis, Arya provided commercial property valuations & advisory at Knight Frank, assisting in excess of $2bn in property development valuations & feasibilities.

In addition to Drew and Cathy, the four member Investment Committee consists of the following members:

- **Andrew Martin.** Head of Moelis Australia Asset Management. Over 25 years of experience in private equity investment and investment banking, and is responsible for the firm's private equity, venture capital an credit investments. Andrew is a Managing Director at Moelis Australia and Head of Asset Management where is responsible for the firm's asset management business across a range of asset classes including real estate, private equity and equities. Prior to joining Moelis Australia in 2012, Andrew was a Managing Director at UBS Global Asset Management in Infrastructure and Private Equity.
- **Richard Colless.** Chairman. Richard is the Chairman of Moelis Australia Asset Management business. Over 40 years of experience in the financial services industry in Australia and the UK. Chairman of ING Real Estate Investment Management from 2004 until 2010 which was the manager for 5 listed property trusts in Australia with gross assets over A$10 billion.

Investment Team & Investment Committee Personnel

Name	Position	Sector Focus	Years at Firm	Ind. Exp. (yrs)
Drew Bowie	Managing Director	Real Estate	2	27
Cathy Houston	Executive Director	Real Estate	1	25+
Stanley Hsieh	Vice President	Real Estate	5	10
Anthony Goodwin	Analyst	Real Estate	1	10
Arya Loodin	Analyst	Real Estate	1	2+
Andrew Martin	MD and Head of Asset Management	Asset Management	8	25+
Richard Colless	Chairman	Asset Management	8	40+

INVESTMENT PROCESS

Fund Cash Flow Process

The below summarises the investment workings of the strategy, notably how capital will be drawn from investors, deployed to loan investments, returns paid to investors and ultimately redemptions paid.

Amounts drawn from investors in the Fund will be invested into new loan exposures based on the investment process of the Manager. Each loan will typically have terms ranging from 6 to 18 months.

All interest accrued on the portfolio of loans from the start to the end of each month, net of fees and expenses, will be distributed to investors on a monthly basis. The Manager will also strike a monthly unit price which, barring losses on any loan, is expected to remain at parity to the issue price.

At maturity of each loan, the capital repayment received by the Fund will be reinvested net of any amounts required to satisfy redemptions.

Investors wishing to redeem units are required to notify the Manager prior to the end of each calendar quarter (the Redemption Notice Date). The Manager will seek to meet redemption requests as soon as practicable and where cash balances are sufficient to meet redemption requests, within 20 business days of the Redemption Notice Date. Where cash balances are insufficient at the relevant Redemption Notice Date, the Manager will seek to meet redemption requests with the proceeds of maturing loans (or additional capital inflows) and within the 24 months.

We note that the Manager has considerable resources and processes at the back-end to manage the complete array of cash flow and reporting processes involved in managing the portfolio of loans.

Investment Process

The investment strategy of the Fund is to target an identified gap in the market, specifically short duration loans (6 to a maximum of 24 months) and which are typically being used by the borrower as a form of bridging finance. In the majority of cases, traditional banks are not providing permanent long-term loans to the targeted borrower segments as they are deemed non-conforming. They are deemed non-conforming for internal policy reasons rather than proper credit reasons.

Such potential borrowers for the Manager typically fall into several buckets. The first are non Australian resident buyers of residential property who do not have income verifiable from a domestic source. Traditional banks will typically no longer lend to such borrowers. A common example is a non-resident buyer of an off-the-plan apartment. In this case, the key aspect for the Manager is not the ability to service the loan, rather the underlying asset itself. Specifically, it needs to be realisable (based on a deep and liquid market) and have an 'as is' valuation well above the loan amount.

A second bucket may represent developer related financing which, again, for policy rather than credit reasons a traditional bank may not be able to extend a loan. The example given by the Manager was a land amalgamation development involving multiple individual freehold sites, one of which was a commercial freehold. In the particular example, exposure limits by developer and location precluded the traditional lenders extending financing prior to the completion of the land amalgamation. In this case, bridging finance was required. For the Manager, the loan was based on a conservative LVR of a valuation on the commercial freehold property only (a valuation based on an existing commercial lease). Again, the valuation represents an 'as is' valuation rather than a 'best use' valuation (post amalgamation).

The important common distinction to make is these loans are not non-conforming on the basis of a credit assessment (i.e. sub-prime loans). Rather, they are deemed non-conforming due to particular lending policies of the banks. Furthermore, the underlying risk to the Manager is not any particular sub-sector (such as foreign buyers). The underlying risk relates to the loan security - the type of mortgage, how realisable the property is, the basis of the valuation, and the LVR.

The issue of loan serviceability is primarily addressed by way of the margin of safety from the underlying asset value (over which the Manager has a registered first mortgage) relative to what the Manager has lent (maximum 75% LVR). For example, if the Manager were to extend a 12-month loan based on a 55% LVR and a 10% interest rate, the maximum LVR at the end of the term assuming no interest paid would be 65%. Based on the Manager's lending criteria that emphasises 'as is' valuations in deep and liquid markets supported by solid fundamentals, there would be a high degree of confidence in recovering at least the full 65% LVR amount (in reality, the loan would have been enforced well before the 12-month period).

Since launching the Fund in April 2018, the degree of scrutiny of each loan by the legal team in Moelis has increased. There is now a heavy focus on the potential for defaults. This has occurred due to a combination of factors, specifically the significant growth in the loan books, the deteriorating fundamentals of the residential property market, and on the back of the one default recorded in one of the three predecessor funds. The Manager attributes this increased scrutiny and oversight as partly contributing to the strong performance of the loan book to date. After strong loan book growth since inception, the Manager has intentionally tapered growth to ensure the loan book remains high quality.

Loan Assessment and Management Process

The loan assessment and management process undertaken by the Manager is detailed below.

Origination. Loans are sourced from a variety of external sources including major banks, brokers, loan originators, real estate owners/developers. A screening process is undertaken based on the broad investment mandate for the Fund. A qualitative assessment and decision is arrived at by the investment team as to whether to proceed to the due diligence process for each particular lending opportunity.

Borrower Information. For opportunities deemed prospective, the team proceeds with the collection of standard borrower and related parties information. This includes credit reports, reference checks, undertaking Know Your Client (KYC) and reporting obligations, and checks on personal assets, earning history, company and director checks (where relevant).

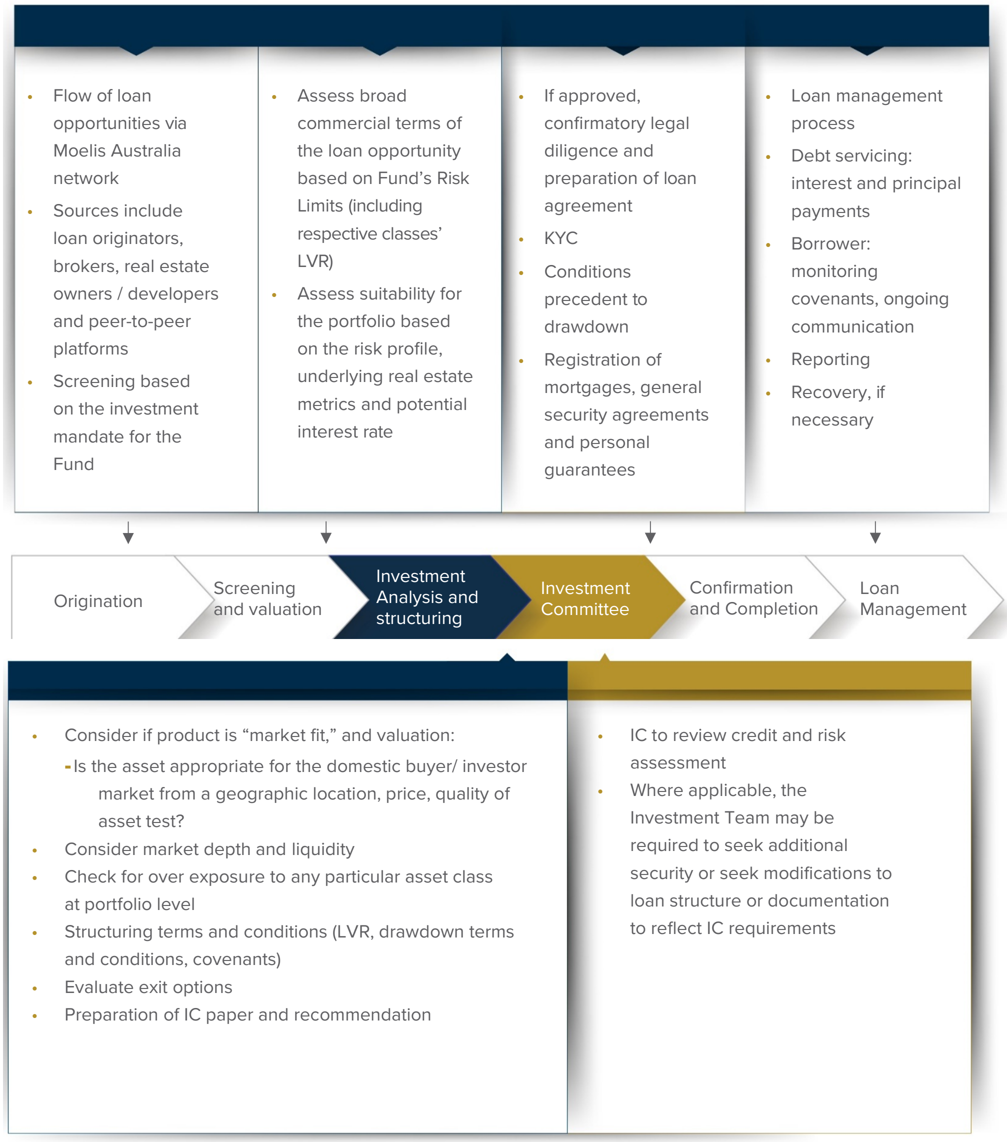
Valuation. The Manager sources information in relation to the security, including independent valuations, asset history, liquidity and recovery in adverse recovery scenarios. Independent valuations are provided with each loan application and include an "as is" methodology where relevant.

Investment Analysis and Structuring. Individual loan preparation is undertaken to formally prepare a recommendation for the Investment Committee (IC). The investment team places a strong emphasis upon "product-market fit" (see below) and valuation. Structuring terms and conditions include the determination of prudential loan-to-value ratios, drawdown terms and conditions, and covenants. Exit options are evaluated (a minimum of two), with refinancing and a sale being preferred.

Investment Committee. Review and feedback on each loan is undertaken to review loan term, rates, LVR, covenants and condition precedents. IC approval is required on all investments over $2m, with the IC delegating approval to Drew Bowie for opportunities up to $2m. Where applicable, the investment team may be required to seek additional security or seek modifications to loan structure or documentation to reflect IC requirements.

Loan Contract and Settlement. A review of the enforceability of the contract is undertaken. All Condition Precedents must be satisfied prior to the loan drawdown.

Loan Management. On-going monitoring and reporting of each loan including payments and covenants. Property asset recovery is undertaken in the event of default and where deemed necessary.



The Manager outlines the following key considerations in its assessment of each and every potential loan:

- **Product Market Fit.** By 'product market fit' the Manager assesses whether an asset is appropriate for the domestic buyer/investor market from a geographic location, price, and quality of asset perspective. In short, the Manager is determining as to whether it believes it would have a high chance of selling the property and recouping its debt in a recovery scenario. The Manager provides the example that a 2 bedroom apartment in Waterloo, Sydney passes this test as it has strong appeal to the domestic market whereas a 3 Bedroom resort apartment on the Gold Coast does not in the Manager's view. With respect to the latter, it was the Manager's view that the particular apartment really only appealed to travellers and holiday makers. They were uncomfortable with the depth of that market (highly volatile with the Gold Coast having a history of boom and bust cycles).

- **Exit.** The Manager determines as to whether there is a clear exit at the end of the loan term. Sale of the property and refinance are the most common options and the Manager assesses how likely these options are for each loan. The Manager also looks to the sponsor's incentive to determine whether they are motivated to complete whatever is necessary so the loan can "bridge" them to the next stage of their particular project.
- **Market Depth and Liquidity.** If the Manager is not confident there is a deep market and can secure a buyer in any reasonable time frame then the asset will not be deemed suitable for the portfolio.
- **Over Exposure.** The Manager ensures it does not have too much exposure to a single asset type (not just a Sponsor), or region in an effort to avoid concentration risk.

Portfolio Construction

SLS completed its initial capital raise in April 2018 and became effectively fully invested shortly thereafter. SLS has a diverse portfolio by way of geographies and asset classes, consistent with the stated objective of the Fund. Concentration risk is something the Manager is mindful of and monitors. To date, however, and facilitated by the strong flow of loan inquiry, the Manager has been able to maintain diversified portfolio.

The table below reflects the proposed Class A/B split based on the existing loan book as at December 2019. This split is indicative only and the final allocation may change.

Class A/B Proposed Portfolios Immediately post Restructure

Metric	Current		Class A		Class B	
	$m	% Portfolio	$m	% Portfolio	$m	% Portfolio
	103.9	100%	89.4	86%	14.5	14%
State:						
Vic	25.6	25%	23.4	26%	2.2	15%
NSW	37.5	36%	33.0	37%	4.5	31%
Qld	15.6	15%	14.1	16%	1.5	10%
Region:						
Metro	76.7	74%	68.4	77%	8.2	56%
CBD	-	0%	-	0%	-	0%
Regional	2.1	2%	2.0	2%	0.0	0%
Asset:						
Land - Residential	21.4	21%	18.9	21%	2.5	17%
Land - Commercial	3.4	3%	2.9	3%	0.5	3%
Apartment	7.2	7%	7.1	8%	0.1	1%
House	8.6	8%	7.5	8%	1.1	8%
Commercial	5.6	6%	5.4	6%	0.2	2%
Industrial	6.0	6%	6.0	7%	-	0%
Retail	2.1	2%	1.8	2%	0.3	2%
Mixed Use	16.2	16%	13.7	15%	2.5	17%
Hotel/Leisure	8.1	8%	7.2	8%	1.0	7%
Development	-	0%	-	0%	-	0%
Cash:						
Cash	25.2		18.9	75%	6.3	25%

The Manager has a number of formal portfolio constraints which include: properties will be limited to metropolitan and regional centres only; each loan will be secured by a registered first ranking mortgage over real property; a maximum portfolio LVR of 60% (class A) and 75% (Class B), respectively; No greater than 50% of the value of collateral may be in assets where the ability to sell or realise full value is contingent on completion of development approvals or completion of construction activities; no single loan nor counterparty can represent more than 25% of the portfolio from three months after the offer close period; full credit assessment on each loan including inter alia, credit assessment of the borrower, risk and recovery analysis and independent valuation.

These formal constraints set the framework around risk exposure limits. However, over and above the formal constraints, is the qualitative assessment process outlined above. As such, it is not so much about property type per se (apartment versus free standing house, for example), rather the quality of the valuation, the property, the underlying market fundamentals and the ease to which the asset could be realised if needs be.

The short duration of the loans reduces the inherent depreciation, or market risk (in addition to ensuring there is not a duration mismatch between the underlying asset and the liquidity profile of the Fund).

Notwithstanding the higher LVR limits of Class B units, it is worth noting the portfolio of loans will still be relatively lowly levered. The implied average LVR target of circa 62.5% portfolio (assuming a 50/50 mix between Class A and Class B on any given loan) compares to the 85-90% that traditional banks may extend on a property loan, for example. When tied with the short duration of the loans themselves, historically there has never been a period in the Australian metropolitan property market that has witnessed market depreciation levels to the extent that would risk recouping the loan amount.

Fund Inflows Management

The open ended structure is designed by substantially mitigate the cash dilution risk inherent in the close-ended structure. Rather than raise a large amount of capital through a one-time raise at the inception of the fund (and diluting yields during the period required to become fully invested), the open-ended structure permits the Manager to conduct multiple capital raisings and, hence, raise a lesser amount per raise compared to the close-ended vehicle. Yield dilution risk can be greatly reduced due to the shorter time frame to fully invest the new capital.

The key to the mitigation of yield dilution risk is in the management of the process. Importantly, the Manager has stated that it will adopt an approach of raising only an amount it is confident will be predominantly invested (subject to appropriate cash and liquidity requirements) based on its existing pipeline of loans.

PERFORMANCE ANALYTICS

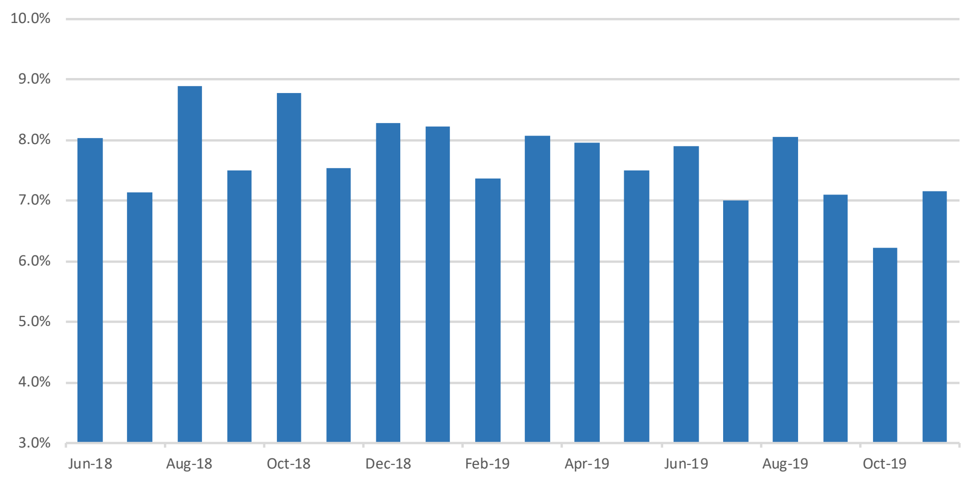
Returns to investors are purely in the form of distributions, with monthly distributions based on cash received from interest payments from the portfolio loans net of fees to the Manager. As such, while NAV will increase over the course of any given month (as monthly interest payments accumulate in the Fund bank account, it returns to the initial level following the distribution payment to investors.

As noted, the Moelis Australia Secured Loan Series reached its first close on the 30 April 2018. The Fund has delivered upon its target return level consistently since inception. As expected, since inception returns have trended down slightly, reflecting increased market competition in the non-bank lending market and further cuts in the RBA Cash Rate.

The key point is that the Fund has performed in-line with the performance objectives, which augurs well for both Class A and Class B expected performance moving the Fund itself.

- The Fund has achieved or slightly exceeded the stated target return, noting that the target return was lowered from 7.0% - 8.5% to 6.0% - 7.0% between inception and October 2019, as market conditions changed and competition for new loans increased.

Monthly Distribution Profile



LOAN TO VALUE RATIO STRESS TESTING

This section is a re-production of the stress testing analysis undertaken by the Manager for both Class A and Class B units. The fact that the Manager regularly risk reviews the portfolio as markets change is in itself a positive.

The Manager has stress tested both the Class A and Class B proposed portfolios to understand the impact of recent declines in the NSW and VIC residential property markets.

Of the portfolio, 55% has collateral exposed to the NSW & VIC residential markets ($30.6m loan amount over $61.3m in security value). Of that, approximately 40% of the portfolio has a recent valuation (<3 months old) having only recently been assessed by the Manager. This leaves 34% of the portfolio ($19.7m loan amount over $37.8m in security value) exposed to value decline trends witnessed during 2018.

The Manager has applied discounts to the underlying security where valuations are older than three months, based on the two following scenarios: 1) Applying CoreLogic Home Value Index ("CL"): CL is a leading provider of property analytics. The Manager has applied discounts based on CL 2019 data of quarterly declines to dwelling values through 2019 to date. CL have not reported estimates against residential land, so the Manager has applied a value reduction to residential land equal to the value of two times the value of decline to completed dwellings. 2) Manager downside analysis: The Manager has assessed a value reduction of an average 12% greater than that of the CL data analysis, so as to allow for further value depreciation

The current weighted average LVR across the portfolio is 59.4%. LVR post sensitivity analyses are: CoreLogic scenario: An LVR of 59.6% across the whole portfolio; Manager further downside analysis: An LVR of 65.6% across the whole portfolio.

The sensitivity analysis for both Class A and Class B portfolios, and detailed by specific property segment is detailed below.

Both sensitivities and value reduction assessments are reflected in the portfolio table overleaf. The reason for the relatively minor effect of this analysis is that the underlying loans are short duration in nature, thus limiting exposure to declining markets.

Both CL and the Manager downside LVRs are considered to be within an acceptable range, posing no particular threat to either Class A and Class B portfolios' security positions and still being well within the portfolio investment strategy maximum LVRs of 65% and 75%, respectively post applying sensitivity scenarios.

The increase even under the Manager's assumption is limited, specifically increasing the portfolio LVR by six percentage points. This is in no small part due to the fact that only approximately one-third of the portfolio represents residential property.

After the application of the Manager's downside scenario discounts, the LVR ratio for the entire Class A portfolio rises less than 6%. Under this scenario, collective property values would have to fall over 44% to impair the portfolio. For the proposed Class B portfolio the

LVR ratio for the entire Class B portfolio rises 7%. Under this scenario, collective property values would have to fall over 29% to impair the portfolio.

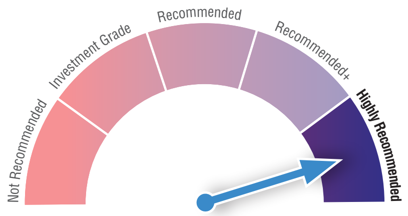
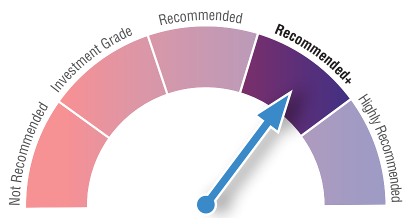
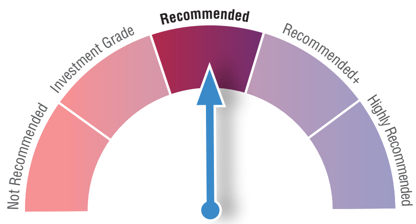
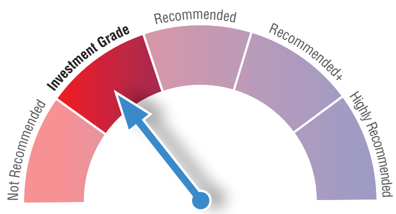
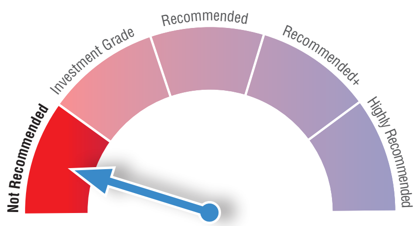
Sensitivity Analysis - Class A Portfolio						
			Sensitivity Analysis			
			Corelogic Scenario		Moelis Downside	
Asset Classification	Moelis Loan	LVR	Change	CL LVR	Change	LVR
NSW Dwelling (<3mth old valuation)	3,770,000	49%	-	51%	-	51%
NSW Dwelling (4-6mth old val)	2,803,716	54%	4.9%	52%	-5.0%	57%
NSW Dwelling (10mth+ old val)	3,854,989	54%	-1.9%	55%	-20.0%	67%
NSW Land (<3mth old valuation)	1,756,140	55%	-	44%	-	44%
NSW Land (4-6mth old val)	1,832,500	55%	4.9%	52%	-5.0%	58%
NSW Land (10mth+ old val)	6,769,231	55%	-1.9%	56%	-20.0%	69%
QLD Dwelling (<3mth old valuation)	22,659,062	55%	-	55%	-	55%
QLD Dwelling (4-6mth old val)	599,085	31%	2.6%	30%	-5.0%	33%
QLD Dwelling (7-9mth old val)	4,151,901	53%	1.9%	52%	-10.0%	59%
QLD Dwelling (10mth+ old val)	887,305	23%	4.5%	22%	-20.0%	29%
QLD Land (10mth+ old val)	6,875,000	55%	4.5%	53%	-20.0%	69%
VIC Dwelling (4-6mth old val)	6,563,077	43%	-4.0%	45%	-10.0%	48%
VIC Dwelling (10mth+ old val)	583,747	55%	-13.3%	63%	-26.6%	75%
VIC Land (4-6mth old val)	2,828,619	6%	-4.0%	6%	-10.0%	6%
VIC Land (10mth+ old val)	2,921,875	55%	-13.3%	63%	-20.0%	69%
NSW Commercial (<3mth old val)	1,631,775	34%	-	34%	-	34%
NSW Commercial (10mth+ old val)	4,090,985	54%	-	54%	-10.0%	61%
VIC Commercial (4-6mth old val)	1,168,750	55%	-	48%	-10.0%	60%
VIC Commercial (7-9mth old val)	7,150,000	55%	-	55%	-10.0%	61%
Total/Weighted avg	**82,897,755**	**49.9%**		**50.1%**		**55.2%**

Sensitivity Analysis - Class B Portfolio						
			Sensitivity Analysis			
			Corelogic Scenario		Moelis Downside	
Asset Classification	Moelis Loan	LVR	Change	CL LVR	Change	LVR
NSW Dwelling (<3mth old valuation)	140,000	65%	-	65%	-	65%
NSW Dwelling (4-6mth old val)	391,585	62%	4.9%	59%	-5.0%	65%
NSW Dwelling (10mth+ old val)	363,056	59%	-1.9%	60%	-20.0%	73%
NSW Land (<3mth old valuation)	243,860	63%	-	63%	-	63%
NSW Land (4-6mth old val)	217,500	62%	4.9%	59%	-5.0%	65%
NSW Land (10mth+ old val)	1,230,769	65%	-1.9%	66%	-20.0%	81%
QLD Dwelling (<3mth old valuation)	3,763,313	64%	-	64%	-	64%
QLD Land (10mth+ old val)	1,250,000	65%	4.5%	62%	-20.0%	81%
VIC Dwelling (4-6mth old val)	342,923	65%	-4.0%	68%	-10.0%	72%
VIC Dwelling (10mth+ old val)	66,253	61%	-13.3%	71%	-26.6%	83%
VIC Land (10mth+ old val)	478,125	64%	-13.3%	74%	-20.0%	80%
NSW Commercial (<3mth old val)	62,725	65%	-	65%	-	65%
NSW Commercial (10mth+ old val)	470,770	65%	-	65%	-10.0%	72%
VIC Commercial (4-6mth old val)	211,250	65%	-	65%	-10.0%	72%
VIC Commercial (7-9mth old val)	975,000	63%	-	63%	-10.0%	69%
Total/Weighted avg	**10,207,129**	**63.7%**		**64.0%**		**70.7%**

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

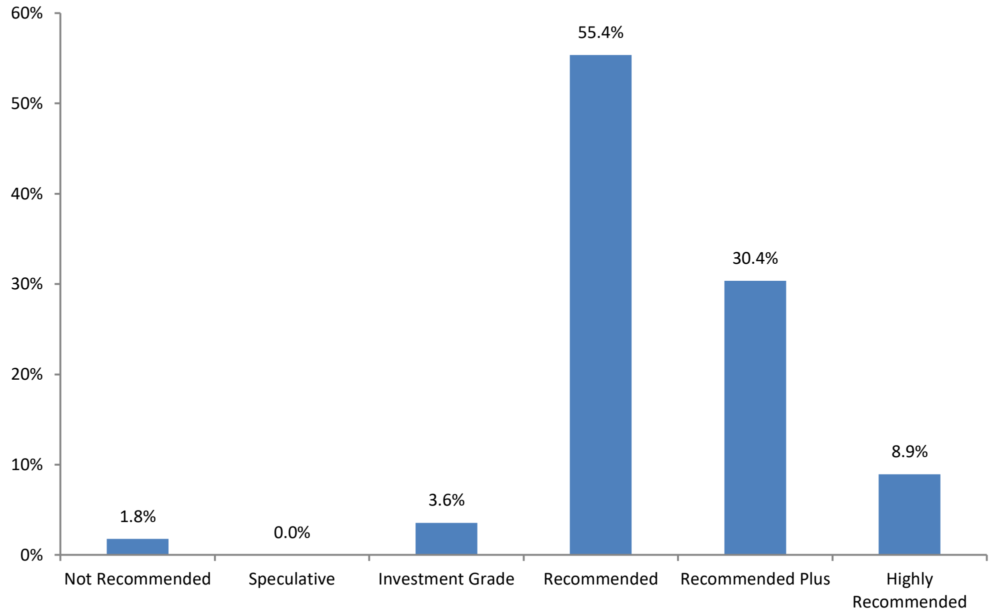
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–83**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**70–79**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	**60-70**
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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