AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Moelis Australia Secured Loan Series

March 2019

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

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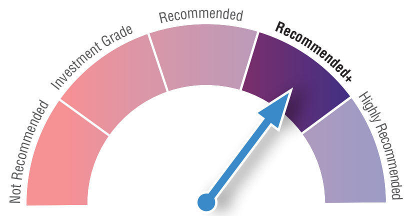
1) The research process has complete editorial independence from the company and this is included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, 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.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
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.

Moelis Australia Secured Loan Series

Note: This report is based on information provided by the company as at March 2019

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
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	7.0% to 8.5% p.a. net of fees
Redemption Date	As soon as practicable, subject to loan maturities and within 12-months of 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.

Portfolio Characteristics & Targets	
SLS FUM	$62m
Number of Loans	33
Average Investment	$1.82m
Weighted Average LVR	55.8%
Term of Loans	100%<12 mths
Gross Yield on Individual Loans Average	9.34%
Net Yield (Cash Distribution)	7% to 8.5% pa
Distributions	Monthly
Mortgage Type	First lien over Australian residential property
Expected Portfolio LVR	50-60%

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

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. Consistent with the stated strategy, the loan portfolio to date comprises a pool of loans diversified by borrower, location, and property type. All loans are secured by a first-lien mortgage and backed by personal and corporate guarantees. Loans are expected to remain short duration by terms, specifically between 6 to 12 months. Properties will continue to be limited to metropolitan and regional centres only and backed by solid market fundamentals and a deep, liquid market. LVRs will be based on "as is" valuations rather than "best use" or "as completed" valuations. For the borrower, the loans have and will typically represent bridging finance. The Manager is targeting a distribution yield of 7.0% - 8.5% p.a. net of fees with distributions to be paid monthly. To date, the Fund has generated an annualised distribution yield of 8.07% since inception. We also note that a predecessor fund, specifically the Moelis Australia Secured Loan Fund (SLF) and based on very similar investment strategy has outperformed performance objectives to date. This augurs well for the Manager's ability to continue to deliver on the performance objective of the Fund. Moelis Australia Asset Management manages $600 million across fixed income and credit investment strategies, as at 31 December 2018.

INVESTOR SUITABILITY

The genesis of the investment strategy came partly about by what the Manager witnessed as an increasing pool of borrowers seeking funding outside the traditional banking sources as tighter macro-prudential pressures have come to be exerted on the traditional banking sector. From an investment standpoint, this presents a greater pool of potential loans from which the Manager may select and market dynamics that are supportive of attractive loan pricing from a risk-adjusted perspective. This represents an opportunity for a capital provider to earn and pass on excess returns to investors. Macro developments over the inception of the Fund over the last 12-months have only served to validate and strengthen the Manager's investment thesis in this regard. From a risk spectrum, we view the investment strategy as being at the lower end of the spectrum. The LVR level, the "as is" valuation methodology, the short duration loan terms, and the very selective investment process designed to carefully curate the loan book are all designed to minimise the inherent risk of each individual loan and the portfolio as a whole. IIR views the 50% - 60% LVR as a particularly prudential level, and even more so given the short duration of the loans. From a liquidity perspective, the short loan term is consistent with the liquidity of the Fund itself. It is our expectation that the Manager will continue to carefully manage the capital inflow process to minimise cash dilution risk.

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 investment strategy and Fund itself is considered at the lower end of the risk spectrum but we believe will successfully capture the excess returns potential that is currently in this part of the lending market. The Manager has delivered on its performance objective on the Fund and existing comparable investment strategies to date, which augurs well for the Fund in continuing to meet its performance objectives. The evolution from a close-ended structure for SLF to an open-ended structure for the Fund is a positive in the sense that it mitigates cash yield dilution risk.

SWOT ANALYSIS

Strengths

- Since its inception in April 2018 the Fund has performed well, generating an annualised distribution of 8.07%, as at 31 January 2019. Interest payments on all loans are up to date, with none being in default. Portfolio is currently made up of 33 loans with security over 149 titles located in New South Wales, Victoria, and Queensland. All loans are secured by a first-lien mortgage and are backed by personal and corporate guarantees. Portfolio weighted average LVR ratio is 55.8% and a weighted average interest rate on invested loans is 9.34% p.a. (pre-fees).
- The Manager has witnessed an increasing pool of borrowers seeking funding outside the traditional banking sources coinciding with more onerous macro-prudential policies of APRA focused on Authorised Deposit-taking Institutions. From an investment standpoint, this presents a greater pool of potential loans from which the Manager may select and market dynamics that are supportive of attractive loan pricing from a risk-adjusted perspective.
- A simple, straightforward investment strategy with the objective of creating as little risk as possible, but to capture the value from the current lending market dynamics that presents an opportunity for a capital provider to earn excess returns.
- The evolution from a previously close ended structure to the open ended structure for the Fund is a positive, serving to mitigate what would have otherwise been a high degree of distribution yield dilution risk. The Manager has carefully managed the capital raising / capital inflow process to ensure yield dilution risk is minimised and the performance objectives of the Fund are not compromised.
- The 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 competiting 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

- The Fund is the third investment vehicle issued by the Manager based on a property loan strategy. The track-record to date of the three existing strategies have been solid in that all are performing in-line with performance objectives. However, the track-record of all three is short, with no vehicle yet having a track-record greater than 20-months.
- 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

- Australian investors have highlighted uncertainty in taxation and superannuation policy as a concern around investments in equities and property. The Fund does not receive the tax benefits that some other investments receive, such as dividend imputation for shares or negative gearing for investment properties. There is currently lower political risk associated with the Fund's investments, presenting sector rotation 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.
- While we have every reason to expect the process to continue to be managed well, should the Manager raise levels of capital that take longer to become fully deployed (or deployed in lower yielding loans), investors will run the risk of the distribution yield being adversely impacted by 'cash drag'.
- Loan impairments may adversely impact distributions paid to investors. We note the Manager has a strong track-record in this regard to date however.

PRODUCT OVERVIEW

The Fund is structured as an unlisted wholesale unit trust. The Trustee of the Fund is Moelis Australia Asset Management Limited which, in turn, 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 commitment to only raise an amount of capital it is confident will be fully invested in four to six weeks, 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 will provide 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 50% to 60%, limited to properties in metropolitan and regional centres only. The loans will be short duration in term, typically with maturities of 6 to 12 months, with the short duration mirroring the liquidity profile of the Fund. The loans will typically represent bridging loans for the borrower. Individual loan LVRs will be based on "as is" and 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 65% and the Manager's depth of experience in the sector, IIR views the loan book as at the low end of the risk spectrum for urban based residential and commercial property loans.

The aim is to distribute on a monthly basis all interest from the loan book that accrues from the start to the end of the month.

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 12 months of the Redemption Notice Date.

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.

MANAGEMENT GROUP PROFILE

Moelis Australia was established in 2009 and has grown from a boutique financial advisory business to a financial services group that operates three complementary but independent business divisions: Corporate Advisory, Equities and Asset Management. It undertook an IPO and listed on the ASX in April 2017. It has offices in Sydney and Melbourne, has 122 Australian employees and currently has $3.7bn in assets under management, as at 31 December 2018.

Since its inception, Moelis Australia has had an alliance with New York Stock Exchange listed global investment bank Moelis & Company. Following its IPO, Moelis Australia has maintained its exclusive strategic alliance with Moelis & Company for providing financial services in Australia. Moelis & Company continues to be a major shareholder in Moelis Australia, holding an approximate 33% stake.

In 2013, Moelis Australia Asset Management was established to provide asset and investment management services to domestic and foreign high net worth individual investors. Moelis Australia Asset Management has achieved substantial scale since its establishment in 2013 now with a team of approximately 50 staff and assets under management totalling approximately $3.7 billion as at December 2018 invested in both traditional asset classes (i.e. fixed income and listed equities) and alternative asset classes (i.e. direct real estate, private equity and venture capital).

The investment management philosophy of Asset Management is based on developing focused and bespoke investment strategies primarily outside of traditional asset classes. This is a key differentiator for the business as it is able to provide investors with exposure to alternative asset classes across a range of industry sectors not generally accessible to individual investors.

Asset Management manages funds that invest in the following alternative asset classes:

>> Real estate assets (i.e. commercial, hotels, gaming hotels and industrial);

>> Private equity and venture capital;

>> Hybrid securities and structured investments; and

>> Other real assets (in a range of sectors including agriculture, technology, childcare and global hedge funds).

Asset Management also manages traditional asset classes including cash, bonds and listed equities.

The Asset Management division's predominant investment sector has and continues to be real estate. Of the $3.7bn in AUM, almost $2.8bn is in the form of real estate sector investments. This is somewhat reflective of the backgrounds of key members of management and the Board, who have significant prior experience in real estate investing.

It is notable that Moelis Australia has a general policy of co-investing in its funds alongside its client base within each fund. Historically, the co-investment has been of the magnitude of 10% of each fund.

The table below summarises the stable of funds issued by the Asset Management division of Moelis.

Moelis Australia Asset Management Fund Track-record

Strategy	Fund Name	Industry	Inception	AUM
Credit	Moelis Australia Senior Secured Credit Fund I	Corporate credit	Aug 2016	$20m
Credit	Moelis Australia Senior Secured Credit Fund II	Corporate credit	April 2018	$105m
Credit	Moelis Australia Secured Loan Series	Real-estate credit	May 2018	$62m
Credit	Moelis Australia Secured Loan Priority Fund	Real-estate credit	Oct 2017	$66m
Credit	Moelis Australia Secured Loan Fund	Real-estate credit	Nov 2017	$25m
Hotels	The Grand Hotel Syndicate	Hotels	Dec 2014	$28m
Hotels	The Oasis Hotel Syndicate	Hotels	July 2015	$45m
Hotels	Moelis Australia Redcape Fund	Hotels	July 2017	$841m
Aged Care & Childcare	Moelis Australia Aged Care Fund	Aged Care	Nov 2017	$70m
Aged Care & Childcare	Moelis Australia Childcare Fund No 2	Childcare	Mar 2017	$25m
Aged Care & Childcare	Moelis Australia Childcare Fund No 1	Childcare	Nov 2016	$19m
Core Real Estate	Moelis Yarra Valley Syndicate	Retail Shopping Centre	Aug 2013	$21m
Core Real Estate	Moelis Armada Dandenong Plaza	Retail Shopping Centre	Mar 2016	$218m
Core Real Estate	Moelis Armada Gateway Plaza	Retail Shopping Centre	Dec 2013	$69m
Core Real Estate	Moelis Armada Ingle Farm	Retail Shopping Centre	Dec 2009	$124m

INVESTMENT TEAM

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

The four member team is led by Drew Bowie and Stanley Hsieh. Both are seasoned lending professionals and together 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 doen so over the last 12-months with two additional hires. Additionally, the team is able to draw on substantial resources internally should the need arise.

Drew Bowie, Managing Director, has overall responsibility for the Fund. Drew has over 27 years experience in real estate investment, financing, valuation and workout situations. He has strong relationships in the sector and is well placed to understand market trends and valuation dynamics. He joined the team in the latter part of 2017 and was previously with MaxCap, Pepper Group, Macquarie Bank, and RBS. Partly for the purpose of focusing resources, Drew has taken on the role which was previously the responsibility of Jaron Yuen. Jaron remains a member of the investment committee but will step back from the day to day matters of the Fund.

Stanley Hsieh 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.

We note that certain team members are invested in the investment strategy and paired with investors (subject to the 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
- **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.
- **Cowri Rajan.** Analyst. Cowri is an associate with 3.5 years' experience in property development, and 8.5 years' experience in banking and finance across M&A due diligence, Financial Services, Wealth Management and Institutional Banking. Cowri is a qualified Chartered Accountant (2012). Cowri was previously employed at property development firm PAYCE Consolidated, and Commonwealth Bank of Australia.
- **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.

In addition to Drew, the five member Investment & Risk 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.
- **Jaron Yuen.** Managing Director. Jaron is responsible for the firm's private equity and venture capital investments. Over 19 years of experience as an investor and adviser, with a focus on private investment in operating businesses. In recent years, he has been involved in the acquisition, financing and management of investments in sectors such as renewable energy, municipal waste, water and waste treatment, telecommunications infrastructure and power generation in the United Kingdom, Europe, the US and Australia. Prior to joining Moelis, Jaron worked as an investment principal at UBS and

Lend Lease and an investment banker at Citigroup and ABN AMRO in Sydney, London and Amsterdam..

- **Richard Germain.** Managing Director. Founding director of Moelis Armada, responsible for operations of the Moelis Armada group and its funds. Richard has extensive experience in both property and capital markets. Prior to joining Moelis Armada, Richard was an investment advisor and portfolio manager at Lend Lease Corporation Limited where his role included providing portfolio management, product design, and advice to the company's funds on appropriate investment, allocation and diversification strategies across all asset classes. Prior to joining Lend Lease, Richard worked at investment banks and hedge funds where he gained experience in all aspects of risk management.

Investment Team & Investment Committee Personnel

Name	Position	Sector Focus	Years at Firm	Ind. Exp. (yrs)
Drew Bowie	Managing Director	Real Estate	1	27
Stanley Hsieh	Vice President	Real Estate	4	10
Cowri Rajan	Analyst	Real Estate	<1	12
Anthony Goodwin	Analyst	Real Estate	<1	10
Jaron Yuen	Managing Director	Asset Management	3	21
Andrew Martin	MD and Head of Asset Management	Asset Management	7	25+
Richard Colless	Chairman	Asset Management	7	40+
Richard Germain	Managing Director	Asset Management	2	25+

LOAN MARKET IN AUSTRALIA

Investment opportunity

The genesis of the investment strategy and the Fund lies in the evolving dynamics in the Australian lending market tied with Moelis Australia's pedigree and history in Australian real estate investing, with the key principles of Moelis Australia having significant experience in residential and commercial real estate. With more onerous macro-prudential policies of APRA focused on Authorised Deposit-taking Institutions (ADIs), the Manager witnessed an increasing pool of borrowers seeking funding outside the traditional banking sources. There was both an increasing flow of potential lending opportunities as well as the ability to be selective about which loans to proceed with. The market dynamics were supportive of attractive risk-adjusted loan pricing which presented an opportunity for a capital provider to earn excess returns.

More specifically, the Manager was seeing the better quality loans to be typically of a shorter duration (6-12 months) and where there was the ability to lend on a conservative LVRs and on an "as is" rather than "as complete" valuation. From an investment strategy perspective and potential loan based investment product, the short duration and conservative lending parameters represented a strong fit for the Manager's targeted wholesale investor base.

The first series of the secured loan strategy was issued in October 2017 and structured in a way suitable for wholesale investors, particularly with respect to liquidity. The investment strategy has been kept intentionally simple and at the lower end of the risk spectrum. The intention has not been to increase potential returns through the addition of leverage, for example. Rather, to create a low risk a strategy while capturing value from the lending market dynamics noted above. With regards to mitigating risk, the strategy is based on first mortgage liens, capped LVRs on the portfolio level and, importantly, the ability of the Manager to be very selective and curate the loan book.

The only material change from the initial series to the Fund itself has been the structural change from a close ended to open ended investment vehicle. This evolution has served to improve the return's efficiency of the investment strategy by addressing the cash yield dilution risk inherent in raising a blind pool and requiring a meaningful period of time for the portfolio to become fully invested in loans. Under the open-ended structure, the Manager will likely raise capital through multiple capital raises but has made a commitment that it will only raise an amount of cash that it is capable of being deployed in a short period (thereby mitigating cash dilution risk).

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 within a few days past month end. 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 12 months of the Redemption Notice Date.

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 12 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 65% 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 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).

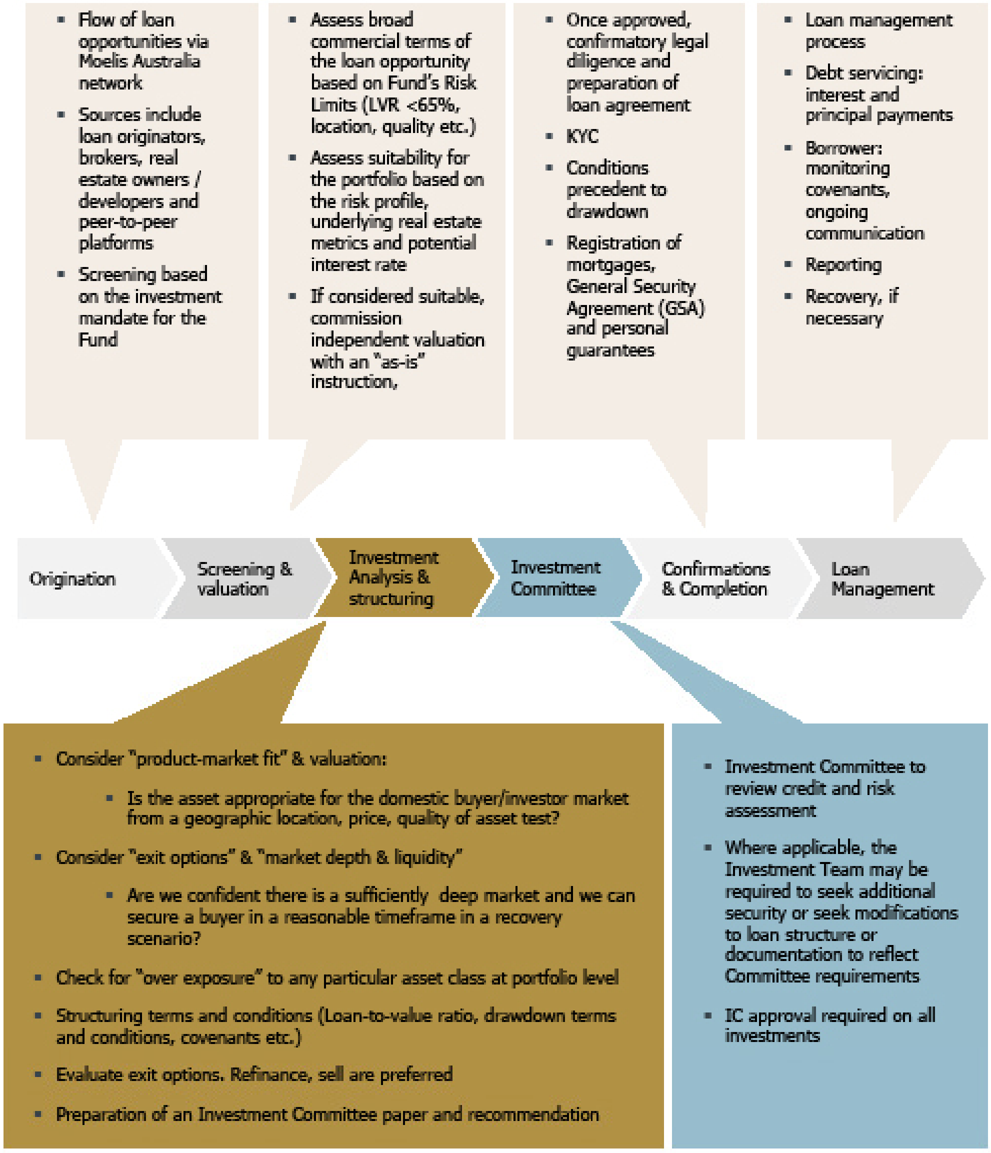
Valuation. The Manager sources information in relation to the security, including independent valuations, asset history, liquidity and recovery in adverse recovery scenarios. Independent valuations are provided with each loan application and include an "as is" methodology where relevant.

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. 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 daily monitoring and reporting of each loan including payments and covenants. Prooerty 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 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 is does not have too much exposure to a single asset type (not just a Sponsor), or region in the Fund in an effort to avoid concentration risk.

Portfolio Construction

SLS completed its initial capital raise in April 2018 and is now effectively fully invested. 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 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 target portfolio LVR of 50-60% with a maximum portfolio limit of 65%; 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). Similarly, the 'as is' valuation and property types means there is no completion risk should the property need to be put on the market. It can be done so at any particular point in time and the valuation is reflective of the asset at that point in time.

It is also worth noting the portfolio of loans will, in a relative sense, be lowly levered. The 50-60% portfolio LVR 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.

The tables below detail the portfolio by diversification measures, as at 31 January 2019. The loan book, as at the date of this report, consisted of 33 loans with a weighted average LVR and interest rate of 55.9% and 9.34%, respectively.

SLS - Exposure by State	%
NSW	53
VIC	33
QLD	11
SA	2
Cash	3
Total	100

SLS - Exposure by Property Type	%
Land	32
Commercial	27
Apartment	19
House	19
Cash	3
Total	100

SLFS- Exposure by Region	%
Metro	84
Regional	12
CBD	1
Cash	3
Total	100

SLS - Exposure by Term of Loan	%
< 6 months	8
6 to 9 months	1
10 to 12 months	24

SLS - Interest Rate Profile	%
< 9%	1
9-9.5%	12
9.5-10%	20

Since IIR's initial review of SLS in July 2018, there have been a few material changes to the composition of the loan portfolio over the course of the last 7-month period.

Firstly, there has been an intentional reduction in certain property types, specifically with apartments and land being significantly lower as a percentage of the portfolio than previously. This is in response to how the Manager sees the risk of these types of assets potentially softening.

Secondly, there has been a reduction in FIRB loans in the portfolio as many have rolled off and lenders refinanced for longer term periods, and generally from other specialist non-conforming loans / second tier lenders in the Australian market. Further, the flow of FIRB loan applications has generally declined in the market with the retreat of Chinese buyers, given initiatives by the Chinese Government to curtail investment outflows from China as well the deteriorating apartment sector outlook in Australia's major cities.

Conversely, the reduction in apartments and land loans has been replaced by small and medium business type loans.

The ongoing demand for non-conforming loans, such as that provided by the Fund, is important in not only growing the loan book but, given the short-term nature of the Fund's loans, important in maintaining the distribution yield at a level at least in-line with the stated objectives of Fund. The Manager has grown the loan book significantly from when IIR conducted its first review in July 2018, increasing from approximately $25 million to $62 million, as at February 2019, in addition to the other funds that Moelis manages based on a very similar strategy (collectively approximately $170 million).

Over the last 10-months, the Manager has gained market share as it continues to develop relationships with its brokers and originators, both of which appreciate the timely availability of loans from Moelis. The growth in the relationship has been self-perpetuating and based on a virtuous cycle - as the Manager closed more lending deals, and thereby supporting the growth of its brokers and orignators, so too it began to benefit from a greater flow of potential deals from its broker and originator network.

While the Manager has benefited to some degree from an early mover advantage and has gained market share in the second-tier, non-conforming loan sector to date, it does foresee an increased risk of a potential increase in supply from competitors in what is a growing market segment (by competing participants). In the Information Memorandum (IM) applicable to this capital raise, the Manager has allowed for a potential one percent decrease in targeted returns to investors, reducing the lower end of the target distribution from 8.0% to 7.0%.

That said, it is the Manager's view that any potential pricing impact from increased competition is likely to be six to 12-months away. In the current environment, and in the wake of the Hayne Royal Commission, the Manager is experiencing its strongest demand to date over the last few months and pricing power (interest rates across the whole portfolio) remains strong. In effect, the lower distribution guidance in the IM reflects a forecast of the market environment in 12-months, rather than expected conditions over the shorter term.

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 of capital for each particular raise that it knows it can invest over a four to six week time frame 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 is on track to deliver its target return. It has achieved an annualised yield of 8.07% since inception. Portfolio is currently made up of 33 loans with security over 149 titles located in New South Wales, Victoria, and Queensland. All loans are secured by a first-lien mortgage and are backed by personal and corporate guarantees. Portfolio weighted average LVR is 55.8%.

In addition to SLS, the predecessor fund has been running since October 2017 and, as noted, is based on a very similar investment strategy. The performance track record of all three funds, while not lengthy in all three cases, does provide some indication of the Manager's ability to achieve the stated performance objectives.

The key performance points of the two other existing funds based on a very similar investment strategy are summarised below. The key point is that all three existing funds are performing in-line with the performance objectives, which augurs well for the Fund itself:

- The Fund is on track to deliver its target return. It has achieved an annualised yield of 8.07% since inception and has a current running yield (pre-fees) of 8.9%.
- Interest payments on all loans are up to date. None are in default. Weighted average interest rate on invested loans is 9.34% p.a. (pre-fees).
- Redemptions thus far have been extremely limited. Specifically, there have be a total of three redemptions for a total amount of approximately slightly less than $700,000, less than 0.5% of FUM on a recurring basis.
- SLPF employs a similar strategy for non-resident investors and has generated 7.6% p.a. since inception to 31 Nov 2018 versus a target return of 7.5 – 8.0%. SLF realised an investor IRR of 8.9% compared to a target return of 8.0 – 8.5%. SLF is now closed and replaced by SLS.

Fund Performance Summary - 31 Jan 2019

Inception	1 month	3 month	6 month	Since Inception (p.a)
April 2018	0.73%	2.05%	4.14%	8.07%

LOAN TO VALUE RATIO STRESS TESTING

This section is a re-production of the stress testing analysis undertaken by the Manager and published in the February 2019 Investor Update. The fact that the Manager regularly risk reviews the portfolio as markets change is in itself a positive. Secondly, the publication of this assessment also adds to the already high degree of transparency associated with the Fund and exhibited by the Manager.

The Manager has stress tested the Fund portfolio to understand the impact of recent declines in the NSW and VIC residential property markets. •55% of the portfolio has collateral exposed to the NSW & VIC residential markets ($30.6m loan amount v $61.3 security value). Of that, c. 40% have a recent valuation (<3 months old) and have only recently been assessed by the Manager, leaving 34% of the portfolio ($19.7m loan amount v $37.8m security value) exposed to value decline trends during 2018 . The key findings:

The Manager has applied discounts to the underlying security where valuations are older than 3 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 January 2019 data of quarterly declines to dwelling values through 2018. CL have not reported estimates against residential land, so the Manager has applied a value reduction to residential land of two times the value of decline to completed dwellings.
2. Manager downside analysis: The Manager has assessed a value reduction twice that of the CL data analysis, so as to allow for further value depreciation

The current weighted average LVR across the portfolio is 55.8%. LVR post sensitivity analyses are:

•CoreLogic scenario: 57.2%

•Manager downside analysis: 59.2%

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. Only 34% of the portfolio comprises exposure to NSW & VIC residential markets with valuations > 3 months old.

Both CL and the Manager downside LVRs are considered to be within an acceptable range, posing no particular threat to portfolio's security position and still being well within the portfolio investment strategy maximum LVR of 65% post applying sensitivity scenarios. The resultant portfolio LVR under CI and the highly conservative Manager assumptions are 57% and 59%, respectively. This compares to 55.8% currently.

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

When considering the negative equity returns implied by these value discounts, the stable income and risk position of the real estate credit portfolio affirms the real estate credit investment strategy.

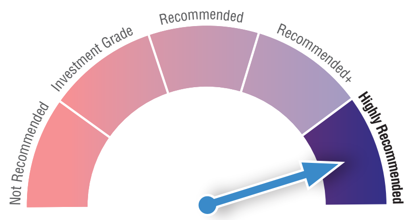
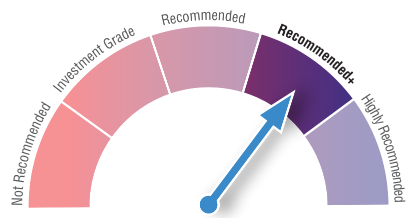
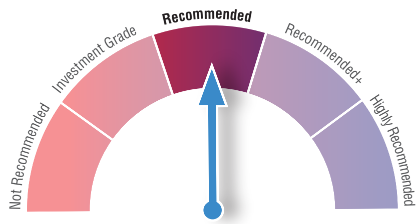
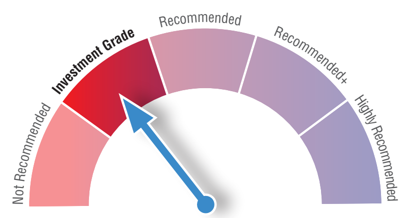
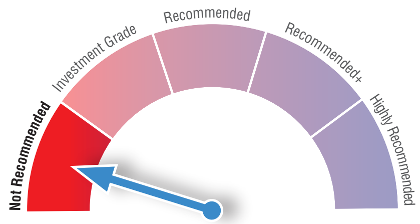
Sensitivity Analysis - February 2019 Investor Update

	Discount Assumptions			Sensitivity Analysis				
					Corelogic Scenario		Moelis Downside	
Discount Scenarios	**Corelogic**	**Moelis Downside**	**SLS Exposure**	**LVR**	**Discount**	**LVR**	**Discount**	**LVR**
NSW dwellings (4-6mths old val)	3.9%	10.0%	1,213,625	58.6%	-3.9%	61%	-10.0%	66%
NSW dwellings (7-9mths old val)	6.4%	15.0%	1,522,950	55.0%	-6.4%	59%	-15.0%	65%
NSW dwellings (10mths+ old val)	8.9%	20.0%	1,673,000	60.0%	-8.9%	66%	-20.0%	75%
NSW land (4-6mths old val)	7.8%	15.0%	2,850,000	39.4%	-7.8%	43%	-15.0%	46%
VIC dwellings (4-6mths old val)	5.1%	15.0%	1,010,100	59.9%	-5.1%	63%	-15.0%	70%
VIC dwellings (7-9mths old val)	7.0%	20.0%	360,750	59.7%	-7.0%	64%	-20.0%	75%
VIC dwellings (10mths+ old val)	6.4%	15.0%	4,162,000	45.5%	-6.4%	49%	-15.0%	54%
VIC land (4-6mths old val)	10.2%	25.0%	3,753,750	55.0%	-10.2%	61%	-25.0%	73%
Total Portfolio				55.8%		57%		59%

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

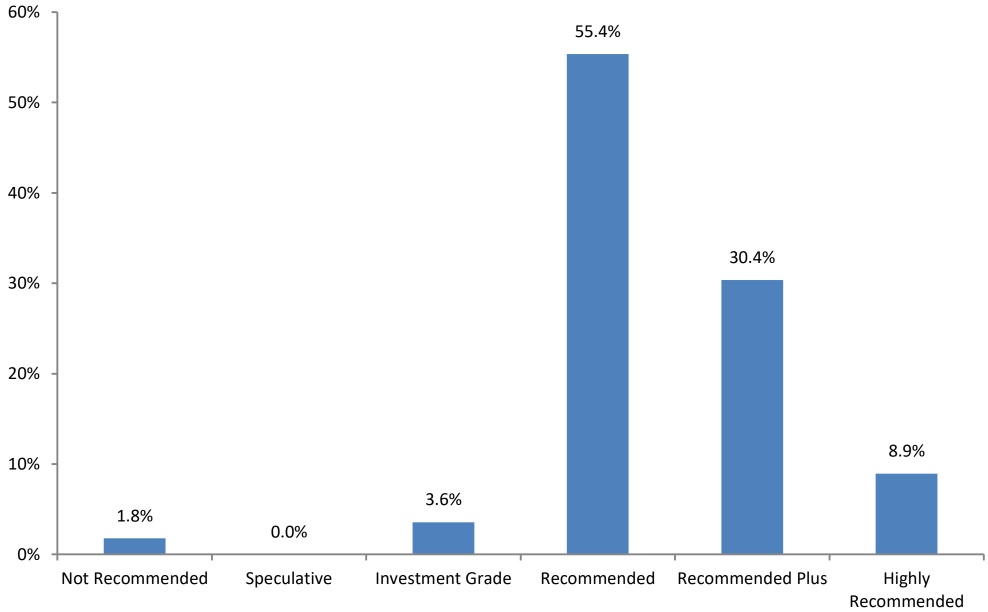
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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