

Index		
Topic	Relevance	Page/s
3 Ways to Clean Up this Munted Shitshow	Sector wide	1 - 3
Commerical Real Estate Private Lending - State of Play	QRI, MXT, MOT	3 - 9
LMI Performance Data	Sector	10 - 15

3 Ways to Clean Up this Munted Shitshow

And I am not talking about the US / Covid-19 / D Trump ;).

Despite the attention grabbing headline above, this article has the express purpose of making a range of suggestions to ultimately improve the health and prospects of the Australian LMI sector. If the UK market provides an indication, the sector can not only recover from its current malaise, but prosper (commissions were banned by the Retail Distribution Review commission in 2013 yet FUM doubled from £95bn in 2012 to £197bn today, with tight NTA discounts after a 10-year sector re-rating and innovative new asset classes focused on income).

To do so, the boards and managers in the sector need to start acting in a way that overcomes a range of issues in the sector, and which serve to firmly act in the interests of both versus investors. These issues include: appallingly long date Investment Management Agreements (IMA) with respect to the most egregious examples; Boards that are not acting in the best interests of investors (lack of true independence); vested interests of both managers and boards not to convert or wind-up; poor investment management styles that do not capitalise on the single biggest advantage of close ended investment vehicles - captive capital; and, poor discount control management.

Unlike open-end funds, for which there exists a convex flow-performance relationship as investors react to past fund performance, in the closed-end fund industry management companies expand their assets under management when investor demand is strong, but fail to reduce them when investor demand is weak.

Investors in open ended funds have a greater balance of power versus close ended funds - they can redeem in the context of poor performance. What riles this analyst regarding the LIC sector is the sense of entitlement certain managers have, essentially exploiting the privilege of captive capital for their own economic advantage and at the expense of long suffering investors on account of persistent and deep discounts to NTA.

To address this, IIR suggests boards action one or a combination of the following:

- ◆ Propose a conversion to an exchange traded managed fund (ETMF) or a wind-up;
- ◆ Introduce annual continuation votes for vehicles with a life of five years and greater (which allows sufficient time to recoup IPO costs), as per the bulk of UK listed closed ended vehicles. This is likely to increase the prospect of seasoned capital raisings (secondaries, tertiaries, etc). On the other hand, managers that generate a large discount may become entrenched;
- ◆ Engage in more effective discount control mechanisms (DCMs) , such as setting discount to NTA floors to guide buy-backs. These need to be telegraphed to the market - the messaging is important.

Discount control mechanisms typically include discretionary share repurchases and, in the UK, mandatory continuation votes that are triggered by the fund discount falling below a pre-specified level. Since repurchasing shares or liquidating the fund can greatly reduce assets under management and the resulting compensation for the management company, it is costly to managers if these mechanisms are implemented and these costs would fall disproportionately on managers with poor performance.

For instance, highly skilled managers with ability to generate positive abnormal performance would have a lower probability of losing a mandatory continuation vote than managers with inferior performance. Thus, skilled managers who commit to this DCM find it less costly to do so than their counterparts with potentially inferior future performance.

Discount Control Mechanisms

We **sort DCMs in two categories** depending on whether or not the fund's directors can exercise discretion in putting the mechanism in place. A mandatory voting category comprises funds with periodic continuation votes and discount floor provisions. A buyback discretion category is represented by share buybacks, redemption facilities and tender offers that are exercised at the directors' discretion without a pre-specified NAV discount trigger or that the board may adopt at its discretion if the fund's discount to NAV passes a certain level.

Continuation votes are the sole discount control mechanism that is not applied at the directors' discretion but is instead mandatory. They provide shareholders with the possibility to vote on the future of the fund (e.g., to liquidate or open-end the fund). If a continuation vote is not passed, the fund's directors are obliged to put forward proposals to reconstruct or liquidate the fund. Continuation votes are either periodic (annual or occurring at pre-determined periods, usually following a longer initial period post-IPO before the first continuation vote is held), or they may be triggered by the level of the NAV discount (i.e., a discount floor provision).

Share buybacks are the most common tool to correct imbalances between the demand and supply of shares and thus control the level of the discount to NAV that fund's shares may trade at. Share repurchases in the secondary market are typically realized up to a certain percentage of the shares in issue (usually 14.99%). Typically, the directors seek authority from shareholders to repurchase shares at each annual general meeting of the company. Prospectuses offer varying degrees of specifics on the use of share buybacks as a mechanism to narrow the NAV discount. They range from the announcement of the existence of an authority to repurchase shares indicating the instances when it will be exercised to stipulating a trigger point, i.e., the NAV discount raising above a certain threshold that the Board will use as guidance on when to intervene with repurchases in the secondary market. The making and timing of buybacks however is predominantly at the discretion of the Board.

A **redemption facility** is an alternative mechanism used by some funds to narrow the NAV discount. Such facility enables shareholders to periodically redeem some of their shares (usually up to about 25% of the shares in issue) at net asset value less costs. Similarly to share buybacks, funds may implement a redemption offer if a pre-specified NAV discount threshold is reached. Although redemption facilities allow shareholders to redeem shares on a periodic basis, the directors typically exercise their discretion to operate the facility.

Tender offers are also offered usually at the Board's discretion and there may or may not be an NAV discount trigger attached to them. They are made available to all shareholders for a predetermined number of shares at a pre-specified price (below NAV).

IIR is aware that **DCMs alone are not a silver bullet** for the sector with respect to discounts to NTA. Indeed, while the UK sector as a whole has recovered well from sustained discounts, there are a number of sub-sectors that have continued to perform poorly. A key aspect to the improvement in the UK industry has been the growth of alternative strategies. That said, DCMs are an important part of the equation and one that is directly pertinent to existing LICs in Australia.

IIR understands that circa 50-60% of UK closed ended vehicles have continuation votes. The chart overleaf details the scale and type of capital returns over time while table summarises the return of capital events over the 1H20 period. We would make a few points:

- ◆ Note how active the UK market is versus the Australian market;
- ◆ Note how boards actually do advise not passing a continuation vote (liquidating) in some cases. You would not see that in Australia;
- ◆ Note how some buybacks are based on protecting a clearly telegraphed defined maximum discount to NTA;
- ◆ Note also the sheer scale of FUM some managers have returned capital to investors. For example, NB Global Floating Rate Income has been consistently buying back shares with the aim of protecting a 3% discount in the face of negative sentiment towards the US senior loan market and lower interest rate expectations. Over the last three years, it has returned c.£557m, representing 61% of share capital, but the discount remains at 8%. In the face of this unsustainable shrinkage, the board is consulting with shareholders on a potential shift in strategy, whilst the fund remains a meaningful size at c.£315m market cap.

Pricing and Performance Update*

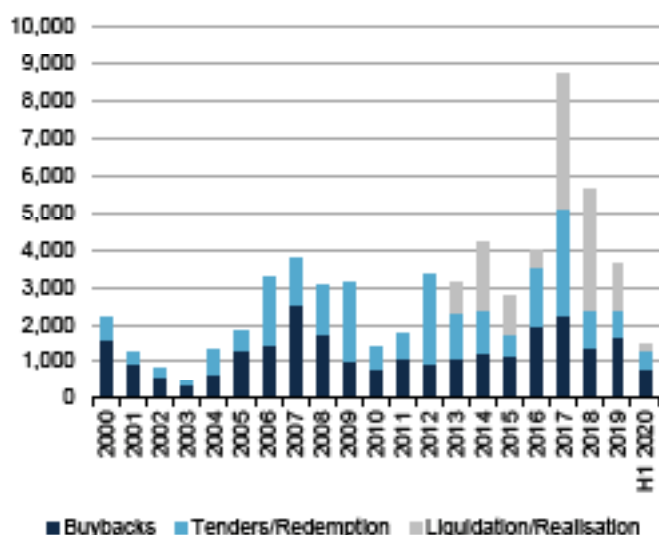
Best 5-year pre tax NTA returns - (#)									
Australian Large Cap Focus					Small-Mid Cap Focus & Others				
Company	3M	1Yr	3Yr	5Yr	Company	3M	1Yr	3Yr	5Yr
FSI	14.6	6.0	11.6	8.4	CD1	34.4	45.4	36.6	39.8
AMH	12.1	4.7	8.2	6.4	LSX	41.5	20.5	18.9	14.0
DUI	2.6	-8.5	6.9	6.3	CD2	0.0	20.2	11.6	10.7
CLF	9.4	-6.6	5.8	4.9	ACQ	7.8	11.4	11.3	10.5
AFI	8.5	-6.0	5.2	4.1	ECP	12.9	14.0	9.4	10.0

*Data to 31 July 2020. Only includes LMIs covered by IIR

#Portfolio return = NTA plus dividends per share. Pre-tax NTA is after tax paid on realised gains.

Discounts & Premiums to pre-tax NTA - (#)			
Largest discounts		Largest premiums	
Company	Discount	Company	Premium
CD3	-44.9	WAX	35.9
CD1	-41.9	WAM	19.6
CD2	-41.4	PE1	7.2
BTI	-31.0	AFI	4.8
LSX	-30.8	PL8	3.1

Capital Return Profile - UK Closed Ended Vehicles



Source: Numis Securities Research

However, some policies of discount control do not require a commitment on the part of the fund managers. While continuation votes are mandatory, the typical language regarding share repurchases indicates that the management team can utilize its discretion to decide the timing and the amount of any share repurchases. Thus, the announcement of discretionary repurchase programs as a mechanism to control the discount is not necessarily a costly information signal:

Managers can costlessly announce their intention to consider share repurchases under certain circumstances in an attempt to control the discount the fund but not carry out any actual repurchases when the fund discount increases substantially. On the other hand, the firm commitment to hold continuation votes and thus give shareholders the opportunity to decide whether to liquidate or convert to an open-end structure could more clearly serve as a costly signal of managerial skill. This costly signal would reduce the information asymmetry between fund managers and fund shareholders.

If managers do not have a stake in the fund, they would not benefit from a reduction in the discount. Since management company compensation is typically proportional to the assets under management, managers would have an incentive to resist liquidation or engage in share repurchases. In addition, the presence of substantial managerial stock ownership or blockholders affiliated with the fund manager, such large shareholders

Fund	Corporate Action	Buybacks	Tender/Redemption	Liquidation/Realisation	Total
JPMorgan Indian	Performance triggered tender for 25% of share capital	0.3	210.3	-	210.5
Pershing Square Holdings	Ongoing buyback programme	173.4	-	-	173.4
CVC Credit Partners Euro Opps	Quarterly tenders for up to 24.99% of share capital	-	96.8	-	96.8
Polar Capital Global Financials	Exit opportunity as part of a restructure	0.3	80.8	-	81.1
Fidelity China Special Situations	Buybacks protecting 10% discount	70.5	-	-	70.5
Scottish Mortgage	Buybacks to support discount	38.3	-	-	38.3
Witan	Buybacks to support discount	37.2	-	-	37.2
Baillie Gifford European Growth	Tender for up to 10% of share capital	-	36.8	-	36.8
NB Global Floating Rate Income	Buybacks protecting 3% discount	36.6	-	-	36.6
SME Credit Realisation	Buybacks and distributions from wind-down	0.7	-	34.2	34.9
JPEL Private Equity	Distributions from realisation strategy	-	-	32.2	32.2
CATCo Reinsurance Opps C	Distributions from realisation strategy	-	-	30.9	30.9
Riverstone Energy	Buybacks to support discount	29.6	-	-	29.6
Biotech Growth	Buybacks protecting 6% discount	28.2	-	-	28.2
HWSI Realisation	Distributions from realisation strategy	-	-	27.3	27.3
Alcentra European Floating Rate Inc	Quarterly tenders for up to 20% of share capital	-	26.5	-	26.5
Templeton EM	Buybacks to support discount	26.3	-	-	26.3
Personal Assets	Zero discount policy	25.5	-	-	25.5
Honeycomb IT	Buybacks from specific trade	23.7	-	-	23.7
RDL Realisation	Distributions from realisation strategy	-	-	22.4	22.4
VPC Specialty Lending	Buybacks to support discount	21.2	-	-	21.2
VinaCapital Vietnam Opp	Buybacks to support discount	20.1	-	-	20.1
Tetragon Financial	Tender due to wide discount	-	19.7	-	19.7
JPMorgan American	Buybacks to support discount	18.4	-	-	18.4
Diverse Income Trust	Annual exit opportunity	-	18.2	-	18.2
Other		255.9	7.6	47.6	311.1
Total					

Source: Numis Securities Research

tend to use their voting power to secure private benefits that do not accrue to other shareholders and thus veto liquidation proposals. As a result, discounts would persist, even in the presence of mandatory continuation votes.

Alternatively, it is suggested that the announcement of discount control mechanisms at IPO allows managers to subsequently extract rents by increasing assets under management. Skilled managers can capitalize on fund's past performance and the investor expectations of future performance increase the size of the fund by engaging in seasoned equity offerings or rights offerings. On the other hand, managers that generate a large discount may become entrenched.

While it has been found in the UK that it is less likely for large funds to delist and that large discounts over the previous year contribute to increasing the probability of liquidation or open-ending a fund, the explicit device that allows shareholders to vote on the future of the fund has no impact on the probability of delisting / conversion.

Moreover, research shows that funds with mandatory voting are even less likely to delist when faced with large fund discounts. The same holds for funds in which the management company has a stake: the commitment to hold continuation votes for such funds when interacted with the management company stake contributes to even lower the likelihood to delist. It appears that the benefit of reducing the discount that would accrue to the management company in case it has a stake in the fund is far outweighed by the rents it would capture if the fund continues to operate.

Second, UK research shows that closed-end funds that have explicit discretion to repurchase shares when discount is large are neither more or less likely to repurchase their own shares, regardless of the level of the discount.

To the contrary, all funds appear to engage in an increased level of repurchase activity when discounts widen. Having announced the potential to repurchase shares at IPO leads to even lower likelihood to implement this action if the management company has a stake in the fund. So, while there is evidence of a reduction in the outstanding shares of a fund following a large discount episode, this reduction is unrelated or in some cases negatively related to the announcement of a policy of discount control that is supposed to implement share repurchases.

This suggests that the announcement of a discount control mechanism at IPO does not constitute a costly information signal for the fund. Rather, it provides support for the alternative hypothesis that these policies are essentially a marketing tool used by fund managers to expand compensation by increasing assets under management.

The UK evidence indicates that both funds with that explicitly discuss share repurchases or have mandatory voting provisions are more likely to issue a large percentage of new shares in subsequent periods. That finding also holds for funds with substantial management ownership.

DCMs actually Decrease De-listing / Conversion Risks

In relation to the headlined topic, a comprehensive UK study drew the following conclusions:

- ◆ The size of the fund measured as the log of fund's market value at the end of the previous year is inversely related to the probability of liquidation: large funds are less likely to delist.
- ◆ Interestingly, by itself, the level of the discount at which the fund has traded over the previous year does not seem to have any effect on the probability of delisting.
- ◆ When in addition we consider the presence of a mandatory voting provision at IPO, this mechanism of discount control does not seem to affect fund liquidations either.
- ◆ The strongest predictors of the probability to delist remain the size of the fund and the prevailing market return in the year prior to delisting.
- ◆ However, a striking pattern emerges once we consider the interaction of the mandatory voting provision with the past fund discount. While funds that have traded at a discount over the past year face a higher probability to delist over the following year, funds that have adopted mandatory voting are significantly less likely to delist if their discount widens.

- ◆ it is more likely for large funds to repurchase shares. As well, funds whose return has dropped in the previous year are significantly more likely to offer their shareholders the possibility to buy back shares in the subsequent year.
- ◆ There is evidence that funds that announce buybacks as a buybacks are more likely to increase in size, since they do not repurchase shares more often than their peers but at the same time they are involved in significantly more share issuances.
- ◆ Measures of discount control are launched with a bigger market capitalization than the rest of the closed-end funds. This in line with the marketing hypothesis that argues that closed-end funds IPOs are sold to investors that face relatively large information processing costs and thus become more prone to the influence of marketing devices.

The discount control mechanism that allows shareholders to vote on open-ending or liquidating funds that have been trading at a discount works precisely in the opposite direction: such funds are even less likely to delist than funds with no mandatory voting in place.

Looks like a win-win for both shareholders and investment managers / boards. For the latter, you can't raise additional capital when trading at a discount to NTA!!!!

IIR would encourage shareholders / unitholders in vehicles with persistent deep discounts and relative underperformance to get active. Pressure boards - apparently they are there to act in your interest.

Australian CRE Private Lending - State of Play

SUMMARY

This is a lengthy thought piece but given the dislocation created by Covid-19 it is important that every identified material risk and opportunity for non-ADI alternative private debt lenders is given due discussion so that investors can make informed investment decisions.

With the possible exception of the industrial property sub-segment, no segment will be left unscathed by the ructions caused by Covid-19. But this does not mean there are not opportunities for astute, through cycle experienced and well-resourced private debt investment managers.

The larger alternative private debt managers that have focused on quality assets with non-cyclical cash flows, lent to strong asset-backed landlords and developers, and lent on conservative LVRs will do well. The market has already seen an increase in the interest rate premium for the same level of risk. Private lenders will undoubtedly gain market share with the further retreat of banks and foreign lenders to their respective home markets.

The key conclusion is risks and opportunities abound, but investment manager selection is key. As Warren Buffet famously said: "It's only when the tide goes out that you learn who's been swimming naked."

In the current environment we believe there are a number of **key qualities a manager must have to avoid the risks and capitalise on the opportunity set**. In turn, for investors this relates to manager selection. IIR believes the important components are as follows: **1)** track record of performance; **2)** risk management capability and evidence of historical workout / corporate restructuring experience; **3)** relationship management and borrower origination track record; **4)** risk management / distribution and exit skills; **5)** investor appropriate fund terms (risk, returns and liquidity), fees and costs of the investment product, scale and credit risk diversification; **6)** size of team and breadth of market coverage; and, **7)** investment in IT and portfolio risk management functions.

Investors are also seeking the manager to originate transactions and negotiate the appropriate fees and lending margins i.e., direct borrower relationships versus passive buy side bank 'stuffee'. Therefore, if a manager has a small origination team or is reliant upon other originators or brokers for deal flow then the returns available to investors will be inferior. **Metrics**, for example, often says that it seeks to bring investors closer to the point of origination. The benefit? The lender who originates the transaction charges the borrower 300bps fee, for example, and then sells down the risk to a new lender. The originating lender keeps 250bps points of the fee and shares or pays away 50bps to the secondary lender to participate in the transaction. Therefore, if a private lender can not originate transactions it incurs lower returns.

Finally, IIR believes that private credit is one of the few asset classes where the skillset of the manager can actually demonstrate the managers capacity to 'preserve investor capital'. That is, when a manager originate a transaction and negotiate the terms, conditions, controls, covenants and security the manager is taking active steps to mitigate downside risk of loss of investor capital. Therefore, appropriate due diligence is undertaken to assess the risk to ensure appropriate lending terms are documented.

OVERVIEW

Each economic downturn creates opportunities and challenges in the credit markets for private credit and special situation investors. During and in the wake of Covid-19, the opportunity arises from the fact that lending in Australia has historically been driven, to a large extent, by banks and, as borrowers' revenues plunge, a significant number of them will have to look to private credit to refinance their existing amortising bank debt.

Furthermore, banks are currently under significant workload stress and are likely to be for the next few years, which is likely to lead to deteriorating service levels and prolonged debt issuance time frames for existing and potential new borrowers.

Additionally, Over the last 10-year bull market banks have shed and reduced their workout capability internally quite drastically as well - there is likely to be an inability from a resourcing and skills perspective to work through deteriorating credits, opening up further deal flow to non bank lenders in potentially heavily discounted credits. In short, the private credit market will have a real role to play in ensuring that there is still liquidity in the system for some of those borrowers.

The ability of private credit investors to deliver greater flexibility than typically seen with financings from banks, with bespoke solutions and the ability to be more responsive will be a huge differentiator.

The amount of defaulted debt in the market is likely to increase, providing opportunities for investors to make returns through a variety of strategies including loan-to-own, debt-for-equity swaps, negotiated distressed sales (no formal insolvency process), negotiated sales through a pre-packaged insolvency procedure and purchases out of an insolvency process. While these types of higher risk-return deals are not overly relevant to **QRI** and **MXT**, it is relevant to the **MOT** and **Metrics Credit Trust Strategy** mandates.

Of course, the challenge stems from the exact same circumstances, namely, that the virus has had (and will continue to have for some time) a dramatic adverse impact on the creditworthiness and viability of some existing portfolio companies of private credit investors. Addressing this challenge requires private debt managers to be highly selective with respect to new investments and for existing holdings comprehensive review of each company's situation in terms of its business performance, obligations under its financing agreements and options for moving forward.

While there are a host of economic risks stemming from the disruptions created by Covid-19 and these will ultimately impact the debt markets investors should be aware that from this dislocation event come a host of opportunities for well positioned private debt lenders in the Australian market.

IIR believes there are five key opportunities for astute private debt fund managers and, in turn, investors: Specifically: 1) an increased private debt premia; 2) more lender friendly loan structures; 3) increased deal flow / market share, and; 4) strong vintage year performance.

However, whether these opportunities can be realised in sum total across an entire loan book portfolio will be impacted by how a manager addresses what IIR sees as four key risks: 1) property sector exposures and long-term structural changes in certain sectors; 2) valuation risk; 3) liquidity, particularly payment holidays, covenant waivers and ability for borrowers to tip in additional equity; and, 4) defaults and recoveries.

Examining each of the opportunities noted above:

PRIVATE DEBT PREMIA

Private debt has always earned a premia and that premia has invariably been greater in Australian private debt versus the larger US and European market

This premia consists of three key components: 1) a complexity premium; 2) a supply and demand impacted premium; and, 3) and illiquidity premium.

Often, these three factors are encapsulated in the overall term 'illiquidity premium' but in IIR's view, that term gives too much weight to the illiquidity component and not enough weight to the two other factors.

In Australia, a key determinant of private debt pricing is ultimately the actions of the banks - i.e. **supply and demand**. That is, if the banks (domestic and foreign lenders) are chasing assets then competition will drive down the price. If there is a withdrawal of bank participant liquidity then the market price will go higher. That is what happens in LBO and property related lending markets - the bank withdraw and there is a funding gap so market prices go higher. This is also because Australia has a very immature debt capital market ie., most borrowers are unrated and therefore reliant on banks for finance.

Notwithstanding the growth of private alternative lenders, Australia remains a bank dominated market, as noted below, and pricing in the market is largely determined by the liquidity of the banks and their risk appetite, which compensates an investor for the added uncertainty of tying up capital for longer periods of time and the risk that the illiquid asset cannot be sold quickly enough (within a reasonable time period) to prevent or minimise a loss. In short, it is 'market' not 'asset' liquidity that will determine the price.

The **complexity premium** relates to the origination skillset of the manager. Deals with greater complexity are often less competed for as not all managers have comparable skillset in origination, loan management and workout skills. Adept, well-resourced managers may gain comfort with certain deals where less adept managers may not. Additionally, direct lends typically price at a premium over club or broadly syndicated loan deals (more relevant to the corporate lending market, however the same dynamics apply to CRE lending).

Examining the **illiquidity risk premium** in isolation, this is in part based on three sub-components: 1) it rests on a reliable estimate of expected return, which requires a significant amount of judgement; 2) expected cash rates and public debt risk premia (bond yields and/or bank loan pricing); 3) expected credit losses, which can arise due to defaults on the payments; and, 4) further risk aversion around credit risk. In addition to these expected credit losses, risk-averse investors will demand an extra premium to compensate for the uncertainty of those losses, and the left-tailed nature of credit as an asset class (lots of modest positive returns, but the potential for large negative returns).

In aggregate, the pressures on the private debt premia is likely to continue to be higher for some time, reflecting the amalgamation of these three forces.

The private debt premia is not constant, changing over time primarily in relation to supply-and-demand, which also often feeds into the execution premium by way of OID fees, and high operational barriers to entry.

Prior to Covid-19, the private debt premia in relation to private debt was undoubtedly contracting globally and in Australia as a result of increased competition and greater capital inflows into the non-ADI private debt segment. From prior conversations with certain CRE lenders, we estimate premiums had contracted circa 50-75 bps in first lien secured CRE and corporate debt over a two year period due to these dynamics. That said, other managers, such as **Metrics**, report there evidenced no real compression as the market growth (from the retreat of the banks) accommodated the increasing competition.

With the Covid-19 market dislocation, we are universally hearing from private debt managers IIR that current premiums have effectively reversed that decline, increasing in the vicinity of 100-150 bps.

Why has this occurred and is it likely to persist. In IIR's view there are three key reasons: 1) the ongoing retreat of banks from CRE and corporate lending; 2) reduced non-ADI lending competition; 3) less non-ADI lending capacity, and; 4) a reflection of higher public debt credit spreads, less earnings visibility, and greater caution regarding default rates.

The Retreat of Banks, Foreign Lenders and Market Consolidation.

In the Australian market, IIR believes the trend of lending flow away from banks to non-bank lenders in the mid-market corporate lending sector is likely to accelerate. Additionally, as quality businesses look for loans in a credit-strained market, lenders will demand higher pricing. These views are based on a range of factors, the primary ones being noted above in the opening paragraphs.

The Australian CRE lending market is still very much controlled by the banks, which control approximately 90% of all CRE debt in Australia. This figure is very different to the US and Europe, where banks tend to represent 40-50% of the market, with the residual being funded by alternative financiers.

As such, the growth potential of the alternative private debt market in Australia is very much dictated by the behaviour of the banks and their appetite through a cycle. As noted above, it appears that the banks are more inward focused currently, looking to do less things, and more focused on absolute prime borrowers at this point of time. We expect that bank-led financing will continue to be selectively available from the Banks to tier one Australian REITs and other real estate borrowers at the top end of the credit spectrum. Others are likely to face a tighter lending environment for a significant period.

Similarly, foreign private lenders, which had increased their presence materially over the last one to two years, are likely to retreat to their respective domestic markets to focus on opportunities present there or, in some cases, deal with issues in existing portfolios

The upshot is there is likely to be more demand for financing from alternative lenders in the Australian market over the next 12-months, or so, just has been the case in the past six months. For borrowers who are unable to access bank-led financing, the Private Credit markets, and in particular the private debt funds, remain open and many have plenty of committed capital to deploy.

Finally, its IIR's sense is that there are a number of non-ADI lenders that either do not have the desire to extend new loans or, alternatively, are not capable of doing so, potentially managing distressed portfolios that were built over the last few years.

It is conceivable the Australian direct lending market may be left with fewer players as certain managers fall away due to performance and liquidity issues in their portfolios. We would speculate that this is likely to be in the form of some international private credit managers not returning to the Australian market, or at least not any time soon.

Lenders that created a portfolio full of loans to good-quality borrowers at responsible levels of leverage and full covenant protections will not be hindered by severe illiquidity resulting from distressed portfolios. Instead, they will be able to deploy dry powder in a disrupted market that will be very attractive for lenders.

Short Dated Maturity Profile

The illiquidity premium is not earned until principal is repaid or the asset is sold. Actively Creating liquidity can be a compelling form of exit strategy. One example of this is short maturity corporate and CRE loans, designed to bridge events and then be refinanced into more vanilla syndicated term loans.

We note that the likes of **QRI** and **MOT** all have short to very short weighted average loan maturities, specifically 8 months and 1.7 years, respectively (**MXT** less so at 2.5 years) overall but 1.1 years regarding its CRE lending portfolio component). This enables rapid recycling of capital, mitigating both risks should the outlook for a borrower deteriorate in addition to maximising the potential to capitalise on opportunities when they arise.

Vintage

Vintage is an important determinant of performance in private markets. CRE lending and Mid-market corporate credit is partly a vintage business. And particularly when the weighted average duration of a loan book is short, as it is with the likes of **QRI** and **MOT**.

Taking the GFC as an example, while applicable to private corporate debt we suspect is equally applicable to CRE lending. Leverage multiples peaked in 2007, and in the wake of the GFC, the 2009-11 period produced excellent vintages. The 2019 vintage, with average debt to EBITDA of 5.5x for mid-market leveraged buyouts, was remarkably similar in terms of leverage to the 2007 vintage, where debt to EBITDA was 5.6x. The 2009

and 2010 vintages had debt to EBITDA of 3.3x and 4.2 for mid-market LBOs, respectively, both of which turned out to be attractive vintages.

The conclusion is that we would expect to see income distributions from well managed Australian private debt vehicles, whether engaged in CRE lending or corporate low to mid-market debt lending, to increase over the foreseeable future. Of course, this is subject to how well a manager manages existing and new loans with respect to defaults.

More Lender Friendly Loan Structures

The Australian private debt market never witnessed the deterioration in lender safeguards like the European and North American markets, particularly in the corporate debt segment. Notably, this included 'cov-lite' provisions, lower equity headroom / higher LVRs, EBITDA addbacks, and less reporting transparency from borrowers. In short, credits were being underwritten with weaker overall credit profiles.

Nevertheless, CRE and corporate debt lenders we have spoken to are invariably issuing loans on lower LVRs (based on arguably conservative valuations factoring in the limited economic visibility), generally to borrowers with strong balance sheet backing (i.e., have the ability to utilize equity for interest and principal payments and potentially inject equity capital should the LVR creep up) and in CRE lending, require a greater degree of pre-sales commitments.

The conclusion is not only higher pricing, but arguably (said in a rather tentative way) lower risk. And this is in the Australian private debt market, which has always both benefited lenders with a higher premium and better protections than both the US and European markets, and partly due to a lesser degree of competition and institutional capital flows into the sector.

KEY RISKS:

Sector Exposure

Of the major property segments, it is highly likely that no segment will be left unscathed by the implications of Covid-19, with the possible exception of the industrial segment. In IIR's view, the key relevant dynamics that are likely to impact landlords and developers include the following:

- ◆ The eviction moratoria will have ups and downs, with tenants seeing a cash-flow benefit, but at the cost of landlords and their financiers. Inner city residential is broadly expected to be the segment hardest hit (disproportionate concentration of students, renters in hard hit sectors such as retail and hospitality)
- ◆ Construction of some new projects has seen some disturbance as a result of supply chain issues and more recently in Victoria workplace restrictions, which may impact timetables and budgets in construction facilities. Risks appear to be greatest with mid-tier property developers with projects coming out of the ground. Many were operating of very thin margins per Covid-19. Settlement risk and extended time lines augment risks. We expect insolvency rates (when insolvency laws are re-established) to be not immaterial.
- ◆ Updates to valuations for purposes of existing debt covenant compliance is likely to be met with significant uncertainty - this might see a need for amendments/waivers of covenants.
- ◆ Additional liquidity might be difficult to generate for those outside the top of the credit spectrum, but more flexible private credit lenders and possibly also "in one line" sales of development stock to private investors remain clear options.
- ◆ The retail, student accommodation and office sectors, the former of which was already undergoing a structural move to on-line (exacerbated by unsustainably high rents), may have permanently changed.
- ◆ Cash payment terms, which have contracted materially, are likely to revert to more standard 60 days and when they do many mid-tier developers may well face a cash crunch. The reinstatement of insolvency laws is likely to be no small risk, and may see many smaller developers / trades people go to the wall.

Some sectors of the property market have been affected by Covid-19 more than others - and lenders and borrowers dealing with assets in these particular sectors may suffer greater ramifications as a result.

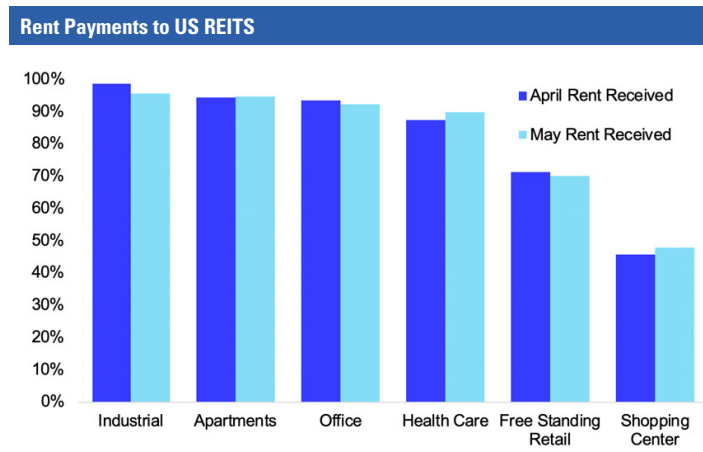
For example, property assets with an exposure to discretionary retail, tourism, hospitality and fitness business are likely to be impacted more than assets with an exposure to non-discretionary retail and medical assets. With an increase in the use of e-commerce, industrial assets with a focus on warehousing and logistics may also be sheltered from some of the impact of Covid-19 as online shopping continues to maintain demand.

More generally, business may look to decrease fixed costs - and with the majority of the workforce working remotely, reducing office space is a way to do this. This may lead to a short term reduction in demand for office space, and potentially on a more long term basis as business embrace the use of remote working on a more permanent basis.

Clearly, stay-at-home orders will impact the ability (or willingness) of tenants to pay rent. Lack of rent would squeeze the cashflows of real estate owners, which (under a worst case scenario) would lead to potential breaches of fixed-charge cover ratios within lending agreements.

However, the swift response of the Australian Government, and those around the world, with payments supporting wages and small businesses has to date ensured rents have largely continued to flow. For example, looking at overseas markets, outside of retail, most US REITs have reported mid 90% cash rent collection in May 2020 (with May collections generally better than April for apartments, healthcare and malls). Most of the rents not yet paid are on deferral agreements. Only slightly worse cash rent numbers were reported from Europe/UK

We would caution investors drawing too much optimism from the below chart. First, IIR has not done a deep dive on the Australian REIT sector to determine the above. Secondly, IIR believes the worst is yet to come, with 2021 shaping up likely to be a crunch year. As Qualitas described it, we are currently in the eye of the storm, with a lot of false economies out there.



Source: Quay Investments

It is important for investors to appreciate that different sectors and sub-segments and different classes of borrowers face very different risks. We believe that the larger alternative financiers with through economic cycle experience (went through the GFC) and strong teams will be left relatively unscathed and, in fact, may perform better during this period.

For example, **Qualitas** have yet to receive one borrower request for a deferral on interest as well as principle payments. This is partly due to strong asset selection in addition to larger borrowers that have very strong asset backing (the ability to tip additional equity in should valuations decline / LVRs increase).

Similarly, **Metrics**, in terms of its CRE lending, have seen six of its existing borrowers complete projects since March and all have settled pre-sales without any significant uptick in settlement defaults. A number of Metrics' existing projects have seen continuing strong sales (particularly for land sub-divisions) and reported sales have been at price points exceeding valuations.

All assets are monitored carefully by such lenders. Additionally, both QRI and MOT have relative short weighted average loan durations. This is important as it means the managers are better placed should heightened risks emerge, in addition to take advantage of opportunities through the recycling of capital.

Qualitas is also not seeing evidence of forced selling of property assets at the large end of town. This suggests that currently it is not just the quality of the Qualitas portfolios, rather a sector wide phenomenon. Of course, the situation may change.

Tenants

Businesses are facing increasingly tough conditions as governments respond to the Covid-19 threat by imposing restrictions on the general population's movements. We have already seen various businesses close their shop fronts (voluntarily, or as a result of insolvency) and many are unable to pay rent.

Borrowers who rely on tenants' rent to service their debt will face the loss of this income stream - and this will almost certainly have a flow on effect in their financing arrangements, for example breaching covenants in their loan documents which require a level of rental income and ultimately being unable to meet their scheduled interest and principal payments to their lenders.

Recent government announcements such as the proposal for a six month moratorium on tenant evictions may also have an effect on borrowers who will find themselves without an income stream, but are in a position where they cannot replace a tenant.

Construction

Covid-19 is having an impact on the various worldwide supply chains, and this will likely have a flow on effect on the construction industry as materials become harder to source or there are delays in delivery. Additionally, in Victoria the sector has been significantly impacted by the second lock down, shedding 13,000 jobs between early July and early August.

The job loss numbers do not cover the period of strict stage four restrictions. As such, it is inevitable that the trend will worsen, driven by workplace restrictions, where the number of workers for larger construction sites is restricted to 25% of pre-Covid-19 numbers, combined with the closure of hardware stores. For smaller residential construction sites, numbers have been limited to five workers at a time, with specialist contractors allowed to visit a maximum of three construction sites a week. We note the National Australia Bank has forecast a 20% decline in dwelling construction for 2021 and subdued demand to continue through to September 2022, with lower overseas net migration being just one factor expected to drag on the sector.

Factors such as these will have a flow on effect to time lines for completion of construction and will also result in increasing costs. Construction financing arrangements often contain sunset dates by which construction is to be completed, and any delays in completion could lead to review events or events of default in the absence of consent from lenders. Financings also often require certification as to costs to complete, or contain obligations as to cost overruns (including requiring additional equity) - each of which will need to be considered as the effects of Covid-19 make their way through the economy and the construction industry in particular.

Builder insolvencies will also have an impact on construction financings as some borrowers may find themselves without a builder. A focus on the terms of builder tripartites will invariably follow.

The silver lining is that strong, well balance sheet backed developers are still being funded, both through banks and second-tier alternative lenders. We note that such lenders are being extremely cautious - LVRs have dropped, pre-sale requirements have increased and lenders wanting very solid assets.

In contrast, middle tier developments and developers are finding financing difficult. Some of these developers were already facing pricing pressures. There does not need to be lot to go wrong for such developers to face serious financial difficulties. To the extent these borrowers can get finance, additional finance, or re-finance (the capacity / desire to lend of second tier lenders has declined), these developers are likely to have to pay a large premium for that funding. The middle quality suburban build type developer, for example, may struggle to get a project away.

Residential

Residential real estate financings often rely on pre-sales - either as a hurdle to drawdown or otherwise as an ongoing obligation. In the current climate, in addition to finalising new pre-sales becoming more

difficult, we may see an increase in pre-sale contracts being rescinded or otherwise falling over due to the impact of Covid-19 on purchasers. There will be a degree of overseas buyers that are not going to want to complete and some domestic borrowers just simply not in a position to do so given potential job losses, in addition to other potential issues. Additionally, Borrowers may face the situation where they are unable to draw on facilities as they are unable to evidence the relevant level of pre-sales or find themselves in breach of their undertakings.

Where low pre-sales levels make debt financing very difficult to secure, there may be increased appetite from private equity investors to acquire “in one line” development stock from residential developers, providing them with much needed liquidity.

Segments of the residential and apartment sectors are likely to be hard hit in 2021 as government support is wound back, loan holidays expire, businesses / ‘zombie’ companies simply go to the wall. Inner city investment property and SME borrowers segments are likely to be hard hit. Some Middle tier property developers, already operating on thin margins, will likely not come out the other side should buyer settlement and elongated sales cycle risks transpire, creating issues for developments already underway.

Office

Many corporates will be anxious not to commit to big capex projects or make any firm employee headcount forecasts, which will strengthen demand for preconfigured space on flexible terms.

Furthermore, the forced mass experiment in home working will reinforce the need for corporates to adopt agile portfolios and adapt the physical office to deliver collaboration. The trajectory of the office market will be shaped not only by the ability of governments and financial institutions to manage the ongoing crisis, but also the potential emergence of structural changes to how space is used and incorporation of lower employee density and deployment of remote-working options.

While some corporates might look to remote working in order to compress their real estate footprint, most are already looking at ways to future-proof their portfolios. Risk mitigation strategies will include greater investment in ‘business continuity planning’ space and remote-working facilities. De-densification is also likely as the appeal of highly dense, large, open-plan offices is now clearly up for debate. The co-working office sector, which had been a contributor to net absorption in Melbourne and Sydney, has fallen flat as a direct result of the Covid-19 outbreak. This will likely force significant consolidation across the sector. In the medium to long term, although the sector is likely to be a beneficiary.

Landlords have acted swiftly to remain competitive in a softening market. Rental declines for new leases have been practically universal, either through face rent adjustments or increased incentives. Sydney saw the sharpest decline in the Q2 2020 across the entire Asia-Pacific region at 8.6%. Although there was an initial rush from some tenants to secure rent abatements or waivers, unless mandated by enacted Government policy, their success in doing so has been patchy. That’s not to say landlords have not been amenable to working with tenants in financial difficulty, but that rental write-offs have not been common. Most tenants continue to occupy their space and pay their rent, resulting in only modest market level rental declines in the face of weak sentiment.

However, There is likely to be a glut of sub-lease space on the market as corporates pursue similar rationalisation strategies – available sublease space in Sydney has reached levels last seen during the GFC – and so achievable rents are likely to be well below former market levels

Broadly speaking, we expect property markets to become more tenant friendly and landlord friendly markets position. We expect total rental declines for the year to average 5% but ranging up to 15% for markets that were already encountering headwinds prior to the pandemic.

The vacancy outlook though is much more nuanced, reflective of the wide range of conditions between markets (Figure 7; Figure 8). Space needs are evolving, driven by cost reduction and greater employee flexibility. The speed at which these workplace strategies can be deployed is dependent on several factors, but ultimately require the alignment of financial goals with corporate real estate strategy, HR policies and change management practices. Expect this to continue to play out over 2021 and beyond.

Retail sector

For retailers, the primary focus in the short term remains on preserving cash. A rising number of retailers operators are assessing options to offset the loss of revenue from their physical store portfolios. The operative word is omni-channel sales distribution – gyms providing online workout sessions, restaurants are offering meals for delivery or collection, shops moving to more online sales.

Looking further ahead, many retailers will rethink their operations, with greater emphasis placed on the shift toward a flexible omni-channel retail model. In addition, existing store networks will be reassessed. Landlords will take some pain, with potential ramifications for lenders.

Covid-19 has presented an acceleration of pre-existing structural changes in the retail market. Clearly this trend, and associated pain, will be greatest in the discretionary sector. Owners and debt holders in the neighbourhood retail sub-segment, anchored by large supermarket chains and a host of other non-discretionary shops, may well emerge relatively unscathed.

VALUATIONS

Another consideration for borrowers and lenders is the valuation of property assets being financed, especially as financial ratios are often tied to the relevant asset’s value. There is an obvious concern as to the impact of Covid-19 on the value of all types of property. Lenders often have a right to ask for updated valuations in circumstances where they think the value of the property the subject of the financing may have fallen. Financing arrangements may also contain covenants tied to the value of the particular property. Should the value of the property in question have fallen, then this could result in the right of a financier to review a particular facility or a borrower may find itself in default of its loan-to-value ratio.

Practically, there may be difficulties in obtaining valuations as site inspections are more difficult to complete where restrictions have been placed on people’s movements for nonessential matters and because the slowdown in transactions may make it difficult to assess comparable sales. In addition, the Australian Property Institute has also released a new valuation protocol to deal with significant valuation uncertainty (including clauses specifically dealing with uncertainty limitations in relation to Covid-19).

The uncertain economic outlook and lack of clarity of the short- and medium-term impacts of Covid-19 on have made valuing assets substantially more difficult. In turn, IIR suspects this has led to some private debt managers adopting a cautious approach and sitting on the sidelines with regards to new lends, while for those more actively looking to trade there is an increasing divide between vendor and purchaser pricing expectations.

According to Qualitas, the market did experience a decline in valuations beginning from March. As a generalisation, declines ranged from 5% to 15%. These declines largely reflected a deteriorating cash flow outlook, with the hotel, retail, and office sectors hardest hit. However, to date there has been little change in capitalisation rates so far, though this is likely in part due to the limited number of assets trading as many owners are reluctant to sell and lock in potential losses.

Moving forward there is likely to be a tug of war between the discount / capitalisation rates (the low interest rate environment provides something of a floor) and cash flow expectations.

Moving forward, hospitality and retail asset values will come under even greater scrutiny and the loss of income from lower occupancy and sales will inevitably be reflected in any valuation. The office sector to an extent and industrial sector should be more resilient, though average lease expiry and tenant covenants will influence pricing.

Ultimately, how far capital values fall in 2020-21 will largely depend on whether government measures to keep businesses afloat through the lockdowns are successful. If they succeed then the fall in capital values should be limited and a slow recovery occur as and when business activity picks up and investor sentiment revives. However, if there is a wave of insolvencies, then a lot of space could be left vacant and the recovery in rents and capital values is likely to be delayed.

Similarly, there is little evidence of true distress in the market at the current time, but this may become more apparent if the outlook worsens or banks become more conservative on lending policies.

LIQUIDITY

Where valuation declines occur LVRs increase, potentially to levels either the lender is uncomfortable with or alternatively in breach of agreed covenants. In either case, a financier has a number of options: have the borrower injecting additional equity; the borrower may cut costs to improve principal repayments; the borrower may drawdown existing facilities (notwithstanding the increased interest cost of doing so) and/or incurring new debt subordinate to the lenders; sell assets; refinancing with a different lender; stretching the loan term through payment deferrals – this approach typically is likely to be only a very short-term fix; or, as a last option the financier can take possession and divest the asset (and where the sale price exceeds the level of principal recover 100% of funds).

The ability for a borrower to tip in additional equity is subject to their balance sheet backing. And it is this area where the larger alternative lenders are at a distinct advantage as many of their borrowers run larger entities and have typically done so for some time (more recession resistant). Additionally, larger borrowers have often had longer term relationships with certain borrowers (these investment managers have been around for some time) and have a strong information advantage regarding the cash flows of a lender. In this Covid-19 period, it will undoubtedly be the SME borrowing segment hardest hit, none of which the ASX-listed private debt manager participate in.

With respect to payment deferrals, in addition to deferrals to trade creditors, a borrower may choose to select the maximum length of interest periods and requesting amendments to change cash pay interest to payment in kind (or deferred interest that accrues but is not capitalised). Where there is amortising debt, a borrower may also request relief from repayment obligations.

Similarly, some borrowers are concerned that their accountants will not be able to complete the audit in the time specified in the facilities agreement for delivery of audited financial statements, which in turn may impact the ability to calculate excess cashflow and make any required mandatory prepayment from such excess cashflow within the prescribed time. In such cases, borrowers are also seeking relief of such mandatory prepayments from excess cashflow (a number of borrowers that do not have an issue with the timing or calculation of excess cashflow but project liquidity issues arising from Covid-19 are also seeking relief from such mandatory prepayment obligations).

In the context of incurring additional debt should a loan facility have undrawn committed facilities, the question of whether a default is continuing is extremely pertinent as the lender can refuse to fund new advances if a default is continuing or the repeating representations are not true (sometimes qualified by materiality).

Where a default is continuing, the lenders will then be faced with a judgement as to whether the borrower will meaningfully benefit from additional liquidity or if it is preferable to simply refuse to fund. Outside of this, the scope for the borrower to incur additional debt in most traditional facilities in Australia is very limited (even more so where such debt is to be secured, even on a junior basis). An exception to this might be in the context of nonrecourse receivables financing, but this will be subject to a cap. The borrower may also consider selling material assets (including by sale and leaseback), the proceeds from any such sale will be subject to mandatory prepayment requirements and so may have limited value from a liquidity perspective absent a waiver.

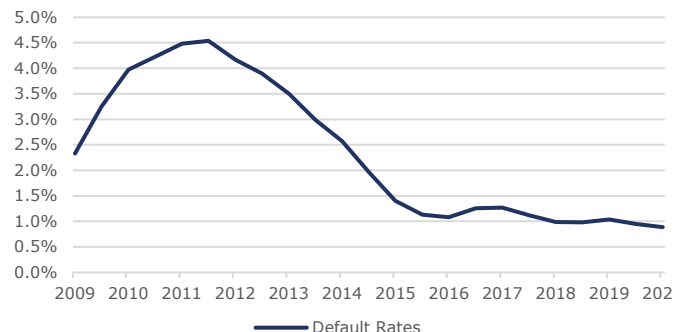
The banks have enormous balance sheets and the way they fund it is very different to a second tier alternative private debt managers. The banks can ultimately decide to hold onto these under performing debts for some time.

In contrast, alternative lenders do not have that same ability. These lenders ultimately still have a liability on their balance sheet that they need to pay income from to investors. They will ultimately move on assets far more proactively than the banks, if deemed necessary to recoup principal and outstanding interest.

DEFAULTS & RECOVERIES

The chart below illustrates historic default rates in the Australian CRE lending market. Investors should note, however, that during the GFC even a greater share of total loans were financed by the banks. IIR believes the adept alternative private debt managers have more determined workout and recovery teams. Take Qualitas as an example, which has GFC experience. While Qualitas has recorded defaults, it has never lost a dollar of principal and interest outstanding.

Australian Private Lending Default Rates



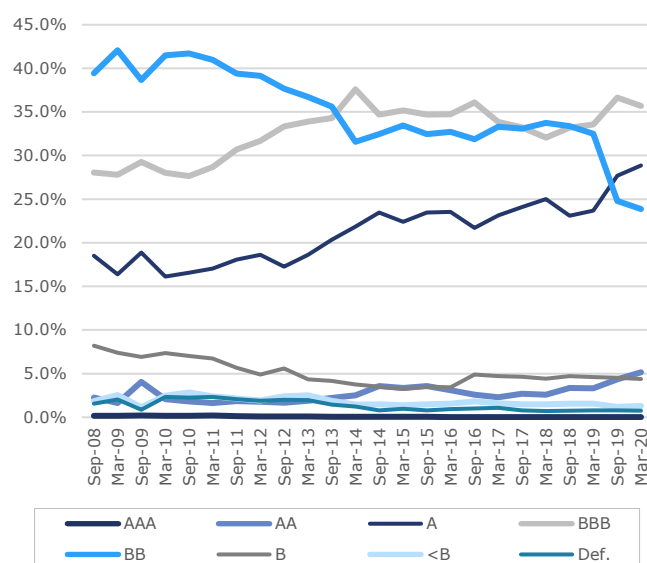
Source: Bank Data

Australian Private Lending Loss Given Default Rates



Source: Bank Data

Australian Private Lending Credit Quality over Time



Source: Bank Data

Loan impairment in Australia's commercial real estate finance market
The Australian commercial first mortgage lending market has historically sustained low impairment rates and losses, including during the GFC. For Australian ADIs, commercial real estate loan impairments as a percentage of overall commercial real estate loan exposures peaked at 4.5% during

2011 and have averaged circa 1.0% for the four years ended 31 March 2020.

Default takes place once a company fails to meet its debt obligations in accordance with the terms of the loan agreement. Failure to repay could be the result of short-term liquidity difficulties or more fundamental business issues that may threaten the company's solvency. In case of liquidity issues, there is usually a reasonable chance that the company may return to performing and generate sufficient cash flows to cover loan losses and remain as a going concern, a situation which is called default resolution or loan curing.

Loss given default of cured loans is usually confined to the opportunity cost of late repayments, forgiven debt obligations or implicit costs associated with working out the loan, which are, in general, very small. In the Australian context, these peaked at 0.67% in March 2010.

On the other hand, if the company is suffering from insolvency problems, lengthier operations would only lead to a reduction in the company's asset values and higher losses. In this case, liquidation of pledged assets is the preferred workout strategy by the bank. Loss given default in the liquidation case depending on the option value of the assets could be substantial, noting that when the option value of the assets is low, the business owners or guarantors have little incentive to save the company.

A default on interest and, in the case of amortising debt, principal does not automatically lead to a recovery situation. But should it do so, all dedicated private debt managers IIR has dealt with (Metrics, Qualitas, Revolution AM, 360 Capital and Moelis) all have dedicated experienced workout expertise within their respective teams.

Again, the experience and track record of managers will be of increased importance in investor decisions, and this will benefit established managers throughout and beyond the current market turbulence.

Two main conclusions emerge from studying the relationship between LGD and its underlying determinants. First, soft information about the business borrower acquired through long-term relationship over the life of the loan is an important factor in predicting LGD. Thus, relationship building with commercial borrowers, which is specific to bank lending, plays a central role in bank's appraisal of the expected losses and thereby risk management.

Second, there is a U-shaped relationship between the size of the loan and expected LGD, which could be attributed to the interaction between two opposing factors: increasing returns to scale in the process of distressed loan workout and the bank's strategic workout policy that takes into account spillover effects of default of large borrowers. On the one hand, increasing returns to information implies that workout of larger loans should be more effective and yield lower LGD. Larger firms with greater bargaining power tend to renegotiate terms of the loan after default and avoid costly liquidation. In addition, larger firms can take advantage of diversification benefits and accordingly avoid default.

Studies have shown that the probability of default shows the highest correlation to four factors, and in order of significance: 1) soft information used in private debt financiers rating of borrowers for predicting LGD; 2) variables capturing macro-financial conditions ranked next; 3) security of the loan (collateral and guarantee) exhibited substantial effects on LGD.; and, 4) the size of the loan.

Pricing & Recommendations – Australian Share Focus

All data as at 31 July 2020	ASX Code	Market Cap (\$M) *	Last Price (\$)	Dividend Yield %	Pre-Tax NTA (\$)**	Pre-tax NTA Prem/Disc %	3 Year Avg Prem/Disc%	M'ment	M'ment Fee %	IIR Rating
Australian Shares - Large Cap										
Australian Foundation Investment Company	AFI	7665.4	6.3	3.8	6.01	4.8	1.4	Internal	0.13	Highly Recommended
Argo Investments	ARG	5322.2	7.39	4.5	7.28	1.5	0.4	Internal	0.15	Highly Recommended
Milton Corporation	MLT	2839.7	4.23	4.6	4.29	-1.4	-2.3	Internal	0.14	Highly Recommended
BKI Investment Company	BKI	1077.1	1.46	5.7	1.47	-0.7	-1	Internal	0.1	Recommended +
Australian United Investment	AUI	1015.6	8.15	4.4	8.46	-3.7	-4.4	Internal	0.1	Recommended +
Diversified United Investments	DUI	885.7	4.18	3.7	4.39	-4.8	-4.8	Internal	0.12	Recommended +
WAM Leaders Limited	WLE	900.8	1.15	5.5	1.17	0	-4.6	External	1.0	Recommended
Djerriwarrh Investments	DJW	585.3	2.61	7.2	2.71	-3.7	5.4	Internal	0.43	Recommended +
Plato Income Maximiser	PL8	430.6	1.01	5.6	0.98	3.1	1.2	External	0.8	Recommended +
Whitefield Limited	WHF	429.1	4.47	4.6	4.63	-3.5	-6	External	0.25	Recommended +
AMCIL Limited	AMH	264.6	0.95	3.7	1.02	-7.4	-6.4	Internal	0.72	Recommended +
Concentrated Leaders Fund	CLF	54.6	0.92	6.5	1.23	-14.6	6.2	External	na	Not Rated
Ironbark Capital	IBC	51.7	0.42	5.2	0.5	-16.3	-8.1	External	0.65	Not Rated
Australian Governance & Ethical Index Fund	AGM	27.5	1.66	5.7	1.73	-4	-2	External	0.19	Not Rated
Flagship Investments	FSI	47.9	1.88	4.5	2.22	-15.4	-14	External	0.0	Recommended
Evans & Partners Australian Flagship Fund	EFF	22.1	1.44	5.9	1.49	-3.4	-0.3	External	0.98	Recommended
Australian Shares - Mid/Small Cap										
WAM Capital	WAM	1396.5	1.93	8.1	1.61	19.6	19.1	External	1.0	Recommended +
Carlton Investments	CIN	597.0	22.55	5.9	27.42	-17.8	-13.6	Internal	0.08	Not Rated
Ophir High Conviction Fund	OPH	530.0	2.65	0.0	2.96	-10.5	-5.1	External	1.2	Recommended +
Future Generation Investment Company	FGX	401.4	1.01	5.0	1.17	-14.1	-4.9	External	0.0	Highly Recommended
Mirrabeeka Investments	MIR	392.9	2.42	4.1	2.52	-4	6.2	Internal	0.61	Highly Recommended
QV Equities	QVE	211.2	0.81	5.4	0.93	-12.9	-4.5	External	0.9	Recommended +
WAM Research	WAX	260.3	1.35	7.2	0.99	35.9	23.5	External	1.0	Highly Recommended
WAM Microcap Limited	WMI	282.8	1.38	5.5	1.38	-0.4	3.5	External	1.0	Recommended +
Westoz Investment Company	WIC	132.5	0.99	6.1	1.1	-10.1	-10.9	External	1.0	Recommended
Forager Australian Shares Fund	FOR	97.2	0.86	0.9	1.07	-20.1	-0.4	External	1.1	Not Rated
Thorney Opportunities	TOP	93.9	0.47	4.0	0.6	-21.8	-16.4	External	na	Not Rated
Naos Small Cap Opportunities Company Limited	NSC	79.7	0.51	6.9	0.69	-26.8	-15.2	External	1.15	Not Rated
Spheria Emerging Companies	SEC	82.9	1.35	5.2	1.75	-22.7	-12	External	1.0	Not Rated
Contango Income Generator	CIE	77.9	0.65	6.1	0.73	0	-10.3	External	0.95	Recommended
Ryder Capital	RYD	87.6	1.45	3.4	1.75	-17.2	-14.7	External	na	Not Rated
Sandon Capital Investments	SNC	59.2	0.55	12.8	0.76	-28.1	-8.4	External	1.25	Recommended
Naos Emerging Opp Company	NCC	51.0	0.83	8.8	0.97	-14.9	-2.3	External	1.75	Not Rated
Acorn Capital inv Fund	ACQ	55.0	1.03	7.1	1.3	-21.1	-13.2	External	na	Not Rated
Lion Select Group	LSX	69.1	0.46	0.0	0.67	-30.8	-8.1	External	1.5	Not Rated
Ozgrowth Limited	OZG	65.2	0.19	6.2	0.22	-16.3	-19.7	External	1.0	Not Rated
WAM Active Limited	WAA	44.8	0.96	6.2	0.94	2.1	1.7	External	1.0	Recommended
Naos Absolute Opportunities Company	NAC	39.7	0.86	6.1	1.1	-22.3	-14.4	External	1.75	Not Rated
Glennon Small Companies Fund	GC1	29.6	0.68	1.5	0.87	-22.4	-13.8	External	1.0	Recommended
Katana Capital Limited	KAT	30.4	0.8	2.2	0.98	-18.7	-17.9	External	na	Not Rated
ECP Emerging Growth Limited	ECP	20.6	1.13	3.6	1.43	-21.1	-21	External	1.0	Recommended
Australian/International Shares - Blended										
Hearts & Minds Investments	HM1	720.0	3.2	0.0	3.83	-16.4	-4.4	External	0.0	Recommended +
Perpetual Investment Company	PIC	323.5	0.93	7.1	1.05	-11	-3.9	External	1.0	Recommended +
Cadence Capital	CDM	197.2	0.65	6.2	0.84	-22.6	-5.7	External	1.0	Recommended +
Clime Capital	CAM	87.3	0.77	6.3	0.80	-3.8	-3.5	External	na	Not Rated

Pricing & Recommendations – International Shares & Specialist Focus

All data as at 31 July 2020	ASX Code	Market Cap (\$M) *	Last Price (\$)	Dividend Yield %	Pre-Tax NTA (\$)**	Pre-tax NTA Prem/Disc %	3 Year Avg Prem/Dis%	M'ment	M'ment Fee %	IIR Rating
International Shares - Diversified										
Magellan Global Trust	MGG	2164.6	1.74	3.9	1.84	-5.2	-1.3	External	1.35	Recommended +
MFF Capital Investments	MFF	1447.1	2.63	9.2	2.74	-2.9	-6.6	External	***	Not Rated
Magellan High Conviction Trust	MHH	874.6	1.43	1.6	1.54	-7.4	-2.9	External	1.50	Recommended
VGI Partners Global Investments Limited	VG1	744.7	1.83	0.0	2.26	-19	-0.7	External	1.50	Recommended +
Future Generation Global Investment Company	FGG	476.8	1.22	1.2	1.51	-19.3	-5.9	External	0.00	Recommended +
Antipodes Global Investment Company Ltd	APL	439.1	0.91	5.0	1.09	-17.1	-8.2	External	1.10	Recommended
WAM Global Limited	WGB	426.6	2.01	2.5	2.33	-13.7	-10.6	External	1.25	Recommended
Platinum Capital	PMC	364.6	1.26	5.6	1.41	-10.7	4.2	External	1.35	Recommended +
PM Capital Global Opportunities Fund	PGF	325.8	0.92	4.3	1.14	-19.6	-12.9	External	1.00	Recommended +
Pengana International Equities Limited	PIA	269.3	1.06	5.7	1.27	-16.6	-9.9	External	1.23	Recommended
Templeton Global Growth	TGG	228.8	1.16	6.1	1.36	-14.8	-11.0	External	1.00	Recommended
WCM Global Growth Limited	WQG	222.7	1.28	3.1	1.51	-15.3	-12.5	External	1.25	Recommended +
Evans & Partners Global Flagship Fund	EGF	152.9	1.47	10.7	1.55	-5.2	-1.3	External	1.35	Not Rated
Ellerston Global Investments	EGL	115.3	1.1	2.7	1.22	-10.6	-10.7	External	0.75	Recommended
Morphic Ethical Equities Fund	MEC	50.5	0.96	2.1	1.17	-18.6	-13.7	External	1.25	Not Rated
Fat Prophets Global Contrarian Fund	FPC	44.8	1.09	2.3	1.24	-12.4	-13.7	External	1.25	Not Rated
International Shares - Emerging Markets										
Platinum Asia Investments	PAI	387.4	1.07	3.8	1.24	-14	-2.3	External	1.35	Recommended +
Ellerston Asian Investments	EAI	133.7	1.01	3.0	1.21	-16.7	-10.9	External	0.95	Not Rated
Evans & Partners Asia Fund	EAF	122.0	1.25	4.2	1.33	-6	-2.8	External	1.00	Not Rated
PM Capital Asian Opportunities Fund	PAF	42.3	0.74	4.1	0.91	-19.1	-9.2	External	1.00	Not Rated
International - Specialist										
Argo Global Listed Infrastructure	ALI	299.5	2.11	3.3	2.26	-6.6	-12.4	External	1.20	Not Rated
Evans & Partners Global Disruption Fund	EGD	267.7	2.67	5.6	2.81	-5	0.1	External	1.29	Recommended
Global Value Fund	GVF	141.9	0.96	6.0	1.02	-5.8	-1.5	External	1.50	Not Rated
Tribeca Global Natural Resources Ltd	TGF	74.2	1.2	0.0	1.56	-23	-14.1	External	1.50	Recommended
Zeta Resources	ZER	57.5	0.2	0.0	0.27	-26.7	-15.1	External	0.50	Not Rated
Global Masters Fund	GFL	20.7	1.93	0.0	2.28	-15.5	-11.4	Internal	0.00	Recommended+
Fat Prophets Global Property Fund	FPP	15.9	0.7	3.8	0.84	-16.4	-12.2	External	1.00	Not Rated
Fixed Income Funds										
MCP Master Income Trust	MXT	1229.9	1.93	5.3	2.01	-4.2	1.3	External	0.67	Recommended +
NB Global Corporate Income Trust	NBI	757.8	1.7	5.3	1.93	-11.9	-0.8	External	0.85	Recommended +
Partners Group Global Income Fund	PGG	429.2	1.56	4.2	1.79	-12.8	-3.0	External	1.00	Recommended
Gryphon Capital Income Trust	GCI	387.5	1.88	4.5	1.99	-5.7	-1.3	External	0.72	Recommended
Perpetual Credit Income Trust	PCI	384.3	0.96	4.4	1.07	-10.2	0.1	External	0.72	Recommended +
Qualitas Real Estate Income Fund	QRI	340.5	1.51	6.5	1.60	-5.7	0.7	External	1.50	Recommended
Mcp Income Opportunities Trust	MOT	299.6	1.73	9.2	2.02	-14.4	-4.2	External	1.03	Not Rated
Private Equity Funds										
Pengana Private Equity Trust	PE1	299.1	1.25	3.9	1.17	7.2	5.6	External	1.25	Recommended +
Bailador Technology Investments	BTI	105.0	0.86	0.0	1.24	-31	-25.4	External	1.75	Recommended +
Cordish Dixon Private Equity Fund 3	CD3	70.6	0.98	0.0	1.78	-44.9	-12.2	External	1.33	Recommended
Cordish Dixon Private Equity Fund 2	CD2	64.0	1.16	10.3	1.98	-41.4	-11.2	External	2.33	Recommended
Cordish Dixon Private Equity Fund 1	CD1	32.2	0.83	48.5	1.42	-41.9	-10.3	External	2.33	Recommended
Absolute Return Funds										
L1 Long Short Fund Limited	LSF	814.9	1.28	0.0	1.60	-20.2	-10.0	External	1.40	Recommended +
Regal Investment Fund	RF1	284.0	2.52	9.1	3.05	-17.4	-8.8	External	1.50	Recommended +
Australian Leaders Fund Limited	ALF	167.8	0.87	5.7	1.14	-23.7	-15.9	External	na	Not Rated
Absolute Equity Performance Fund	AEG	110.5	1.2	5.4	1.33	-9.5	-4.6	External	na	Not Rated
Contrarian Value Fund Limited	CVF	55.0	0.75	11.0	0.95	-16.3	-13.5	External	1.00	Not Rated
Monash Absolute Investment Company Limited	MA1	43.5	0.97	2.1	1.12	-10.8	-14.9	External	1.50	Not Rated
Alternative Investment Trust	AIQ	27.0	0.1	5.6	0.10	-7.3	-6.3	External	na	Not Rated
Other Specialist										
Duxton Water Limited	D20	165.9	1.39	4.0	1.62	-14.2	-12.3	External	1.20	Not Rated
Blue Sky Alternatives Access Fund	BAF	146.3	0.76	6.6	1.09	-30.5	-18.5	External	0.85	Not Rated
Thorney Technologies Ltd	TEK	64.3	0.25	0.0	0.34	-26.7	-10.0	External	0.75	Not Rated
Lowell Resources Fund	LRT	31.0	1.11	0.0	1.36	-18.8	-18.0	External	2.16	Not Rated

*Based on fully paid ordinary shares available for trade.

**Pre-tax NTA includes tax paid on realised gains.

***MFF pays a flat base management fee of \$1m per quarter and a potential \$1m pa fee subject to certain performance criteria.

Source: ASX/IRESS

Performance – Australian Share Focus

All data as at 31 July 2020		NTA (plus dividends) Return %					Share Price (plus dividends) Return %					Benchmark
	ASX Code	1 Mth	3 Mths	1 yr	3 yrs	5 yrs	1 Mth	3 Mths	1 yr	3 yrs	5 yrs	
Australian Shares - Large Cap												
Australian Foundation Investment Company	AFI	0.8	8.5	-6.0	5.2	4.1	3.4	8.6	0.6	4.7	3.3	S&P/ASX 200 Acc Index
Argo Investments	ARG	0.1	6.4	-11.8	2.1	2.6	2.8	0.4	-7.3	1.5	1.6	S&P/ASX 200 Acc Index
Milton Corporation	MLT	0.7	7.5	-11.2	2.4	3.0	3.4	9.9	-9.0	1.4	1.5	All Ordinaries Acc Index
BKI Investment Company	BKI	0.0	7.3	-10.6	2.1	1.8	5.4	7.0	-10.6	-0.7	0.8	S&P/ASX 300 Acc Index
Australian United Investment	AUI	-1.5	3.9	-13.0	3.4	3.8	1.2	6.8	-10.2	2.8	3.6	ASX 300 Acc Index
Diversified United Investments	DUI	-1.3	2.6	-8.5	6.9	6.3	-1.2	-0.9	-6.6	6.8	6.2	ASX 300 Acc Index
WAM Leaders Limited	WLE	-0.8	4.7	-3.0	4.8	na	8.5	9.6	2.3	5.4	na	S&P/ASX 200 Acc Index
Djerriwarrh Investments	DJW	0.4	8.4	-15.7	0.1	0.8	2.4	2.4	-23.1	-5.8	-5.4	S&P/ASX 200 Acc Index
Plato Income Maximiser	PL8	1.9	10.4	-7.0	2.7	na	1.9	-2.2	-9.5	2.3	na	S&P/ASX 200 Franking Credit Adjusted Daily Total Return Index (Tax-exempt)
Whitefield Limited	WHF	1.6	10.2	-7.0	3.8	3.4	0.2	0.1	-5.7	3.7	3.4	S&P/ASX 200 Industrials Acc (XJOAI) Index
AMCIL Limited	AMH	2.0	12.1	4.7	8.2	6.4	1.1	13.2	4.8	4.8	4.2	S&P/ASX 200 Acc Index
Concentrated Leaders Fund	CLF	2.5	7.9	-7.9	5.3	4.6	-1.9	5.1	-14.0	2.3	3.6	S&P ASX 200 Acc Index
Ironbark Capital	IBC	-1.4	2.0	-6.9	1.9	2.1	0.0	0.0	-11.6	-1.2	-0.1	na
Australian Governance & Ethical Index Fund	AGM	-1.7	9.5	-12.0	na	na	3.1	11.0	-11.4	na	na	S&P/ASX 100 Acc Index
Flagship Investments	FSI	4.4	14.6	6.0	11.6	8.4	4.4	19.0	9.2	10.5	8.4	All Ordinaries Index
Evans & Partners Australian Flagship Fund	EFF	-2.6	11.2	-9.7	na	na	3.6	15.8	-8.1	na	na	S&P/ASX 200 Acc Index
Australian Shares - Mid/Small Cap												
WAM Capital	WAM	1.3	3.3	-7.6	1.7	4.8	5.8	-0.3	-3.7	-1.1	6.3	All Ordinaries Acc Index
Carlton Investments	CIN	-3.8	4.3	-23.1	-5.8	-1.7	-1.8	7.4	-25.4	-6.7	-2.4	S&P/ASX 200 Acc Index
Ophir High Conviction Fund	OPH	2.8	18.4	7.2	na	na	-0.7	12.3	1.9	na	na	S&P/ASX Mid Cap 50's Acc Index. S&P/ASX Small Ordinaries Acc Index
Future Generation Investment Fund	FGX	2.0	7.2	-3.2	4.8	4.2	5.8	11.0	-12.1	1.7	1.7	All Ordinaries Acc Index
Mirraboooka Investments	MIR	4.1	18.9	5.5	8.8	8.0	6.7	19.5	0.0	0.9	2.0	S&P/ASX Mid Cap 50's Acc Index. S&P/ASX Small Ordinaries Acc Index
QV Equities	QVE	-3.1	3.3	-17.2	-4.1	0.8	1.9	3.2	-18.7	-11.6	-1.0	na
WAM Research	WAX	0.0	1.4	-13.0	1.1	4.6	1.9	10.2	1.6	0.7	8.8	All Ordinaries Acc Index
WAM Microcap Limited	WMI	5.3	17.6	5.3	11.1	na	12.7	22.2	11.5	7.8	na	
Westoz Investment Company	WIC	2.9	16.5	-3.9	5.8	7.5	8.2	23.0	-6.3	5.7	6.7	Absolute return focus
Forager Australian Shares Fund	FOR	3.9	18.9	-21.3	-11.3	na	-1.7	10.6	-30.4	-18.4	na	8% Absolute
Thorney Opportunities	TOP	0.3	3.6	-30.7	-6.5	4.1	0.0	6.8	-30.2	-9.8	1.9	na
Naos Small Cap Opportunities Company Limited	NSC	1.5	21.1	0.1	-6.9	-3.4	12.2	5.1	-6.9	-10.7	-5.8	ASX All Ordinaries Acc Index
Sphera Emerging Companies	SEC	2.3	6.5	-12.6	na	na	4.7	9.8	-24.7	na	na	S&P/ASX Small Ords Acc Index
Contango Income Generator	CIE	0.5	6.4	-19.7	-3.9	na	-0.8	21.2	-16.0	-6.0	na	All Ordinaries Acc Index
Ryder Capital	RYD	6.9	15.4	12.4	13.0	na	9.4	17.9	7.1	10.9	na	na
Sandon Capital Investments	SNC	7.2	10.3	0.6	1.3	3.7	-6.8	-15.9	-27.2	-8.0	-0.6	na
Naos Emerging Opp Company	NCC	7.8	18.3	-1.9	-3.9	3.4	3.8	8.6	-10.3	-8.9	3.3	Small Ordinaries Acc Index (XSOAI)
Acorn Capital Inv Fund	ACQ	13.6	34.7	14.5	13.7	12.6	13.9	18.1	2.1	7.8	11.0	na
Lion Select Group	LSX	30.4	44.6	41.5	20.5	18.9	-3.2	17.9	13.6	4.8	17.0	na
Ozgrowth Limited	OZG	9.4	18.8	9.1	7.4	8.9	8.8	27.6	12.1	7.8	6.8	Absolute return focus
WAM Active Limited	WAA	1.1	3.1	-6.3	1.6	4.5	6.7	1.1	-2.9	1.2	5.0	All Ordinaries Acc Index
Naos Absolute Opportunities Coy.	NAC	3.8	26.4	11.7	5.2	5.0	8.2	28.7	6.8	-0.8	4.0	na
Glennon Small Companies Fund	GC1	6.1	7.4	-12.0	-1.6	na	-0.7	7.1	-16.1	-5.8	na	ASX Small Ords Acc Index
Katana Capital Limited	KAT	2.4	14.3	3.8	8.1	5.4	0.6	29.8	0.9	7.3	2.8	na
ECP Emerging Growth Limited	ECP	4.1	15.5	12.9	14.0	9.4	2.3	19.7	19.5	12.4	8.6	All Ordinaries Accum Index
Australian/International Shares - Blended												
Hearts & Minds Investments Limited	HM1	4.4	17.5	22.4	na	na	2.9	9.6	4.6	na	na	na
Perpetual Investment Company	PIC	1.7	8.4	-1.2	4.1	4.9	3.3	9.4	-7.3	1.9	3.4	na
Cadence Capital	CDM	1.2	21.7	-3.6	-4.8	-4.5	7.4	18.2	-12.1	-13.1	-6.7	All Ordinaries Acc Index
Clime Capital	CAM	0.0	11.1	-13.0	3.1	1.2	-0.6	2.7	-11.0	2.2	2.6	na

Performance – International Shares & Specialist Focus

All data as at 31 July 2020		ASX Code	NTA (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %					Benchmark
			1 Mth	3 Mths	1 yr	3 yrs	5 yrs	1 Mth	3 Mths	1 yr	3 yrs	5 yrs	
International Diversified													
Magellan Global Trust	MGG		0.1	0.5	0.3	na	na	1.7	-0.3	-3.1	na	na	MSCI World Net Total Return A\$ Index
MFF Capital Investments	MFF		-2.5	-6.2	-8.2	11.9	8.4	-1.8	-10.1	-8.2	14.1	8.7	na
Magellan High Conviction Trust	MHH		0.6	3.4	na	na	na	3.4	0.5	0.0	na	na	10% Absolute with HWM
VGI Partners Global Investments Limited	VG1		2.3	-3.8	-7.8	na	na	0.3	-13.7	-21.4	na	na	na
Antipodes Global Investment Company Ltd	APL		1.7	1.8	0.2	0.6	na	-1.6	-4.7	-4.0	-5.5	na	MSCI All Country Word Net Index (AUD)
Future Generation Global Investment Company	FGG		2.5	5.5	6.3	10.8	na	6.1	8.0	-10.5	4.2	na	MSCI World Index AUD
Platinum Capital	PMC		-0.2	-0.7	-8.1	0.5	na	0.4	2.4	-18.2	-5.0	-2.2	MSCI All Country World Net Index in A\$
WAM Global Limited	WGB		2.2	2.3	-1.5	na	na	7.8	5.0	-0.5	na	na	MSCI World Index. Net. AUD
PM Capital Global Opportunities Fund	PGF		-0.5	3.1	-12.1	0.7	1.2	2.2	2.2	-16.5	-2.4	-0.4	na
Pengana International Equities Limited	PIA		0.7	2.3	6.3	8.5	3.4	0.0	6.5	3.7	2.4	2.4	MSCI Total Return Index. Net Dividends Reinvested in Australian dollars
Templeton Global Growth	TGG		2.6	2.6	-1.6	2.1	1.2	0.9	0.0	-2.4	-1.0	0.2	MSCI All Country World Index
Evans & Partners Global Flagship Fund	EGF		0.0	-6.6	-7.1	7.3	4.3	0.7	0.3	-2.5	5.9	4.1	na
WCM Global Growth Limited	WQG		4.0	10.7	18.7	15.0	na	2.8	8.5	18.4	5.8	na	MSCI AWCI ex Australia. AUD
Ellerston Global Investments	EGI		2.9	12.9	7.9	4.8	na	6.3	11.7	15.4	5.5	1.3	MSCI World Index (Local)
Morphic Ethical Equities Fund	MEC		2.5	5.1	4.1	5.0	na	9.7	17.0	9.6	-3.7	na	MSCI All Countries World Daily Total Return Net Index
Fat Prophets Global Contrarian Fund	FPC		9.0	34.5	12.5	5.0	na	21.1	50.3	23.2	-7.3	na	Increase in value of investment portfolio above previous high
International Shares - Emerging Markets													
Platinum Asia Investments	PAI		5.8	9.8	17.4	9.4	na	5.4	9.8	4.2	4.7	na	na
Evans & Partners Asia Fund	EAF		4.7	3.1	5.1	na	na	2.5	5.5	3.4	na	na	MSCI AC Asia ex Japan Index
Ellerston Asian Investments	EAI		4.8	6.8	10.4	6.0	na	5.2	5.2	7.2	4.1	na	na
PM Capital Asian Opportunities Fund	PAF		3.2	2.3	-7.9	-6.1	-1.1	2.1	2.1	-18.2	-8.5	-1.6	na
International - Specialist													
Argo Global Listed Infrastructure	ALI		0.0	-3.8	-9.3	6.0	4.3	1.9	-1.4	-5.2	8.7	3.0	na
Evans & Partners Global Disruption Fund	EGD		4.1	10.2	25.4	na	na	2.3	14.6	27.0	21.4	na	na
Global Value Fund	GVF		1.6	8.5	-1.2	3.6	1.7	4.3	2.1	-0.7	0.1	3.6	BBSW 1 Year Swap Rate +4
Tribeca Global Natural Resources Limited	TGF		7.4	-15.0	-34.3	na	na	15.4	-1.6	-45.5	na	na	na
Zeta Resources	ZER		61.4	68.4	-37.9	-9.2	-4.2	11.1	17.6	-44.4	-17.8	-12.0	na
Global Masters Fund	GFL		4.3	-2.3	-5.8	5.6	4.7	18.4	5.5	6.9	-5.5	2.0	S&P 500 US Index
Fat Prophets Global Property Fund	FPP		-3.7	-3.4	-25.2	na	na	4.5	1.4	-23.0	na	na	Blend of Domestic & International REIT Indices
Fixed Income Funds													
MCP Master Income Trust	MXT		0.5	1.2	6.0	na	na	7.1	3.2	-1.7	na	na	RBA Cash Rate + 3.25%
NB Global Corporate Income Trust	NBI		4.2	12.5	0.0	na	na	3.6	2.5	-13.0	na	na	ICE BofAML Global High Yield Constrained
Partners Group Global Income Fund	PGG		1.5	10.5	na	na	na	1.8	5.9	0.0	na	na	RBA + 6% on Special Sits
Perpetual Credit Income Trust	PCI		1.0	11.2	0.5	na	na	0.3	-0.1	-12.9	na	na	RBA Cash Rate + 3.25%
Qualitas Real Estate income Fund	QRI		0.5	1.5	9.3	na	na	6.5	9.6	-5.7	na	na	8 Absolute Return
Mcp Income Opportunities Trust	MOT		1.0	1.5	7.7	na	na	6.1	11.2	-8.3	na	na	RBA Cash Rate + 6.0%
Gryphon Capital Income Trust	GCI		0.3	1.0	3.9	na	na	8.1	12.1	-6.1	na	na	RBA Cash Rate + 3.5%
Private Equity Funds													
Pengana Private Equity Trust	PE1		-2.0	-13.6	-10.1	na	na	-6.4	-12.9	-1.9	0.0	0.0	8% Absolute Return
Bailador Technology Investments	BTI		0.0	0.0	-6.8	5.0	2.7	21.3	5.6	-19.0	-0.2	0.0	8% p.a. compound
Cordish Dixon Private Equity Fund 3	CD3		-3.3	-13.6	-2.7	8.1	na	3.2	5.4	-34.2	-13.2	0.0	8% Absolute Return
Cordish Dixon Private Equity Fund 2	CD2		-3.9	-14.3	0.0	20.2	11.6	10.5	28.9	-40.2	-8.9	-8.9	Absolute Return w H/W Mark
Cordish Dixon Private Equity Fund 1	CD1		-4.1	-16.0	34.4	45.4	36.6	-11.3	14.6	-38.6	-5.2	-3.7	na
Absolute Return Funds													
L1 Long Short Fund Limited	LSF		-1.7	9.7	-5.0	na	na	4.9	20.8	-13.2	na	na	Previous High Water Mark
Regal Investment Fund	RF1		4.5	36.2	18.3	na	na	6.1	32.6	8.7	na	na	RBA Cash Rate
Australian Leaders Fund Limited	ALF		0.9	0.0	1.7	-0.8	0.7	0.0	1.8	-0.5	-9.0	-3.5	All Ordinaries Acc Index
Absolute Equity Performance Fund	AEG		4.4	9.7	28.5	11.5	na	7.1	3.0	30.9	5.8	na	na
Contrarian Value Fund Limited	CVF		-3.5	-5.4	-12.6	3.3	4.0	1.3	8.7	-13.4	3.8	2.1	na
Monash Absolute Investment Company Limited	MA1		1.6	8.2	3.1	9.2	na	-1.5	8.4	11.2	8.2	na	na
Alternative Investment Trust	AIQ		-6.4	2.0	-2.7	4.1	-2.6	-11.8	-11.8	7.8	8.5	-1.0	na
Other Specialist													
Duxton Water Limited	D20		2.5	-12.4	-2.8	17.8	na	2.6	4.1	6.3	13.8	na	8% Absolute
Blue Sky Alternatives Access Fund	BAF		0.1	-0.9	-0.2	2.9	5.4	4.9	4.9	0.0	-9.3	-0.2	na
Thorney Technologies Ltd	TEK		10.7	29.2	5.6	14.4	na	0.0	16.3	-2.0	2.1	-58.6	Increase in NAV
Lowell Resources Fund	LRT		12.4	78.9	103.3	na	na	15.1	83.6	126.2	na	na	10 Absolute Return

All data as at 31 July 2020	ASX Code	NTA (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %					Benchmark
Benchmark Returns		1 Mth	3 Mths	1 yr	3 yrs	5 yrs	1 Mth	3 Mths	1 yr	3 yrs	5 yrs	
S&P/ASX 50 Accumulation Index	XFLAI	na	na	na	na	na	0.2	6.3	-11.2	5.0	4.3	na
S&P/ASX 200 Accumulation Index	XJOAI	na	na	na	na	na	0.5	7.6	-9.9	5.4	5.1	na
S&P/ASX 300 Accumulation Index	XKQAI	na	na	na	na	na	0.6	7.8	-9.7	5.4	5.2	na
All Ordinaries Accumulation Index	XAOAI	na	na	na	na	na	0.9	8.5	-9.0	5.7	5.5	na
Small Ordinaries Accumulation Index	XSOAI	na	na	na	na	na	1.4	9.9	-8.5	6.5	7.9	na
S&P/ASX 200 Industrials Accumulation Index	XJIAI	na	na	na	na	na	-0.5	5.9	-11.3	3.3	3.7	na
S&P/ASX 200 Resources Accumulation Index	XMJAI	na	na	na	na	na	5.8	16.9	3.8	16.2	14.6	na

Source: ASX/IRESS

Note: Share Price and NTA are adjusted using adjustment factors provided by IRESS.

ASX Active ETFs

About ASX Active ETFs

Active ETFs are a relatively new type of exchange traded product (ETP) traded on the ASX. While traditional exchange traded funds (ETFs) adopt passive strategies that synthetically track the performance of an index or other benchmark. Active ETFs are actively managed funds. The legal structure is the same as a traditional managed fund, but the units can be bought and sold on the ASX just like shares. Unlike listed investment companies, Active ETFs are open ended with the manager acting as market maker. This ensures the units trade close to net asset value. The manager issues new units as required to meet market demand.

Pricing & Rating

All data as at 31 July 2020	ASX Code	Market Cap (\$M)	Last Price (\$)	Dividend Yield %	NAV (\$)	M'ment Fee %	IIR Rating
Australian Share Strategies							
BetaShares Active Australian Hybrids Fund	HBRD	758.7	10.04	3.1	na	0.55	Not Rated
Betashares Australian Equities Strong Bear Hedge Fund	BBOZ	496.5	8.59	0.0	na	1.19	Not Rated
Betashares Aus Top20 Equity Yield Max Fund	YMAX	245.1	7.12	9.6	na	0.59	Not Rated
Betashares Geared Australian Equity Fund	GEAR	190.6	17.31	7.3	na	0.80	Not Rated
ActiveX Real Outcome Bond Fund	XARO	165.7	26.56	4.8	na	0.5	Not Rated
BetaShares Legg Mason Australian Bond Fund	BNDS	136.4	27.26	2.6	na	0.42	Not Rated
Betashares Australian Dividend Harvester Fund	HVST	125.9	13.14	8.4	na	0.65	Not Rated
BetaShares Australian Equities Bear Hedge Fund	BEAR	119.7	12.04	0.0	na	1.19	Not Rated
Switzer Dividend Growth Fund	SWTZ	75.3	2.15	4.3	na	0.89	Recommended
Betashares Managed Risk Australian Share Fund	AUST	47.9	15.28	3.3	na	0.39	Not Rated
BetaShares Legg Mason Real Income Fund (Managed Fund)	RINC	40.1	7.42	4.8	na	0.85	Not Rated
BetaShares Australian Small Companies Fund (Managed Fund)	SMML	35.5	3.19	2.6	na	0.39	Not Rated
InvestSMART Australian Equity Income Fund	INIF	25.7	2.09	3.3	na	0.97	Not Rated
Einvest Income Generator Fund	EIGA	20.1	3.18	6.5	na	0.65	Not Rated
Investsmart Ethical Share Fund (Managed Fund)	INES	19.2	2.69	0.5	na	0.97	Not Rated
K2 Australian Small Cap Fund	KSM	7.7	1.93	0.5	na	1.31	Recommended
Pinnacle Ashares Dynamic Cash Fund (Managed Fund)	Z3RO	4.0	50.02	0.5	na	0.00	Not Rated
eInvest Future Impact Small Caps Fund (Managed Fund)	IMPQ	2.0	4.28	0.0	na	0.34	Not Rated
International Share/Security Strategies							
Magellan Global Equities Fund	MGE	1668.3	3.87	4.1	na	1.35	Not Rated
Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)	MICH	627.7	2.78	4.2	na	0.95	Not Rated
Platinum International Fund	PIXX	307.1	4.17	3.1	na	1.76	Not Rated
BetaShares US Equities Strong Bear Currency Hedged	BBUS	306.0	2.33	0.0	na	1.38	Not Rated
Magellan Global Equities Fund (Currency Hedged)	MHG	240.0	3.51	3.7	na	1.35	Not Rated
Platinum Asia Fund	PAXX	149.6	4.92	2.1	na	1.58	Not Rated
WCM Quality Global Growth Fund	WCMQ	130.0	6.81	3.1	na	1.35	Not Rated
BetaShares S&P 500 Yield Maximiser Fund	UMAX	83.1	17.48	7.1	na	0.59	Not Rated
Montgomery Global Equities Fund	MOGL	80.9	3.21	4.9	na	1.32	Not Rated
Betashares Managed Risk Global Share Fund	WRDL	68.2	12.8	1.5	na	0.39	Not Rated
BetaShares Geared U.S. Equity Fund - Currency Hedged	GGUS	39.5	18.82	0.0	na	0.74	Not Rated
Schroders Real Return Fund (Managed Fund)	GROW	38.5	3.63	3.5	na	0.90	Not Rated
AMP Capital Global Infrastructure Securities Fund (Unhedged)	GLIN	29.6	2.68	10.8	na	0.95	Not Rated
Vanguard Global Value Equity Active ETF	VVLU	28.0	38	2.9	na	0.28	Not Rated
BetaShares Legg Mason Equity Income Fund (Managed Fund)	EINC	24.8	7.17	4.0	na	0.85	Not Rated
Antipodes Global Shares	AGX1	23.8	5.06	2.2	na	1.1	Not Rated
AMP Capital Global Property Securities Fund (Unhedged)	RENT	21.1	2.56	1.7	na	0.99	Not Rated
Vanguard Global Multi-Factor Active ETF (Managed Fund)	VGMF	16.4	45.6	1.5	na	0.34	Not Rated
Vanguard Global Min Volatility Active ETF	VMIN	12.6	54.76	2.2	na	0.28	Not Rated
BetaShares Legg Mason Emerging Markets Fund (Managed Fund)	EMMG	11.2	5.97	0.3	na	1.0	Not Rated
AMP Capital Dynamic Markets Fund (Hedge Fund)	DMKT	6.1	2.16	0.0	na	0.48	Not Rated
Pinnacle AShares Global Dynamic Income Fund	SAVE	4.1	9.38	2.9	na	0.50	Not Rated

Commodity & Currency Strategies

All data as at 31 July 2020	ASX Code	Market Cap (\$M)	Last Price (\$)	Dividend Yield %	NAV (\$)	M'ment Fee %	IIR Rating
Betashares Strong US Dollar Fund (Hedge Fund)	YANK	10.9	11.43	0.0	na	1.38	Not Rated
Betashares Strong Australian Dollar Fund (Hedge Fund)	AUDS	10.1	10.07	11.5	na	1.38	Not Rated

Performance

All data as at 31 July 2020	ASX Code	NAV (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %				
Australian Share Strategies		1 Mth	3 Mths	1 year	3 years	5 years	1 Mth	3 Mths	1 year	3 years	5 years
BetaShares Active Australian Hybrids Fund	HBRD	na	na	na	na	na	0.2	2.9	0.6	na	na
Betashares Aus Top20 Equity Yield Max Fund	YMAX	na	na	na	na	na	1.6	4.6	-11.9	1.5	0.7
Betashares Australian Dividend Harvester Fund	HVST	na	na	na	na	na	0.3	0.6	-12.1	-1.0	-0.8
Betashares Australian Equities Strong Bear Hedge Fund	BBOZ	na	na	na	na	na	-2.4	-22.5	-12.3	-21.6	-18.6
ActiveX Real Outcome Bond Fund	XARO	na	na	na	na	na	1.1	2.2	6.5	na	na
BetaShares Legg Mason Australian Bond Fund	BNDS	na	na	na	na	na	0.6	2.1	3.5	na	na
Betashares Geared Australian Equity Fund	GEAR	na	na	na	na	na	0.2	16.7	-31.8	1.8	2.0
Switzer Dividend Growth Fund	SWTZ	na	na	na	na	na	0.8	5.7	-13.1	1.3	na
BetaShares Australian Equities Bear Hedge Fund	BEAR	na	na	na	na	na	-0.8	-8.6	1.5	-7.0	-6.1
BetaShares Legg Mason Real Income Fund	RINC	na	na	na	na	na	-2.6	1.2	-21.4	na	na
Betashares Managed Risk Australian Share Fund	AUST	na	na	na	na	na	-0.4	2.3	-9.7	3.3	na
BetaShares Australian Small Companies Select Fund	SMLL	na	na	na	na	na	2.1	13.3	-7.5	5.4	na
InvestSMART Australian Equity Income Fund	INIF	na	na	na	na	na	1.5	8.5	-10.0	na	na
Einvest Income Generator Fund	EIGA	na	na	na	na	na	-1.2	11.8	-14.1	na	na
Investsmart Ethical Share Fund (Managed Fund)	INES	na	na	na	na	na	3.1	8.6	6.5	na	na
K2 Australian Small Cap Fund	KSM	na	na	na	na	na	6.0	14.1	-11.1	-3.1	na
Pinnacle Ashares Dynamic Cash Fund (Managed Fund)	Z3RO	na	na	na	na	na	0.0	0.0	0.0	na	na
eInvest Future Impact Small Caps Fund (Managed Fund)	IMPQ	na	na	na	na	na	1.4	15.1	1.9	na	na
International Share/Security Strategies											
Magellan Global Equities Fund	MGE	na	na	na	na	na	1.3	0.5	5.2	15.9	9.8
Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)	MICH	na	na	na	na	na	0.7	1.1	-8.3	4.8	na
Platinum International Fund	PIXX	na	na	na	na	na	0.5	-0.7	-6.2	na	na
Platinum Asia Fund	PAXX	na	na	na	na	na	3.6	8.9	18.4	na	na
Magellan Global Equities Fund (Currency Hedged)	MHG	na	na	na	na	na	6.1	10.3	6.4	11.2	na
BetaShares US Equities Strong Bear Currency Hedged	BBUS	na	na	na	na	na	-15.6	-25.1	-35.3	-29.7	na
Montgomery Global Equities Fund	MOGL	na	na	na	na	na	-0.3	7.0	-6.2	na	na
BetaShares S&P 500 Yield Maximiser Fund	UMAX	na	na	na	na	na	1.6	-2.2	-9.5	6.3	4.4
WCM Quality Global Growth Fund	WCMQ	na	na	na	na	na	4.7	9.4	19.7	na	na
Betashares Managed Risk Global Share Fund	WRDL	na	na	na	na	na	-0.1	-0.1	-2.0	7.6	na
Schroders Real Return Fund (Managed Fund)	GROW	na	na	na	na	na	1.4	3.1	1.5	3.5	na
AMP Capital Global Infrastructure Securities Fund (Unhedged)	GLIN	na	na	na	na	na	-0.7	-5.5	-8.1	6.0	na
BetaShares Legg Mason Equity Income Fund (Managed Fund)	EINC	na	na	na	na	na	-0.6	6.7	-14.5	na	na
Antipodes Global Shares	AGX1	na	na	na	na	na	-1.4	1.0	-2.4	na	na
AMP Capital Global Property Securities Fund (Unhedged)	RENT	na	na	na	na	na	1.7	-1.8	-11.1	5.8	na
BetaShares Geared U.S. Equity Fund - Currency Hedged	GGUS	na	na	na	na	na	16.0	22.1	0.1	12.5	na
AMP Capital Dynamic Markets Fund (Hedge Fund)	DMKT	na	na	na	na	na	1.4	2.4	-12.9	-4.3	na
Vanguard Global Value Equity Active ETF	VVLU	na	na	na	na	na	-0.9	-3.2	-19.3	na	na
Vanguard Global Multi-Factor Active ETF (Managed Fund)	VGMF	na	na	na	na	na	1.3	-0.3	-10.5	na	na
Vanguard Global Min Volatility Active ETF	VMIN	na	na	na	na	na	3.9	3.5	-2.6	na	na
BetaShares Legg Mason Emerging Markets Fund (Managed Fund)	EMMG	na	na	na	na	na	6.9	9.6	8.4	na	na
Pinnacle Ashares Global Dynamic Income Fund (Managed Fund)	SAVE	na	na	na	na	na	0.0	4.0	0.0	na	na
Commodity & Currency Strategies											
Betashares Strong Australian Dollar Fund (Hedge Fund)	AUDS	na	na	na	na	na	11.5	21.7	-3.3	-13.0	na
Betashares Strong US Dollar Fund (Hedge Fund)	YANK	na	na	na	na	na	-11.7	-21.4	-17.8	4.9	na

WHO IS IIR?

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.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

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.

INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel.

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

DISCLAIMER

This publication has been prepared by Independent Investment Research (Aust) Pty Limited trading as Independent Investment Research ("IIR") (ABN 11 152 172 079), an corporate authorised representative of Australian Financial Services Licensee (AFSL no. 410381). IIR has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. Each company specified in the Report (the "Participants") has provided IIR with information about its current activities. While the information contained in this publication has been prepared with all reasonable care from sources that IIR believes are reliable, no responsibility or liability is accepted by IIR for any errors, omissions or misstatements however caused. In the event that updated or additional information is issued by the "Participants", subsequent to this publication, IIR is under no obligation to provide further research unless commissioned to do so. Any opinions, forecasts or recommendations reflects the judgment and assumptions of IIR as at the date of publication and may change without notice. IIR and each Participant in the Report, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither IIR nor the Participants are aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. This document does not constitute an offer of services in jurisdictions where IIR or its affiliates do not have the necessary licenses. IIR and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. IIR and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

IIR, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. IIR discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may affect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any).

However, under no circumstances has IIR been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report. The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.independentresearch.com.au/Public/Disclaimer.aspx>.