Important disclosures are provided in the appendix of this report.

Fund Research

360 Capital Mortgage REIT (ASX: TCF)

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Contents

Overview

The 360 Capital Mortgage REIT (ASX: TCF; the 'Fund') is a listed investment trust providing investors with regular monthly income from private credit investments secured against Australian real estate. TCF was previously known as 360 Capital Enhanced Income Fund before being renamed in July 2023 and reclassified as a Mortgage Real Estate Investment Trust (M-REIT) in August 2023. As a result, it is one of only two listed M-REITs on the ASX.

TCF is managed by 360 Capital Group (ASX: TGP; the 'Manager'), an investment and funds management group specialising in real estate assets across both equity and credit opportunities. Founded in 2006, 360 Capital benefits from a seasoned track record executing over $6 billion of real estate transactions across the past 18 years. There is strong and long-term sponsor alignment with 360 Capital Group being the largest unitholder of TCF at 19.6%.

Launched in October 2020, TCF's investment strategy is dynamic and deploys capital across a range of senior secured, subordinated and mezzanine real estate loans to drive income returns. These loans are typically executed on a bilateral basis to Australia mid-market property investors.

The Fund targets a return of 4.00% over the RBA cash rate from a portfolio of 5-15 investments (currently 5) diversified across geography, asset class and loan type. The strategy builds on 360's broader private credit platform which has executed over $360 million of transactions, accumulating into a 7-year track record with no capital lost.

Key Characteristics			
Fund Size[2]	$24.4 million	**BondAdviser Risk Score**	High
Unit Price[1]	$5.90	**Product Assessment**	**Approved**
Net Asset Value[2]	$24.4 million	**Outlook / Asset Classification**	Stable / Level 3
Fixed / Floating	Both	**Structure**	Mortgage Real Estate Investment Trust
Distribution Frequency	Monthly	**Sub-Asset Class**	Private Credit
Target Net Return	RBA Cash Rate +4.00%	**Responsible Entity**	360 Capital FM Limited
Net return since inception (p.a.)[3]	6.46%	**Administrator / Registrar**	Boardroom Pty Limited
Management Fee (p.a.)	0.85%	**Auditor**	Ernst & Young
Performance Fee	N/A	**Valuation Services**	N/A

[1]As at 8 November 2024. [2]As at 30 September 2024. [3]Return is monthly net total return based on NAV plus dividends. Does not assume reinvestment of distributions. Calculated from March 2021 following initial ramp-up of portfolio and commencement of distributions.

Product Assessment

Approved

360 Capital Mortgage REIT benefits from the longstanding track record of 360 Capital which has spanned almost two decades.

The **360 Capital Mortgage REIT** (ASX: TCF) is one of two M-REITs listed on the ASX, distributing over 90% of its operating earnings from a portfolio of Australian commercial real estate (CRE) loans. The Fund's CRE lending strategy commenced at the end 2022 but leverages off the deep experience and track record of 360 Capital, which has managed a wide range of real estate investments across the capital structure since 2006. This includes over $360 million in private credit transactions since 2017. Importantly, no capital has been lost or impaired since the inception of the group's private credit platform.

We argue this strong risk profile reflects the Manager's 1) consistently conservative risk appetite with a weighted average LVR of 65% and less than 5% of capital allocated to mezzanine financing, 2) robust investment process and due diligence with just ~3% of screened investments reaching settlement, and 3) extensive inhouse skillset and work-out capabilities from managing both debt and equity real estate investments across the development cycle and in different sectors.

The Fund is concentrated but we are comfortable with loan-level structural protections while the Manager improves portfolio diversification.

The Fund is currently concentrated to 5 loans, which we view as the core risk of our assessment. However, our in-depth analysis has concluded that there are sufficient protections for investors as 360 Capital ramps up the portfolio to 10-15 holdings and progressively reduces isolated risks. This includes an ample equity buffer (69% weighted average LVR), limited exposure to mezzanine and/or development projects (<5% of exposure) and a short maturity profile (10 months weighted average term). Our temporary concern also reflects that 75% of the portfolio relates to a single borrower group. However, this is partly balanced by this exposure relating to 3 cross-collateralised residual stock facilities which are secured against established and individually titled houses that have an amortising repayment profile (from house sales). This implies the value of the underlying security would still need to fall over 20% for TCF to not receive full loan interest and capital in a worse-case default scenario, bearing in the mind 360 Capital has a solid track record in managing similar projects to completion. As a result, while the Fund is concentrated, we are comfortable with its risk profile at this juncture.

In terms of performance, TCF has historically targeted a 6.00% net return which has been met since the commencement of monthly distributions in April 2021. On a NAV basis, the annual return has been 6.5% over this period with the 12-month return currently sitting at 8.4% as at 30 September 2024. Positively, the Manager introduced a higher distribution target of 4.0% over the RBA cash rate (or 8.35% currently) which we expect to be met comfortably noting the weighted average interest rate of the portfolio is 11.8% as at 30 September 2024. This has coincided with a recent upgrade to distribution guidance, equivalent to a net distribution yield of ~10% based on NAV.

Strategic initiatives to close the gap between the unit price and NAV have been successful.

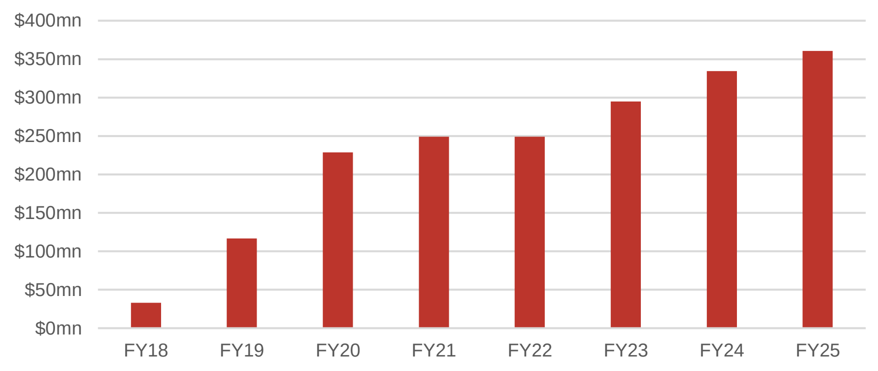
Conversely, the persistent discount between the unit price and NAV has weighed on the performance of TCF. However, this has rapidly tightened in recent months to ~1% currently following a number of strategic initiatives launched by 360 Capital. This includes 1) the initiation of an on-market buyback of up to 10% of issued capital (announced on 24 September 2024), 2) a proposed mechanism that will allow unitholders to redeem their investment at NAV on a six monthly basis (a Notice of Meeting is expected by the end of 2024), and 3) subject to the success of the first two initiatives, a capital raising of the Fund to support the diversification of the loan book and improve the trading volumes of TCF (by the end of the 2024/25 financial year).

Overall, we assign a Product Assessment of **Approved** to TCF. Despite current concentration risk and execution risk of the Fund's strategy, we see scope for increased diversification of the portfolio and continued outperformance versus the Fund's target return.

Investment Strategy & Performance

The 360 Capital Mortgage REIT (ASX: TCF) leverages off the group's broader private credit platform with a track record spanning over 7 years with no capital losses or impairments. 360 Capital has executed over $360 million in total private credit transaction value over this timeframe across 24 individual transactions (including 5 currently active) at an average deal size of $15.2 million. Importantly, this breadth of experience has been diversified by across asset type (residual stock, construction or land), sector (hotel, residential, commercial or other) and seniority (senior versus mezzanine).

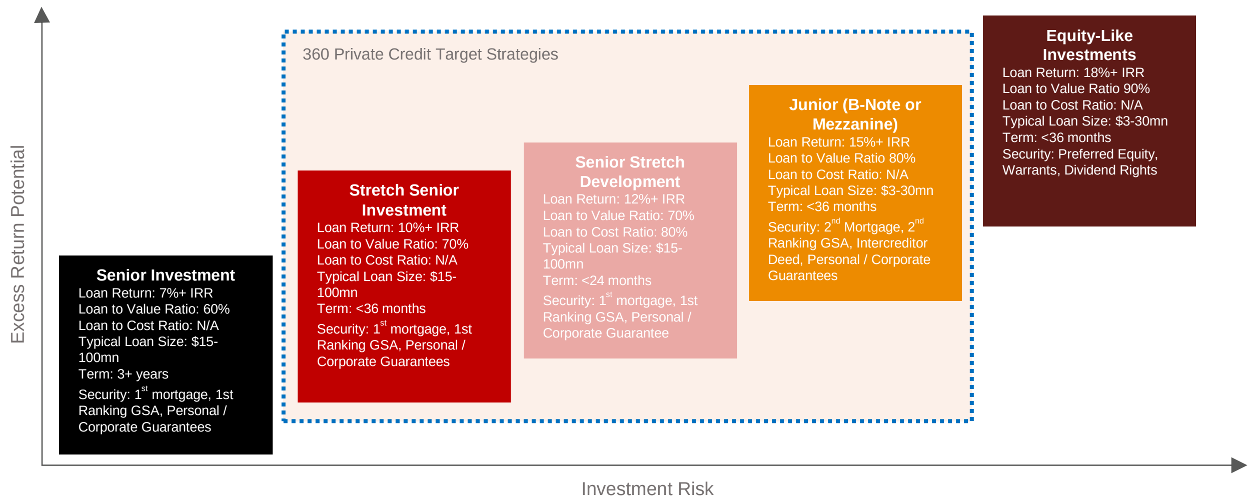
Figure 1. 360 Capital Cumulative Private Credit Transaction Value



Source: BondAdviser, 360 Capital.

Private credit allows for bespoke debt solutions to borrowers across the capital structure. 360 Capital's target strategies and parameters reflect this flexibility, providing real estate funding as both a senior and mezzanine lender on a deal-by-deal basis. The Fund will typically target opportunistic stretch financing, providing larger senior lending facilities than mainstream lenders at a higher interest rate (+10% currently) over a shorter term (typically less than 2 years). This has resulted in a versatile investment strategy across the real estate spectrum. Importantly, however, the Manager targets strictly debt investments and does not deploy capital into equity-like assets such as preference shares or warrants. This ensures robust structural protection across the portfolio.

Figure 2. 360 Capital Private Credit Strategies

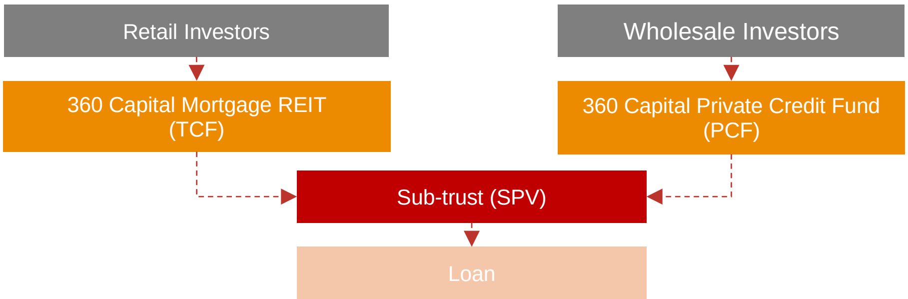


Source: BondAdviser, 360 Capital.

360's private credit platform consists of TCF and the 360 Capital Private Credit Fund (PCF). The PCF is an unlisted Australian wholesale, open-ended unit trust which acts as a master feeder fund to sub-trusts which typically hold loans to single projects. The terms of each loan are set out in the Supplemental Information Memorandum which outlines the projected rate of return and distributions, fees, structural features, expected duration and potential exit strategies. As result, PCF investors are able select which individual loans to invest in, defined by the Class of Units held in the PCF. Like TCF, 360 Capital FM Limited acts as the Responsible Entity of PCF. The lender of record on all TCF/PCF originated loans is the trustee of the sub-trust (360 Capital LM Pty Ltd, a wholly owned subsidiary and authorised representative of 360 Capital FM Limited).

This structure allows for co-investment between TCF and PCF at the sub-trust level. As a result, the platform allows both retail and wholesale investor participation in 360's private credit investment strategy. This improves diversification of the loan portfolio and capital recycling for TCF (particularly regarding cash drag from maturing loans).

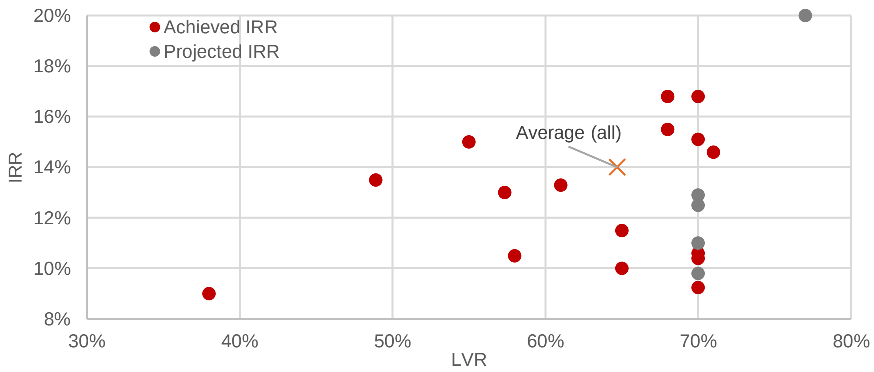
Figure 3. 360 Capital Private Debt Co-Investment Structure



Source: BondAdviser, 360 Capital.

360's private credit strategy has achieved a weighted average internal rate of return (IRR) of 14% on a weighted average loan-to-value ratio (LVR) of 63% across 17 loans. Incorporating projected returns on a further 5 active projects, the IRR and LVR is 14% and 65% respectively. Importantly, this has been achieved mainly with lower-risk projects, having only engaged in 3 mezzanine transactions over a 7-year period (or ~5% of historical transaction value). We believe this reflects the Manager's relatively conservative and consistent risk appetite through the cycle. We note these figures exclude 2 corporate (non real-estate) loans which produced IRRs of between 7-8% and were part of a previous private credit strategy. We therefore view these transactions as less relevant TCF's future performance.

Figure 4. 360 Capital Private Credit Investments: IRR vs LVR*



*Source: BondAdviser, 360 Capital. *Commercial real estate private loans. Chart scale excludes senior residential construction investment achieving IRR of 58% p.a. at a 72% LVR (included for purposes of average).*

As at 30 September 2024, TCF's current portfolio consists of 5 loans totalling $51.7 million in total principal, of which 4 loans are co-invested with PCF. Adjusting for the co-investment, TCF's total exposure is $24.4 million (or 47.3% of gross loan value). As a result, we view the Fund as concentrated but acknowledge the Manager's ambition to increase the portfolio up to 15 loans in the coming years as well as track record of managing similar portfolios over the past 7 years.

While the weighted LVR (~69%) is slightly elevated relative to the historical levels across the 360 private credit platform, we believe this in manageable and supported by a relatively short weighted average term to maturity of 10 months (versus a weighted average of 17 months for historical transactions).

In terms of the five loan exposures and underlying assets:

1. Residual land lots in Boxhill, NSW is TCF's largest exposure at 41% of the portfolio (or $10 million in absolute terms). The $13.0 million loan matures in June 2025 and represents a first mortgage on an asset valued at $19.6 million.
2. 35 completed houses in Colebee, NSW is TCF's second largest exposure at 32% of the portfolio (or $7.7 million in absolute terms). The $18.5 million loan matures in July 2025 and represents a first mortgage on an asset valued at $37.4 million.
3. A newly completed petrol station development in Tomingley, NSW represents TCF's only non-residential real estate exposure and accounts for 19% of the portfolio. The facility amount is $4.6 million is underpinned by a 12-year lease and TCF is the sole lender. The loan is set to mature in December 2024 with the possibility of extension to 30 June 2025.
4. A luxury waterfront development in Sydney, NSW is TCF's sole exposure in terms of mezzanine financing as well as construction. It is relatively small at less than 5% of the portfolio. While the LVR is slightly higher at between 75-79%, the projected IRR is 20% consisting of a 17% fixed capitalised interest and profit-share for the residual amount. As a result, there is a lump-sum realisation at maturity in June 2026.
5. 19 completed houses in Schofields, NSW is TCF's smallest exposure at just over 4% of the portfolio (or $1.1 million in absolute terms). The facility is a senior investment, totals $14.5 million and is predominantly held of PCF (>90%).

Figure 5. TCF Portfolio Overview

Description	16 Land Lots in Northwest Sydney	35 Completed 4-5 Bedroom Freehold Houses	Service Station With 12yr WALE	Luxury Waterfront Apartment Development	19 Completed 3-4 Bedroom Freehold Houses	Total
Loan Type	Senior investment	Senior investment	Senior investment	Mezzanine construction	Senior investment	
Asset Valuation (Ex. GST, $m)	19.8	37.4	6.6	98.5	20.7	**183.0**
Property Sector	Residential	Residential	Commercial	Residential	Residential	
Geography	NSW	NSW	NSW	NSW	NSW	
Base Rate	4.4%	4.4%	4.4%	0.0%	4.5%	
Margin	8.5%	6.6%	5.3%	17.0%	6.6%	
"All-In" Rate	12.9%	11.0%	9.7%	17.0%	11.1%	**11.8%***
LVR	70.0%	65.2%	70.0%	79.0%	70.0%	**68.9%***
Total Loan Principal ($m)	13.0	18.5	4.6	3.2	12.4	**51.7**
Loan Maturity Date	Jun-25	Jul-25	Dec-24	Jun-26	Sep-25	
TCF Exposure - % of Loan	76.3%	41.6%	100.0%	34.9%	8.5%	**47.3%**
TCF Exposure - $ of Loan ($m)	10.0	7.7	4.6	1.1	1.1	**24.4**
% TCF Gross Assets	**40.7%**	**31.7%**	**18.8%**	**4.5%**	**4.3%**	

*Source: BondAdviser, 360 Capital as at 30 September 2024. *Represents weighted average.*

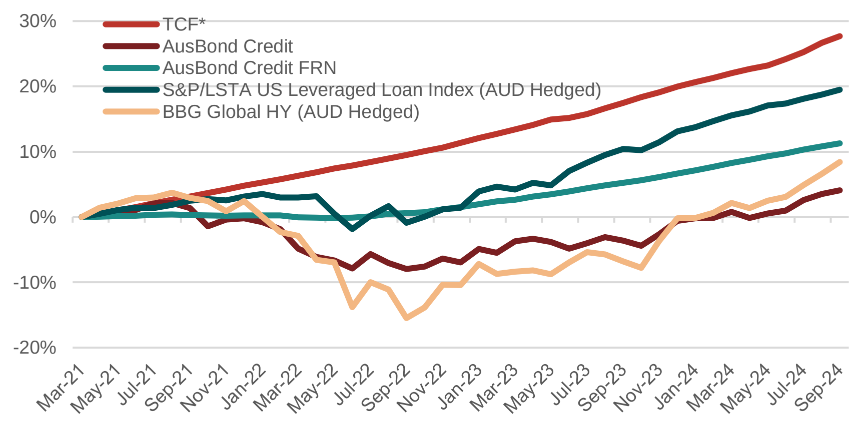
TCF has historically targeted a 6% net return which has been met since the initial ramp-up of the portfolio in late 2020 and early 2021 and commencement of monthly distributions from April 2021 onwards. On a NAV basis, the annual return has been 6.5% since the commencement of distributions in April 2021 with the 12-month return currently sitting at 8.4% as at 30 September 2024. We note this is partly due to higher base rates in line with the progressive rise in the RBA cash rate over this period. Nonetheless, TCF has performed well against domestic fixed income indices and international leveraged credit markets on a risk-adjusted basis.

Figure 6. Monthly Net Returns* (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2024	0.57	0.52	0.59	0.52	0.47	0.77	0.87	1.15	0.79				**6.25**
2023	0.64	0.57	0.62	0.60	0.72	0.20	0.51	0.79	0.69	0.76	0.60	0.77	**7.48**
2022	0.47	0.47	0.51	0.52	0.52	0.42	0.51	0.51	0.49	0.51	0.51	0.67	**6.10**
2021				0.52	0.49	0.51	0.59	0.51	0.51	0.51	0.51	0.57	**4.70**

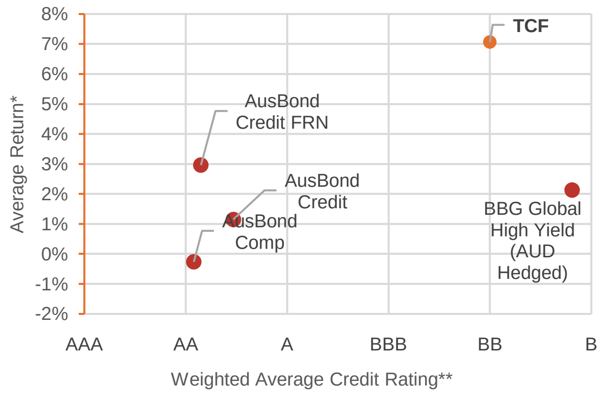
Source: BondAdviser, 360 Capital as at 30 September 2024.
Return is monthly net total return based on NAV plus dividends. **Does not assume reinvestment of distributions. Returns shown since the commencement of distributions in April 2021.*

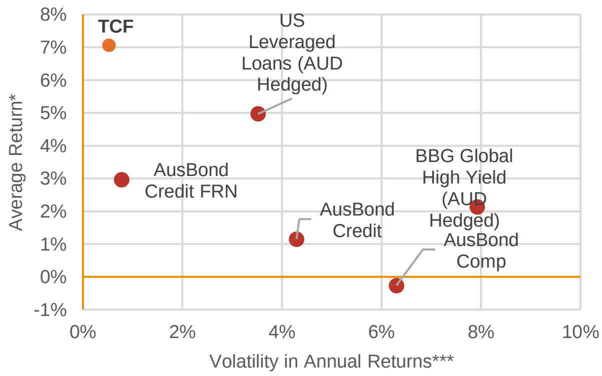
Figure 7. Relative Cumulative Performance



** Calculated from cumulative net monthly returns of the Fund, based on NAV.*
Source: BondAdviser, 360 Capital, Bloomberg. As at 30 September 2024.

Figure 8. Estimated Risk-Adjusted Comparison (Underlying Portfolio for Weighted Average Credit Rating)





** All returns for indices calculated using a compounded annual growth rate since March 2021. TCF return calculated from cumulative net monthly returns of the Fund, based on NAV. ** Credit ratings based on BondAdviser estimates. *** Calculated based on annualised monthly returns data since March 2021.*
Source: BondAdviser Estimates, 360 Capital, Bloomberg. As at 30 September 2024.

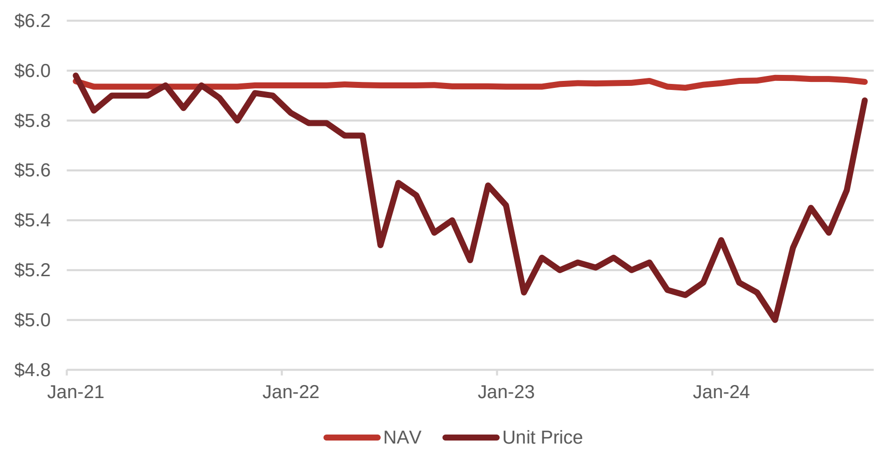
In September 2024, TCF introduced a new distribution policy target of 4.0% over the cash rate (or 8.35% currently). The weighted average interest rate of 11.8% of the portfolio comfortably covers this net return target even after incorporating the 0.85% management fee and other costs of approximately 0.65% per annum (noting that 0.05% recoverable by the Manager). In September 2024, this allowed the Fund to upgrade FY25 distribution guidance to $0.60 per unit ($0.50 per unit previously), marking a material increase from $0.45 per unit achieved in FY24. This equates to a FY25 net distribution yield of ~10% based on the net asset value of the Fund as at 30 September 2024.

More negatively, the unit price TCF has been persistently traded at a discount to NAV since the beginning of 2022, in line with the broader trend seen across the ASX-listed fixed income LIT universe and likely accentuated by the relatively small market capitalisation of the Fund due to lower overall trading volumes. This has led to a divergence between NAV-based returns and the realised returns of unitholders, despite consistent and rising distributions over this period.

The Manager has been strategically focused on closing this gap, outlining three key potential initiatives over the coming year, 1) the initiation of an on-market buyback of up to 10% of issued capital, financed by the Fund's available cash (announced on 24 September 2024), 2) a proposed mechanism that will allow unitholders to redeem their investment at NAV on a six monthly basis (a Notice of Meeting is expected by the end of 2024), and 3) subject to the success of the first two initiatives, a capital raising of the Fund to support the diversification of the loan book and improve the trading volumes of TCF (by the end of the 2025 financial year).

These announcements, alongside the upgrade to distribution guidance, has already resulted in significant improvement with the discount to NAV compressing from a low of ~16% in April 2024 to just ~1% currently. The majority of the move came on 19 and 20 September, where a cumulative 103,834 units were traded over the two days, resulting in a rise in unit price of 5.0% over the two days.

Figure 9. Net Asset Value versus Unit Price



Source: BondAdviser, 360 Capital, Bloomberg. As at 30 September 2024.

Positive Risk Factors

Expertise and Alignment. 360 Capital (the Manager) has a track record of 18 years spanning multiple property market cycles across Australia and New Zealand. This has resulted in over $6 billion of debt and equity transactions. The Manager's private credit platform has a shorter history of 7 years but benefits from a diverse track record with no capital losses or impairments. Importantly, there is a strong alignment between the interests of the Manager and investors given over 50% of 360 Capital is owned by staff and directors, which is in turn the largest unitholder of TCF with a 19.6% stake.

Co-investment With PCF. TCF is subject to reinvestment risk given the short-dated (10 months weighted average maturity) and concentrated nature of its loan portfolio. This can result in cash drag, weighing on returns. In August 2023, the Manager announced TCF will partner with PCF to improve capital recycling. This ensures the TCF portfolio remains nearly fully invested while also selling down (in line with the PCF raising capital) as new opportunities arise. This co-investment strategy also improves diversification for TCF, spreading capital across more loan investments.

Consistent Risk Appetite. While TCF has a broad mandate and can be opportunistic, the risk profile has remained broadly stable throughout its history with a weighted average LVR of approximately ~65%. This includes relatively limited (<10% of the portfolio) exposure to mezzanine and/or construction financing and no exposure to office assets. We note the Fund had initially targeted cash flow lending to corporates but transitioned to pure-play real estate lending in late 2022.

Strategic Initiatives to Support the Unit Price. 360 Capital has announced a series of strategic initiatives to bridge the gap between the net asset value of the portfolio per unit and the traded unit price. This includes an ad hoc on-market buyback, a mechanism for investors to redeem their units at NAV on a six-monthly basis and a potential capital raising of TCF. The latter will also improve the diversification of the Fund through the ramp up of additional loans.

Negative Risk Factors

Concentrated Portfolio. TCF's portfolio is concentrated in terms of size (5 loans), geography (all NSW) and sector (~80% residential). This includes 3 loans being cross collateralised to a single borrower group, albeit being lower risk residual stock facilities. The Manager is taking steps to improve diversification with a capital raise in FY25 expected to allow the Fund to grow up to 15 loans. That said, TCF will remain concentrated relative to its peers even after the successful execution of this strategy.

Lack of an Independent Responsible Entity. The Responsible Entity (RE) of TCF is 360 Capital FM Limited, a subsidiary of the broader 360 Group. While we would prefer the RE to be an independent third-party, we acknowledge the Board of Directors of 360 Capital FM Limited consists of three independent non-executive members, equating to 75% of the Board. We note one independent member has an immaterial holding in TCF.

Historical Gap between NAV and Unit Price. The unit price of TCF has traded up to a discount of 16% versus the NAV per unit of the portfolio. This is despite the solid performance of the underlying assets and likely a function of thin ASX-trading volumes given the relatively small market capitalisation of TCF (>$25 million). This should improve if the Manager is successful in raising fresh capital but could re-emerge during periods of market volatility.

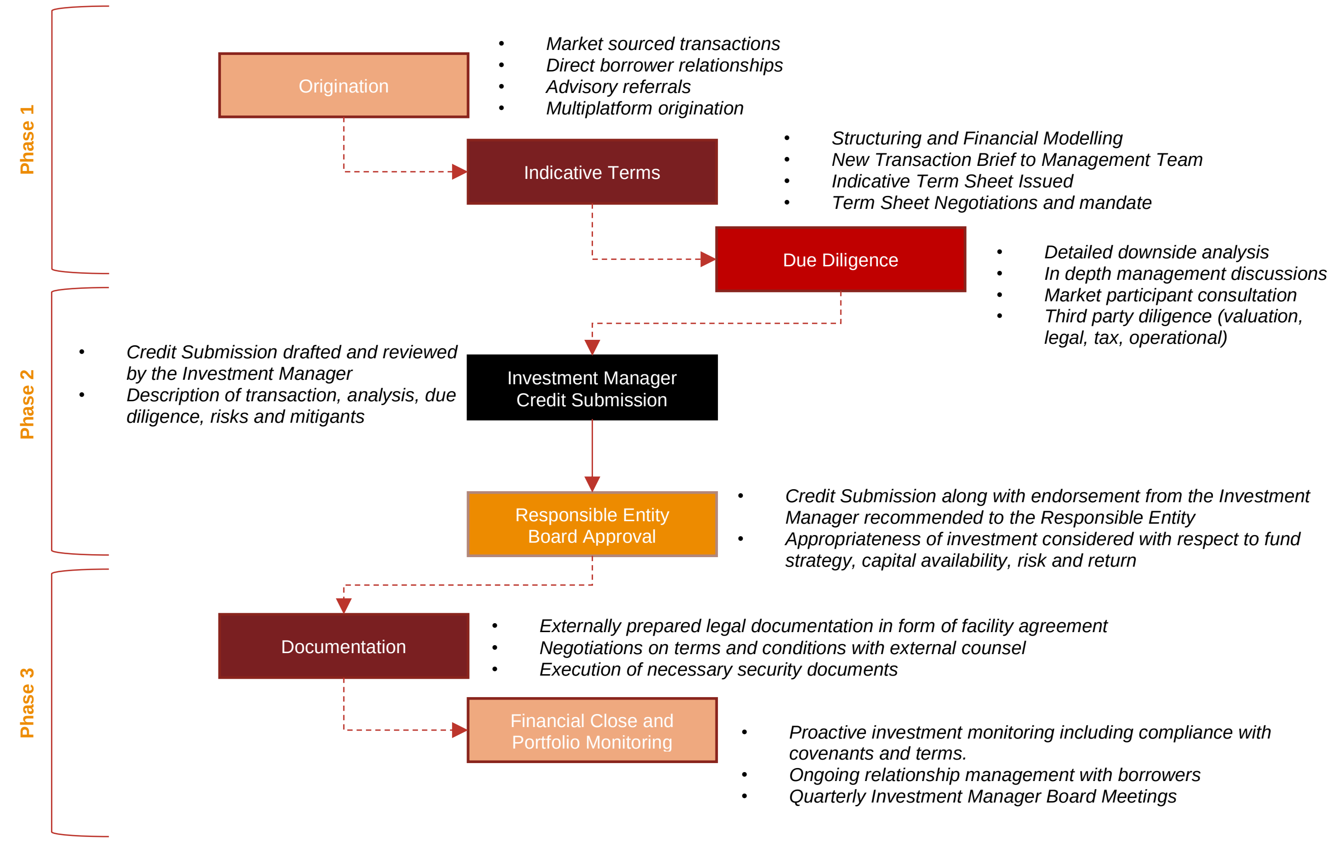
Key Person Risk. The Executive Chairman (Tony Pitt), Chief Executive Officer (James Storey) and Chief Financial Officer (Glenn Butterworth) of TCF have been with 360 Capital for 16, 12 and 10 years respectively. This results in a level of key person risk within the executive management team of TCF.

Construction and Investment Process

With respect to the implementation of the Fund's strategy, investments are assessed on a deal-by-deal basis subject to geographic and borrower diversification. This occurs over three main phases: 1) Origination and Due Diligence, 2) Investment Approval, and 3) Execution and Portfolio Management. This framework is summarised in Figure 10 and been broadly applied by 360 Capital since the inception of its private credit strategy in 2017. Subject to Unitholder approval, 360 Capital proposes to appoint a dedicated Investment Manager for the Fund. Currently this role is primarily undertaken by the Investment Committee, comprising a sub-committee of the Responsible Entity Board.

The Investment Manager will submit credit proposals to the RE Board for approval. The RE Board is responsible for all investment decisions, including policies and procedures. The IM Board members are Andrew Moffat, Tony McGrath (both independent) and Glenn Butterworth. Subject to achieving appropriate scale the Group intends to appoint further suitably qualified independent members.

Figure 10. TCF Investment Process



Source: BondAdviser, 360 Capital Group

With respect to sourcing potential borrowers, 360 Capital will engage in both direct and indirect origination channels. Direct engagement is generally on a personal relationship basis, extending beyond a traditional lending relationship and can typically include repeat borrowers. Management is active in the market, fostering strong indirect origination channels with banks, accountants, lawyers, and brokers.

It is difficult to identify a specific average loan origination timeframe, given the flexibility 360 Capital offers. A quick negotiation would be a 6-week process from start to finish, particularly for repeat borrowers. A typical, adviser led finance process is also executed under such constrained time periods. Contrastingly, direct originations through borrower relationships can take far longer, with a usual span being around 3-6 months.

The Fund's stringent selection criteria is reflective of its extensive screening of transactions. Of the ~100 deals the Manager is shown per year, approximately ~18 deals are reviewed by the RE Board and typically this is filtered to around ~3 that have satisfied 360 Capital's pricing and due diligence framework.

From a portfolio construction perspective, geographic and borrower diversification are considered but are ultimately unconstrained and at the discretion of the Manager. However, risk appetite and lending strategies have been relatively consistent, targeting Australian capital cities with a focus on residential assets (~60%). In comparison, there are limits on the amount of mezzanine lending the Fund can engage in (<30%). In terms of leverage, gearing is allowed to rise by to 30% of gross asset value for the use of short-term working capital and liquidity purposes. However, no leverage has been historically used by the Fund or in any private credit strategies by 360 Capital.

Figure 11. TCF Senior vs Mezzanine Parameters and Characteristics

	Senior	Mezzanine
Strategy Limit	70-100%	0-30%
Target Weighting	85-100%	0-10%
Target Loan Returns	4-8%	8-15%
Typical Loan Size	$5-30mn	$5-20mn
Credit Quality	IG or Sub-IG	Sub IG
Typical Loan Leverage	2-4x	3-5x
LVR	0-70%	70-80%
Term	3-5 yrs	1-3 yrs
Security	1st Ranking	2nd Ranking

Source: BondAdviser, 360 Capital.

Portfolio Risk Management

Our assessment of effective risk management for TCF considers both credit risk and liquidity risk. We believe relatively small and concentrated nature of the portfolio requires even greater prudence as risk management failures relating to an individual exposure could have an extreme impact on Fund performance. Overall, we believe an effective framework has been established by the Manager, but we argue deeper diversification is required to isolate risk concentrations. In our *Quantitative Analysis* we simulate scenarios to test the credit profile of the portfolio, complimenting this more qualitative assessment.

Credit Risk

TCF credit risk management begins at the individual investment with rigorous due diligence and structuring undertaken to ensure both the probability of default and loss given default remain low throughout the term of the loan. This is conducted internally by the investment team but can be supplemented by third parties where required. This includes a mandatory external valuation of the underlying real estate assets by a registered valuer for mortgage security purposes. We note revaluation can occur every 12 months at the discretion of the Manager.

The Fund applies proprietary credit rating models for each transaction that follow a similar qualitative and quantitative approach to risk profiling as the major credit rating agencies. These are regularly reviewed to assess the credit quality of the portfolio and appropriately price credit risk. An independent third-party assessment of certain exposures to determine appropriateness of loan pricing and valuation may also occur throughout the term of the loan. While this is typically reviewed on a bi-annual basis, it is not a formal requirement and likely to be utilised should there be a material deterioration in the internal credit rating of a borrower.

Given the credit profile of the borrower can shift through time, a tailored covenant package is crucial in managing any adverse deviations in credit quality. In this context, each loan within the portfolio is monitored monthly with quarterly reports provided to the RE Board outlining an overview of each transaction and its ongoing compliance with covenants and other non-financial undertakings. While TCF loan covenants are confidential, financial covenants typically include specific serviceability ratios (coverage ratios and loan-to-value limits among others) and non-financial covenants ranging across general (compliance with laws, negative pledge, change of control), informational (financial reporting and compliance statements), representation (legal, authorisation and solvency requirements) and event of default (non-payment, other breaches and unlawfulness) undertakings.

Figure 12 outlines a high-level overview of collateralisation across TCF's 5 investments, demonstrating the strong protection embedded at each loan. Features include registered mortgages (either on a 1st or 2nd ranking basis), guarantees (both personally by the directors of the company or on a corporate basis by the company itself, currently for all loans) or security interests over other assets of the borrower (under a general security agreement) among others.

This acts as a second line of defence (behind the covenant package), allowing 360 Capital to engage in the best work-out strategy to recover capital in an event of default. This can include an amendment of loan terms, asset sales, re-collateralisation or equity conversion (among other scenarios). We note 360 Capital has not experienced any impairments or capital losses over its 7-year lending track record reflecting the Manager's robust framework and processes. This includes the extensive experience of 360 Capital as both a manager of not only real estate debt, but also real estate equity. As a result, the Manager has the skillset to step-in and complete projects if required.

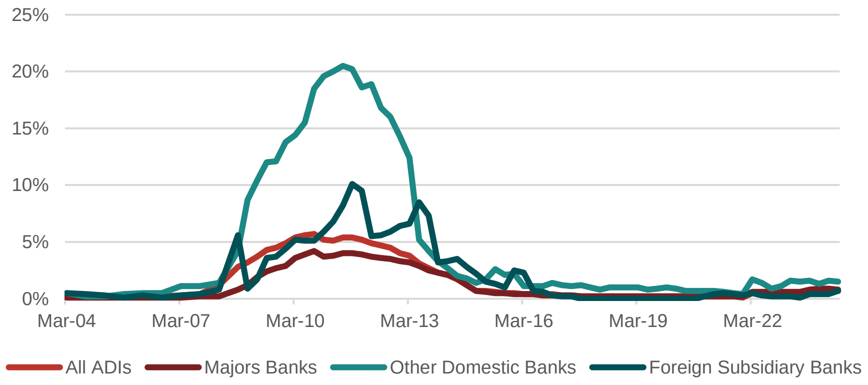
Figure 12. TCF Loan Collateral Overview

Asset	16 Land Lots in Northwest Sydney	19 Completed 3-4 Bedroom Freehold Houses	35 Completed 4-5 Bedroom Freehold Houses	Luxury Waterfront Apartment Development	Service Station With 12yr WALE
Ranking	First	First	First	Second	First
LVR	70%	70%	70%	75-79%	70%
Other Security	Cross-collateralisation with other residual stock facilities of Borrower Group.	Cross-collateralisation with other residual stock facilities of Borrower Group.	Cross-collateralisation with other residual stock facilities of Borrower Group.	General Security Agreement over the Borrower.	General Security Agreement over the Borrower.
Guarantees	Personal from the Borrower.	Personal and Corporate from the Borrower.	Personal and Corporate from the Borrower.	Personal from the Sponsor.	Personal from the Sponsor.
Interest Rate Floor	12%	11%	11%	Fixed / Capitalised	9.25%
Loan Exit Strategy	Repayment through the proceeds from lot sales.	Repayment through proceeds from house sales.	Repayment through proceeds from house sales.	Repayment through settlement of presale contracts, or refinance of residual stock.	Repayment through the proceeds from asset sale or refinance.
Other Disclosures	Minimum loan term of 3 months (versus 12 months to final maturity).	LVR must decline to 65% before any cash proceeds from sales are released to Borrower.	LVR must decline to 55% before any cash proceeds from sales are released to Borrower.	N/A	Minimum loan term of 6 months (versus 12 months to final maturity).

Source: BondAdviser, 360 Capital.

As shown in Figure 13, however, Australian commercial real estate debt can still experience significant impairments, reaching up to 20% during the Global Financial Crisis (GFC) for certain Authorised Deposit Taking Institutions (ADIs). However, we acknowledge overall improvement in lending standards over the past decade. Further, private lenders such as TCF have increased flexibility to exhaust all workout scenarios. In comparison, banks can be typically forced sellers of non-performing exposures due to regulatory pressure and generally lower risk appetite.

Figure 13. Australian CRE Debt Impairment Ratio by Type of Lender

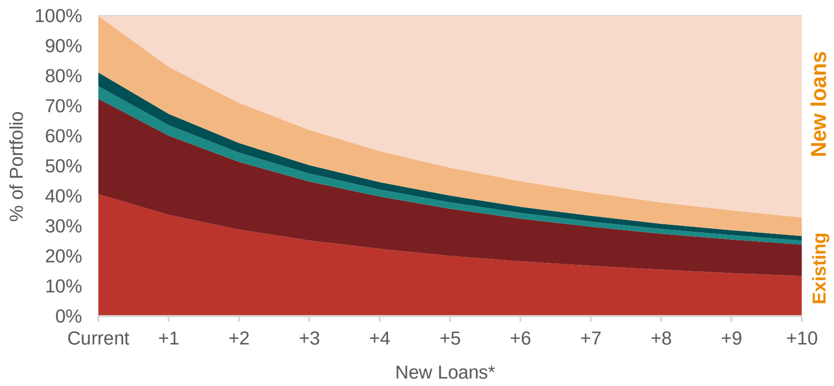


Source: BondAdviser, APRA. As at 30 June 2024.

Taking a more recent example, we highlight the significant decline in office real estate valuations in recent years due to rising interest rates and increased working from home trends driving higher vacancy rates, with a peak to trough of over 20% in key domestic CBD markets and comparable to the GFC. The composition of TCF's portfolio is a key strength in this context, with no exposure to this segment and rather strategically weighted to developed residential real estate which has historically been subject to far less cyclical pressure. Nonetheless, even a similarly extreme valuation drawdown scenario of 20% (as seen in office markets), **TCF's loan investments would remain fully collateralised based on current LVRs.** This is further supported by over 75% of the portfolio comprising residual stock facilities which are short-term (up to 2 years), secured against a portfolio of finished dwellings (no construction risk) and progressively paid down through house or lot sales (rather than refinancing).

Credit risk must also be managed at a Fund level in terms of counterparty exposure, and we acknowledge the concentration of the current portfolio could present challenges given a single borrowing group accounts for over 75% of exposure. Importantly, however, this should improve in the near term as TCF embarks on a planned capital raising to increase total investments up to 15 loans. We estimate that the concentration of the single borrowing group could fall to ~25% of the portfolio should this strategy be executed successfully.

Figure 14. Indicative Portfolio - Borrower Diversification

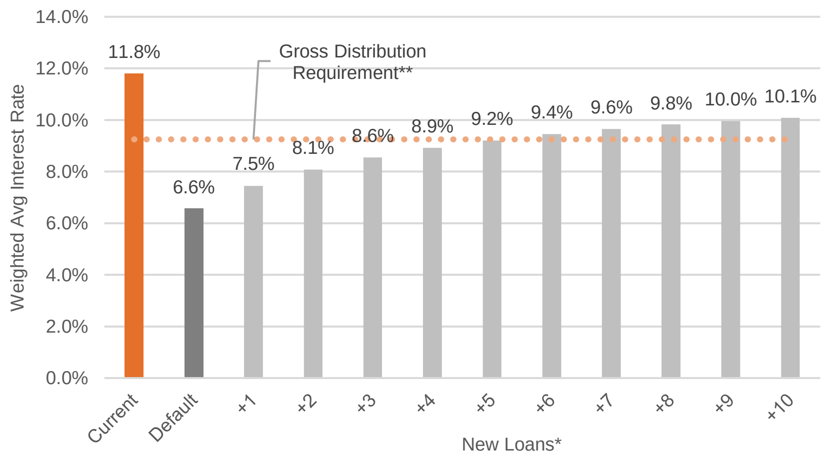


*Source: BondAdviser, 360 Capital Group. *Assumes $5mn size for each new loan.*

We are comfortable that TCF's loan investments have been assessed and structured correctly with ample equity buffers in place and these protections will likely result in limited, if any capital losses in a worse-case scenario. That said, any default could disrupt the ability of the Fund to meet its net distribution target (RBA cash rate +4.00%) given the potential lack of income during this period, even if capital is fully recovered. This is shown in Figure 15 which illustrates the impact to the weighted average interest rate of the current portfolio should TCF's largest exposure experience a default and the Manager is unable to recoup any remaining interest on its largest loan (even through house sales). We note this would require an extreme scenario, including a material decline in underlying security valuations and ultimately should be viewed as a tail risk.

The weighted average interest rate falls from 11.8% to 6.6% under these assumptions. This is below the implied gross distribution requirement of the Fund comprising the net target (8.35%) and management fee (0.85%). However, the negative impact progressively improves as the portfolio grows in number given the dilution of the non-performing loan. Diversification therefore improves both income and capital protection.

Figure 15. Weighted Average Interest Rate Scenario for Non-Performing Loan



*Source: BondAdviser, 360 Capital Group. *Assumes $5mn size for each new loan. **Gross distribution requirement is the sum of the net target turn (current RBA cash rate + 4.00%) and management fee (0.85%).*

Liquidity Risk

Liquidity for TCF is comprised of two elements, (1) that it can sufficiently provide liquidity to borrowers on request, within the loan commitment period and (2) investor liquidity.

Investor Liquidity

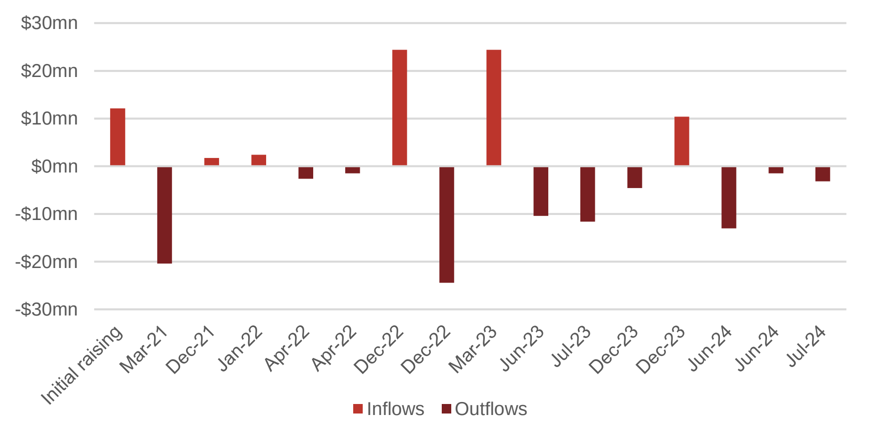
TCF is an ASX-listed investment trust and therefore eliminates redemption-based risks. Investor liquidity is therefore a function of daily trading volumes through the ASX or discretionary buybacks conducted by the Manager. While liquidity has been relatively limited in this context historically, 360 Capital has implemented strategic initiatives to improve the liquidity profile going forward. This includes 1) the initiation of an on-market buyback of up to 10% of issued capital, financed by the Fund's available cash (announced on 24 September 2024), 2) a proposed mechanism that will allow unitholders to redeem their investment at NAV on a six monthly basis (a Notice of Meeting is expected by the end of 2024), and 3) subject to the success of the first two initiatives, a capital raising of the Fund to support the diversification of the loan book and improve the trading volumes of TCF (by the end of 2025 financial year).

Loan Liquidity

TCF has been able to meet all borrower requests since inception of the Fund in October 2020. This is despite no liquidity facility being established over this time frame, albeit having the ability to do so (up to 30% of gross asset value). We argue this reflects support from the broader 360 Capital suite of companies and funds, whereby 360 Capital Group (ASX: TGP) can underwrite new loan investments and 360 Capital Private Credit Fund (PCF) can co-invest in such loans. As a result, while underlying Fund liquidity has been lumpy reflecting the ramp-up and concentration of the portfolio in recent years, capital has been managed efficiently across the broader 360 Capital platform. The nature of TCF's investments (typically short-term financing solutions) also means loan facilities are typically fully or close to fully drawn and the undrawn portion is relatively small and manageable unlike traditional revolving facilities used for working capital and other purposes.

The co-investment capabilities of PCF also reduce refinancing risk and cash drag for TCF. This is an effective capital recycling tool, allowing maturing loans to be co-invested alongside PCF and then subsequently sold down as new loans are approved. Since the establishment of this strategy in August 2023, TCF has remained close to fully invested and therefore maximising investor capital over this period. For context, cash was $268k as at 30 June 2024 versus $14.4 million as at 30 June 2023.

Figure 16. TCF Major Cash Inflows and Outflows Since Inception



Source: BondAdviser, 360 Capital Group.

Fund Governance

360 Capital Mortgage REIT is an ASX-listed mortgage real estate investment trust (M-REIT). The Fund is a listed managed investment scheme that is registered with ASIC (the Australian Securities and Investment Commission). The key documents governing this Fund are the product disclosure document (PDS), and the Fund's constitution.

The Fund was renamed from 360 Capital Enhanced Income Fund in July 2023 with the ticker code (ASX: TCF) left unchanged. A supplemental deed was issued and consolidated into the Fund's constitution. This followed a strategic review in mid-2022 which ultimately resulted in the Fund pivoting itself from its initial corporate private lending strategy to its current commercial real estate lending strategy.

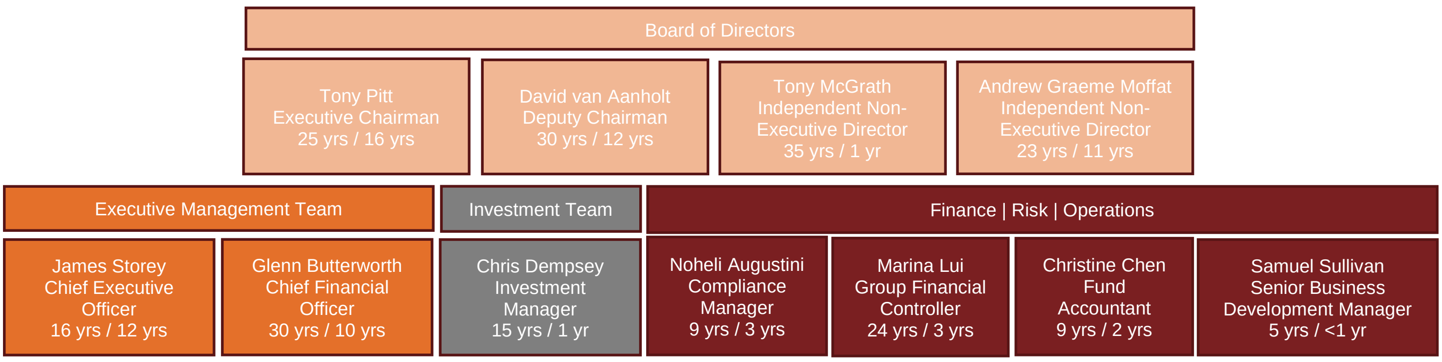
360 Capital FM Limited is the responsible entity (RE) of the Fund. The RE is a wholly owned subsidiary of the 360 Capital Group and is entitled to a management fee of 0.85% p.a. of total Fund assets in addition to being reimbursed for all expenses incurred in the operation of the Fund. The RE, through legal obligations, must act in the interest of beneficiaries (investors), and we expect 360 Capital FM Limited to fulfil these duties at an arm's length manner. However, in our opinion, **a lack of external oversight here should be viewed as a weakness**, despite 75% independent representation still present on the Board of Directors.

The Fund reports each financial year, with a year end of 30 June. Formal semi-annual reports are provided as at 30 June and 31 December. Ernst & Young is the independent auditor of the Fund's financial statements since inception (October 2020).

NAV is calculated monthly in accordance with Australian Accounting Standards. The Fund employs standard commercial practice for its investments, including assessing whether there has been a significant reduction in a borrower's shadow credit rating that could lead to an impairment. However, we highlight as Level 3 assets, the valuation requires judgement and estimation. On this note, the Fund may engage with external consultants on an ad hoc basis to review and undertake an independent assessment of certain exposures to determine the appropriateness of loan pricing and valuation.

The Board of Directors of the RE has responsibility for the establishment and oversight of the risk management framework. This is defined by the Manager's Risk Management Policy and Program. The Board benefits from extensive experience across the real estate industry and 360 Capital, with 75% independent oversight. This is further supported by an experienced executive management team.

Figure 17. Private Credit Team Structure and Years of Experience (Industry / 360 Capital)



Source: BondAdviser, 360 Capital Group.

Quantitative Analysis

Limited publicly available data and the inherent opacity of Australian commercial real estate lending makes quantitative analysis of expected credit loss inherently more challenging than for other, more developed asset classes. The difficulty in applying traditional quantitative credit loss models is made more difficult by the bespoke nature of these investments, and lack of publicly available data.

Whilst imperfect, the analysis presented in this section is intended to simulate the portfolio under varying conditions based on empirically observed inputs, including historical data such as Jump to Default (JTD) and other credit rating migration probabilities, recovery rates across security types, and yield curves. Our simulations show the probability of returns for expected gross capital loss/gain (grey curve) and total gross return (orange curve).

We have adopted the CreditMetrics framework for our analysis. This framework attempts to model credit migrations, including JTDs, that directly impact the valuation of the Fund. Based on historical and estimated fair value yield curves, we can revalue each individual holding for each derived credit rating. This is to simulate the likelihood and severity of deterioration in security values. The heart of the analysis is determined by the probabilities of a JTD, and the recovery given default (loss given default, LGD). Our analysis places no limit on adverse credit migration to model a possible worse-case scenario for investors. **We note that this approach makes no assumptions on 360's capability in avoiding capital losses through active portfolio management.**

Whilst our modelling is based on the 2009 and 2018 historical data, for context we list the average migration rates and recovery rates observed over 1970-2022 in the two tables below. The first table displays the probability of an issuer moving from its current credit rating over a one-year period, whilst the second displays the average recovery based on seniority in the capital structure for different time periods.

Table 1. Average Migration Rates (1970-2022)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	91.5%	7.9%	0.6%	0.1%	0.0%	0.0%	0.0%	0.0%
AA	0.8%	90.0%	8.7%	0.4%	0.1%	0.0%	0.0%	0.0%
A	0.0%	2.5%	91.7%	5.2%	0.4%	0.1%	0.0%	0.0%
BBB	0.0%	0.1%	3.9%	91.5%	3.5%	0.6%	0.1%	0.2%
BB	0.0%	0.0%	0.4%	6.4%	83.9%	7.4%	0.8%	0.9%
B	0.0%	0.0%	0.1%	0.4%	5.3%	82.7%	7.5%	3.4%
CCC	0.0%	0.0%	0.0%	0.1%	0.3%	6.8%	81.9%	8.0%

Source: BondAdviser, Moody's. Withdrawn ratings and ratings that have moved to CC or below are excluded from totals.

For each rating, an instrument's credit rating is likely to remain the same over the modelled timeframe, with some probability of an adverse movement. Our analysis builds on the principles behind Merton's structural credit model to randomly generate a series of credit ratings in one year's time. This is based on stochastic principles, with no Gaussian (Normal distribution) assumptions being made. Asset returns are derived from coupon and fee income, credit rating migrations and loss given default. **Impacts of duration and liquidity are ignored**. The main assumption is that asset returns are determined by the yield curve and credit rating or default, and recovery of the security at that time.

We simulate 10,000 scenarios for each set of assumptions, where each portfolio asset has an end credit rating which is defined by transition probabilities. Mapping valuation changes, or loss given default, to these hypotheticals, allows us to derive a probability distribution of portfolio valuation. The revaluation overlay allows us to estimate (unrealised) mark-to-market losses over a one-year horizon. The primary driver of our scenarios is dependent on JTD and LGD rates.

Additionally, in select figures (curves labelled *Gross E(r)*) we have included the estimated impact of coupon carry for the year. These curves reflect the offset coupon payments have against credit migration losses. In a highly diversified portfolio, a single default has an impact that is insignificant compared to the income generated. This is not present in less diversified portfolios where credit counterparty risk is more material.

When an individual asset jumps to default in any scenario, we assume that no interest payments are made. In evaluating a recovery value in a JTD event, we simulate a random variable utilising a beta distribution. Distributions change by seniority and are constructed using mainly historical data (Table 2-3).

Table 2. Recovery Rate Inputs (Bonds and Loans)*

	1983 - 2022 Average**	GFC Scenario	2022
First Lien Loans	69%	70%	70%
Senior Secured	58%	43%	61%
Senior Unsecured	44%	27%	31%
Subordinated	36%	22%	18%
Equity***	10%	5%	15%

Source: BondAdviser, Moody's, S&P
** Individual recovery rates will vary, based on a simulated random variable utilising a beta-distribution, using mean and variance parameterisation. ** First Lien Loans long-term average from 1990 - 2022, not 1983 - 2022.*
**** Not empirically based, standardised across all BondAdviser QA testing as a punitive input.*
Constant standard deviation of 10% used for equity.

Table 3. Scenario 1 - Bond & Loan* Migration Rates (2018)

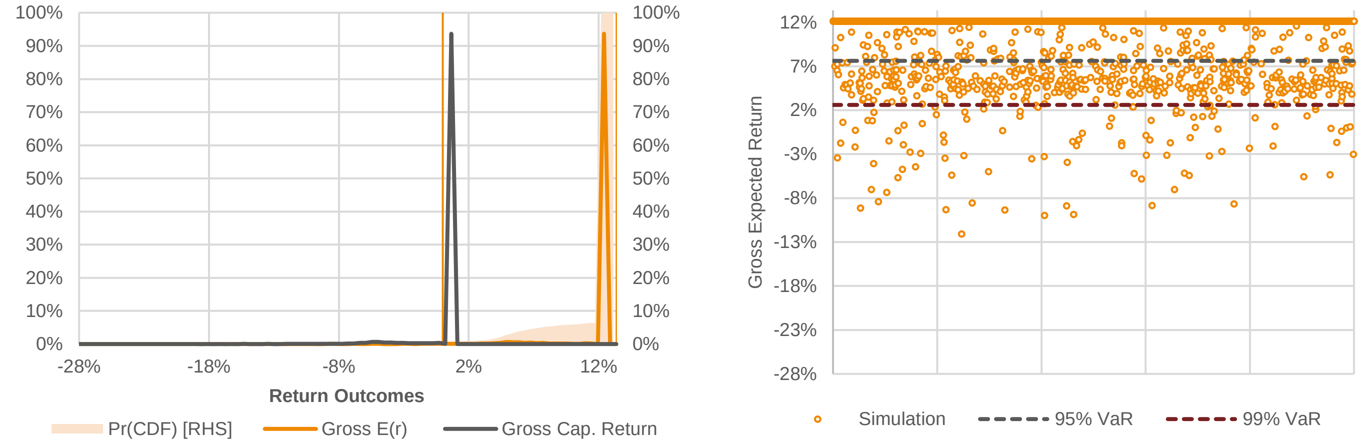
FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**96.1%**	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.3%	**94.1%**	3.8%	0.4%	0.4%	0.4%	0.3%	0.3%
A	0.3%	3.8%	**89.9%**	4.2%	0.6%	0.5%	0.4%	0.4%
BBB	0.0%	0.0%	3.6%	**92.4%**	2.2%	0.4%	0.8%	0.5%
BB	0.0%	0.0%	0.2%	7.7%	**80.1%**	6.3%	3.0%	2.6%
B	0.0%	0.0%	0.3%	1.5%	6.8%	**79.2%**	7.9%	4.2%
CCC	0.0%	0.0%	0.4%	2.2%	2.3%	7.0%	**79.5%**	8.7%

Source: BondAdviser, Moody's
** Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.*

In regard to TCF, the portfolio performs well under our benign scenario modelling, as a function of the majority of its investments being at the lower end of the investment grade, and the senior secured nature of the all the underlying loans. **93.7% of all 10,000 simulations generate a simulated return of 12.2%, with a 99% VaR and 95% VaR of 2.6% and 7.6%, respectively**

A lack of loan diversification in terms of number of holdings results in negative returns in some simulations, namely driven by a default in the sub-investment grade loans. Negative return outcomes are ultimately limited across the 10,000 simulation but it nonetheless highlights the negative skew in returns for a concentrated portfolio of credit investments. This will improve as the number of loans increases; however, the extent will still likely be constrained given the Fund is expected to invest in up to 15 individual loans, which is relatively low versus peers.

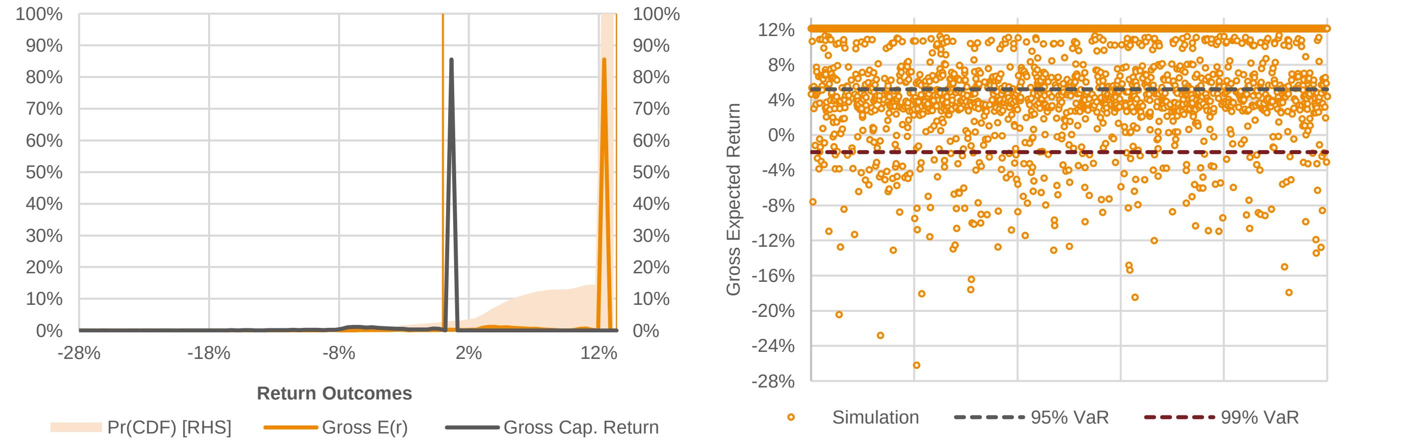
Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates as of 30 September 2024 portfolio. ***Excludes impact of management and other fees****. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's.*
For a more detailed explanation of the methodology, please contact BondAdviser.

To test the portfolio under stressed conditions, we use migration rates from 2009, the worst recorded year for global default rates due to the GFC. Our 2nd scenario models against identical assumptions to the 1st scenario but is substituted with 2009 credit rating migration and corporate yield curve data.

Scenario 2. Stressed Asset Assessment



Source: BondAdviser Estimates as of 30 September 2024 portfolio. ***Excludes impact of management and other fees****. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's.*

Under our Stressed modelling, the portfolio still exhibits reasonable downside protection, however, returns in the negative end of the tail of distributions appear with more frequency. **Overall, 85.6% of simulations generate a return of 12.2%, with a 99% VaR and 95% VaR of -1.9% and 5.2%.** This demonstrates that downside protection is still evident despite low counterparty diversification, benefitting from the secured nature of underlying assets.

Table 4. Scenario 2 - Bond & Loan* Migration Rates (2009)

FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**64.9%**	35.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.5%	**71.6%**	23.3%	1.9%	0.9%	0.7%	0.7%	0.5%
A	0.6%	0.9%	**80.9%**	13.6%	1.2%	1.3%	0.7%	0.8%
BBB	0.0%	0.1%	1.3%	**87.8%**	6.5%	1.5%	1.3%	1.6%
BB	0.0%	0.0%	0.2%	4.8%	**72.5%**	14.3%	3.1%	5.1%
B	0.0%	0.0%	0.2%	1.0%	3.9%	**69.4%**	15.9%	9.7%
CCC	0.0%	0.0%	0.3%	1.4%	1.4%	9.0%	**52.2%**	35.8%

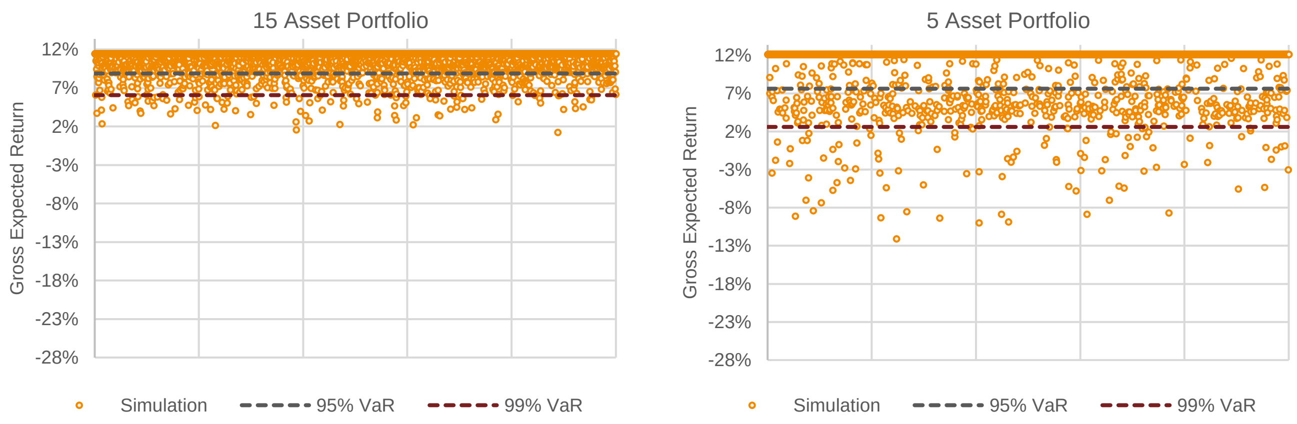
Source: BondAdviser, Moody's.
** Further adjusted for loan assets, to eliminate probability of an upgrade or upwards revaluation.*

Given our expectation that the Fund could be invested in up to 15 loans in the medium term, we have modelled an equivalent portfolio by credit rating and seniority as the portfolio today, but with 15 assets.

As seen below, the 15 asset portfolio exhibits less negative skew, with the worst modelled return still being positive (+1.26%), due to diversification benefits. Additionally, the volatility of modelled returns is almost half that of the 5 asset portfolio, at 1.09%, relative to 2.01%, while the 99% and 95% VaR improve materially to 6.06% and 8.88%, respectively.

We highlight again that this modelling does not consider managerial skill, noting that the Manager has not incurred any capital losses since inception.

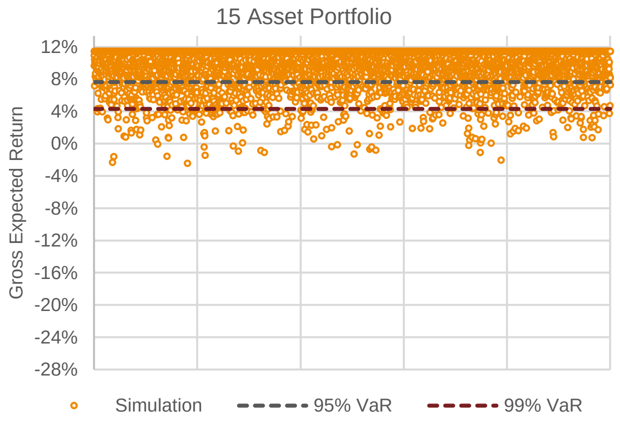
Scenario 3. Baseline Asset Assessment – 15 Asset & 5 Asset Portfolio

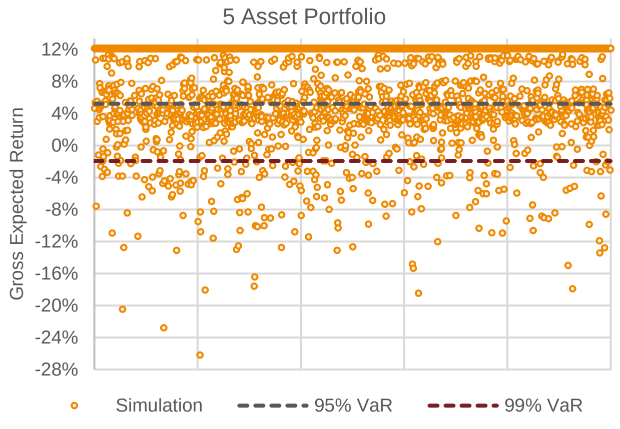


Source: BondAdviser Estimates as of 30 September 2024 portfolio. ***Excludes impact of management and other fees****. Gross capital returns excludes the value of coupons/income and is only modelling impairment or loss given default, based on historical credit data from Moody's.* 15 asset portfolio is a hypothetical portfolio based on similar characteristics of the 5-asset portfolio, and is not reflective of the current portfolio.
For a more detailed explanation of the methodology, please contact BondAdviser.

The benefits of diversification in mitigating materially negative modelled returns is even more evident under our stressed scenario modelling. **The worst modelled return under our stressed modelling is -2.4%, significantly better than the most negative return of -26.2% in the 5-asset portfolio modelling. The 99% and 95% VaR also improve to an impressive 7.64% and 4.31%, highlighting the benefit of loans with security over underlying assets.** We note that these significantly negative modelled returns are extreme tail risks in a 10,000 simulation scenario, happening with minimal frequency. Nevertheless, this analysis shows the benefits of a more diversified portfolio in minimising significant tail risks under distressed scenarios.

Scenario 4. Stressed Asset Assessment – 15 Asset & 5 Asset Portfolio





Source: BondAdviser Estimates as of 30 September 2024 portfolio. ***Excludes impact of management and other fees****. Gross capital returns excludes the value of* ***coupons/income and is only modelling impairment or loss given default****, based on historical credit data from Moody's.* 15 asset portfolio is a hypothetical portfolio based on similar characteristics of the 5-asset portfolio, and is not reflective of the current portfolio.
For a more detailed explanation of the methodology, please contact BondAdviser.

Whilst this modelling is standardised across our fund research platform, we note that there are deficiencies to our approach, including, but not limited to, the following:

- Commercial real estate lending is not identical to corporate lending, and has different default paths and outcomes relative rated corporates.
- It does not consider the additional protections implemented by 360 to mitigate credit migration or default risks.
- Correlations are not explicitly accounted for. In periods of distressed market valuations, we would expect probability and severity of default to be higher. Given the Fund invests solely in the real estate sector, correlations may be higher, especially during distressed market conditions.
- Our modelling contains assumptions, several of which, are subjective and may have otherwise material impacts to the modelling output.

The quantitative structuring defines the forward-looking risk score for our product assessment of the Fund. This is consistent with the BondAdviser Fund Research Methodology and overlays an objective evaluation to our recommendation. Based on our analysis, **we assign the Fund a risk score of High / BB.** This reflects the credit quality of the underlying assets and construction of the current portfolio.

This risk assessment does not account for the expertise or skill of 360 in avoiding, defaults and instead assumes that assets would be held to default, without specifying any restructuring activities. Borrowers are actively researched, followed, and subjected to many levels of examination and oversight. We expect that assets would be managed prior to such an event occurring.

Research Methodology - Overview

Overview

At BondAdviser, our focus is on delivering the highest quality data, research and insights so that investors can make intelligent decisions about the fixed income market. At the centre of our approach is a proprietary 5-pillar process for analysing fixed income funds in a rigorous and disciplined manner. Our approach results in a recommendation scale that investors can readily use to identify the most attractive investment opportunities.

Our ability to provide a clear and concise investment recommendation from the very diverse and unique fixed income portfolios and funds within our coverage universe is a key benefit of our research process. We simplify an otherwise complex procedure for investors into a simple, recognisable and consistent recommendation scale.

We use a bespoke combination of qualitative assessments and forward-looking quantitative analysis. In our experience, most other research is backwards looking, which naturally limits its usefulness. By combining our deep understanding of fixed income markets and their emergent trends with our extensive modelling and forecasting capabilities, we aim to solve this limitation and output meaningful, risk-adjusted prospective recommendations for investors.

Research Approach

BondAdviser has adopted a multi-pillar, risk-based approach to the assessment of funds. In our opinion, an investor's exposure to credit risk is not uniform and can be well mitigated by manager skill, experience and supporting governance structures. We identify 5 key pillars of credit risk mitigation and these then form sections of analysis in our reports:

- Investment Objectives, Strategy and Performance
- Portfolio Construction and Investment Process
- Liquidity, Operating & Financial Risk Management
- Governance, Asset Stewardship and Compliance
- Quantitative Analysis

Research Process

The initial screening of funds and assets is based on a globally recognised best practices approach to alternative assets as defined by the Alternative Investment Managers Association (AIMA) and risk management as identified by the International Organisation of Securities Commissions (IOSCO).

All assets and managers must meet minimum requirements as outlined in our initial due diligence questionnaires. Detailed interviews, operational checks, process documentation and data collection then follow. Each of these steps helps to ensure that our recommendations are consistent and are based on a comprehensive understanding of the key drivers of the underlying market segment and asset class(es), the investment manager and broader portfolio.

Classification

We broadly adhere with international and Australian accounting standards and global best practice in designating assets according to their place in the fair value hierarchy defined in International Financial Reporting Standard 13 (IFRS13) - Fair Value Measurement (Australian version – AASB 13). All assets designated as "Credit" fall under three categories based on market observability as outlined below:

- **Level 1 (Active Markets)** - assets that have quoted prices in active markets, providing the most reliable evidence of fair value. As a result, transactions for these assets can generally occur at this price as at the measurement date. Domestically, typical examples of Level 1 assets include Australian Government Commonwealth bonds, listed debt and hybrid instruments and RBA repo-eligible financial instruments.
- **Level 2 (Non-Active Markets)** - assets that have observable prices (directly or indirectly), not included within the Level 1 category (i.e. not quoted on an exchange). Assets referencing credit

spreads and interest rates would qualify if the input is observable for the full tenor. This category generally encompasses credit markets which have limited secondary market activity such as corporate bonds, subordinated debt and syndicated loans.

• **Level 3 (Illiquid and Alternative Credit)** – assets that have mostly unobservable inputs and hence valuation models are used, driven in part by assumptions and expectations. There may be an independent overlay and a model risk adjustment to derive an exit (market) price. A limited secondary market is typical and these assets are often referred to as alternative credit. Examples of this segment include "structured" credits such as RMBS, CMBS, ABS and private debt investing.

Product Assessment

The BondAdviser Product Assessment is the culmination of our research process applied to our pillar-based research approach. We conclude whether a fund is screened-out, approved, recommended or highly recommended as broadly defined below:

• **Screened Out** – The fund does not (or no longer) satisfies our minimum criteria for research inclusion.

• **Approved** – Our research allows us to conclude that the fund manager, governance structure, policies and procedures appear to be sound and capable of managing the fund adequately to target its benchmark.

• **Recommended** – We have a reasonable expectation that the fund will achieve its target benchmark.

• **Highly Recommended** – We believe that superior skills, systems and processes mean that the fund has a high likelihood of meeting and probably exceeding its benchmark target. Note that we only Highly Recommended assessments after issuing multiple reports over an extended period of time

Risk Score

Our Risk Score is aligned to the same methodology that is utilised in BondAdviser's single-instrument reports. It is not a credit rating and should not be used as such.

• AAA – Very Low

• AA – Low

• A – Lower Medium

• BBB – Upper Medium

• BB – High

• B – Very High

• CCC – Extreme

• D – Default (Fund Closed)

Our overall Risk Score is driven by the underlying credits of a fund coupled with our quantitative analysis. It is mutually exclusive to the Product Assessment. For example, it is possible for a fund to be Highly Recommended and have a risk score of CCC. This could occur where the fund invests in riskier credit assets but we are very confident of its capability to meet or exceed its benchmark target. Conversely, a fund comprising mostly of government bonds may hold a Risk Score of AAA but its governance processes, history and controls are not as strong as peers and warrant only an Approved assessment.

Alternative Investment Fund Research Methodology

Click here to view

Important Information

BondAdviser has acted on information provided to it and our research is subject to change based on legal offering documents. This research is for informational purposes only. This information discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as research or investment advice.

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