MONARK

Monark High Yield Debt Fund – Series 1 Quarterly Investor Update

31 MARCH 2022

QUARTERLY INVESTOR UPDATE

Please Note

Information contained in this investor update

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QUARTERLY INVESTOR UPDATE

Dear Investor

Welcome to the first quarterly update for the Monark High Yield Debt Fund (the Fund) in what we expect to be an approximately five-year journey.

The Fund has been operating for only one month and, as such, the amount of detail that can be communicated is limited. We do plan to expand on the disclosure as the Fund matures. The first part of this update communicates information on a fund level, the second takes a close look at the evolving underlying investment portfolio. We have designed the update to be easy to read with space and clarity, rather than producing a busy and condensed document. We hope you enjoy this maiden update and would welcome any feedback that you believe will contribute to a better and more useful experience.

A successful launch

As we reported in our welcome letter, the Fund experienced a smooth and successful launch on 1 March 2022. Although we limited invitations to invest to current Monark investors and a small number of strategic, cornerstone investors, requests exceeded our $60 million target.

Given the strength of our deal pipeline, we decided to avoid scaling back applications, with the Fund closing at $64.4 million.

The first capital call of 20c per unit, amounting to $12.9 million, has been substantially deployed into four projects during the Fund's first operating month. We provide details on the progress of each project later in this update.

Investment environment

No fund operates in a vacuum. The external environment impacts on both the mood of the investor and the prospects for the fund. We therefore plan to include a regular synopsis of our views on the broader investment landscape. These views are informed by the experienced and knowledgeable people we engage with, as well our own perspectives. They are certainly not a crystal ball.

Today's investment environment has deteriorated markedly since the beginning of the year, the two major contributors being the social and political instability provoked by the conflict in the Ukraine, and the volatility in financial markets underpinned by steadily increasing inflation and the prospect of higher interest rates needed to temper this. To this mix we should also add the unusually high valuations of most publicly traded securities, a product of several years of zero interest rate policy.

QUARTERLY INVESTOR UPDATE

In this update we will focus on the link between the potential for a fall in the Australian property market and the impact this may have on the strength of the security we hold for each transaction in the portfolio. We will also make brief comment on a possible upside should we experience a market correction.

The strength of our security

Generally, there are three factors influencing the strength of our security:

1. Movements in the general price level of the Australian property market,
2. How the movement (if any) affects our niche lending markets, and
3. The structure of each secured private debt transaction

The Australian property market

Much is currently being written in the media about potential falls in property values, this due to the impact of rising interest rates necessary to temper higher than acceptable inflation. And we do believe that some repricing is likely. However, we do not believe that Australia will see a broad and material property correction.

We don't say this as optimists, but as realists. Simply put, the Australian financial system cannot afford a substantial mark down in prices because we have created a 'too big to fail' environment.

We recognise that this is far from ideal, but with most Australians' wealth closely tied to property and with a substantial amount of debt underpinned by property assets, the likelihood is for fiscal and monetary intervention rather than to leave the market to shake our overleveraged and fearful owners and to risk broader economic calamity.

Our position is similar to mainstream US thinking, but in their case it's a material loss of value in American stock markets that has the potential to negatively impact the real economy. US authorities were moved to intervene during the Global Financial Crisis (with the introduction of what became known as Quantitative Easing), and more recently the extraordinary intervention that occurred to dampen the impact of the COVID pandemic.

Economic management is about trade-offs. We believe that given a choice of eliminating inflation or risking a deep property correction, both the government and Australian Reserve Bank will choose to accept a higher rate of inflation. Ironically, it is hard assets (including property) that benefit most from an inflationary environment. The above comments are directed at the overall market in general. There will always be pockets of strength and weakness.

QUARTERLY INVESTOR UPDATE

Our niche lending markets

Monark has now accumulated a strong understanding of, and presence in, the Australian ‘middle property market’.

Our investment thesis is that boutique apartments in highly sought-after locations (typically purchased by owner-occupiers looking to downsize in apartments close to their larger homes) are underpinned by significant demand and therefore represent robust and valuable security. Our thesis was tested under the extreme COVID scenario and was proven to be resilient. Therefore, whilst a general market drop would impact the type of project we finance, we believe that any general fall would have a far more moderate impact on the sub-markets we invest in.

The structure of a secured private debt transaction

The key advantage of debt as opposed to equity at times like these is its insulation against first loss. This is achieved via the setting of an acceptable loan to value ratio (LVR). Whilst each transaction in the Fund’s portfolio has its own nuances, all have what we consider an appropriate LVR for the project’s specific circumstances. It is this LVR that will provide additional comfort in a weak market.

Possible upside

Strong and stable investment markets can breed complacency, numb risk awareness, and encourage new entrants. The valuations on many public markets are a mirror of this ‘risk-on’ mindset. In fact, COVID lockdowns and handouts hatched many new investors resulting in substantial price increases across most markets – equity, debt and property. We have seen strong competition in our lending activities with, in our opinion, facilities being extended at interest rates well below those appropriate for the associated risks. Greed and fear play an important role in commercial activity and should greed moderate – or even turn to fear – the competition will thin and those with the resources and experience will do their best business.

Looking ahead…

We expect to make a further capital call of 10-15 cents per unit before the end of June 2022, with the call for funds notification issued not less than ten business days prior to funds being required. Whilst we’d prefer to be more definitive on the timing and quantum of each drawdown, the nature of this portfolio is such that this visibility is not always available.

We take the responsibility of managing your investment seriously and welcome all feedback.

QUARTERLY INVESTOR UPDATE

Key Metrics

$12.9M

Capital called

20%

Percentage capital called of total capital committed

4

Number of portfolio investments

16.2%

Annual net IRR (after fees) on deployed funds from inception, 1 March 2022 to reporting date, 31 March 2022

9.7%[1]

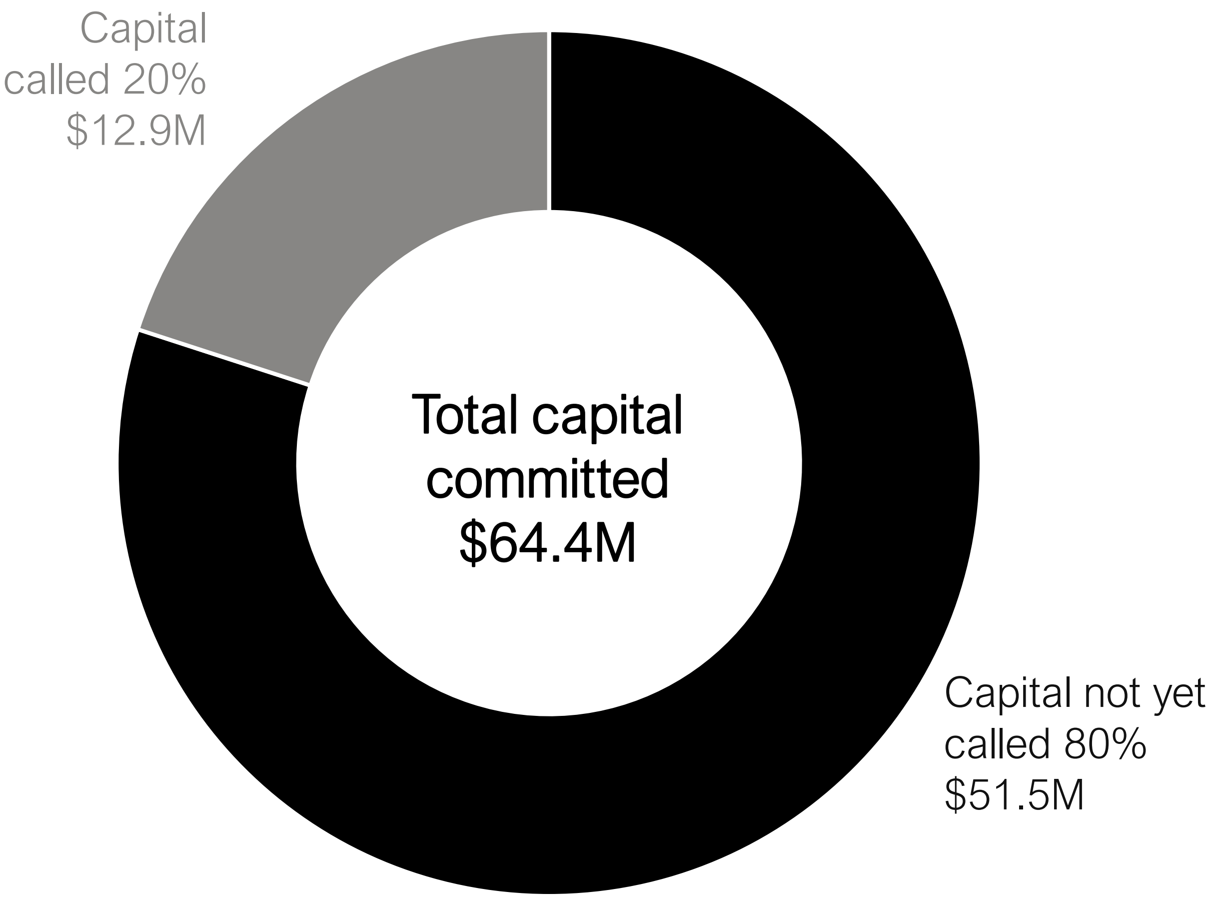
Annual Fund IRR from inception, 1 March 2022 to reporting date, 31 March 2022

1 Early performance will be influenced by a higher allocation to cash. As the fund matures, fund performance will more closely match the returns of the underlying portfolio.

QUARTERLY INVESTOR UPDATE

Fund Capital

	Fund	Per unit
Total capital committed	$64.4M	$1.00
Capital called	$12.9M	20c
Capital repaid	-	-
Net Fund capital	$12.9M	20c
Deployed in transactions	$9.9M	15c
In cash	$3.0M	5c
Capital not yet called	$51.5M	80c



QUARTERLY INVESTOR UPDATE

Fund Performance

The Fund's investment portfolio produced an annual IRR of 16.2% with the Fund overall performing at an annual IRR of 9.7%.

The Fund's overall performance will initially be influenced by its higher allocation to cash. As the Fund matures and capital is progressively deployed, the cash held as a proportion of drawn funds will diminish, resulting in the Fund's performance more closely matching the returns of the underlying portfolio.

	Fund	Per unit
Capital called	$12.9M	20c
Capital repaid	-	-
Net Fund capital	**$12.9M**	**20c**
Net income distributed	-	-
Net income accrued	$0.1M	0.1c
Total net income	**$0.1M**	**0.1c**
Annual Fund IRR from inception (1 March 2022) to 31 March 2022 [1]	**9.7%**	

1 The Fund's final IRR will be determined after the repayment of all transactions in its portfolio. The Annual IRR includes facility transaction fees expected to be earned by the Fund at the maturity of certain transactions.

QUARTERLY INVESTOR UPDATE

Unit Value

	Fund	Per unit
Net Fund capital	$12.9M	20c
Net income accrued	$0.1M	0.1c
Net asset value	**$13.0M**	**20.1c**

QUARTERLY INVESTOR UPDATE

Fund Portfolio as at 31 March 2022

Facility	Amount deployed	Weighting
1. Reunion Place, Hampton (VIC)	$5.6M	57%
2. Bridport Street, Albert Park (VIC)	$2.0M	20%
3. Cranbourne West Land Subdivision (VIC)	$1.8M	18%
4. Hampton Hill, Hampton (VIC)	$0.5M	5%
	$9.9M	100%

QUARTERLY INVESTOR UPDATE

Reunion Place, Hampton

23-25 Linacre Road & 1A Deakin St, Hampton VIC

A luxury 24-apartment project over three stories with basement car parking comprising 49 carparks. Located 350m from Sandringham Beach in the sought-after suburb of Hampton. Designed by award-winning architects Fender Katsalidis. The development site was amalgamated through the acquisition of three adjoining properties.

Key Information:

Developer	Noetic Places
Builder	Sinjen
Anticipated Fund Investment	$5.6 million
Current Fund Investment	$5.6 million

Project Update

- Demand for units in the project has been strong with unconditional sales contracts concluded for 16 of the 24 apartments for a total consideration of $27.6 million.
- The developer intends to retain five units and release the remaining three for sale closer to the completion date, anticipating increased revenue at that point in time.
- All demolition works are complete.
- Early works including foundation works for the existing dwelling are complete and main contract works commenced on 28 March 2022.
- A QS report dated 12 April 2022 indicates the project is currently proceeding as per its program and the forecast date for practical completion of 30 November 2023 remains achievable.
- The builder is primarily sourcing local materials with the lifts, windows, joinery and tiles to be supplied through overseas suppliers who are all known to the builder.

QUARTERLY INVESTOR UPDATE

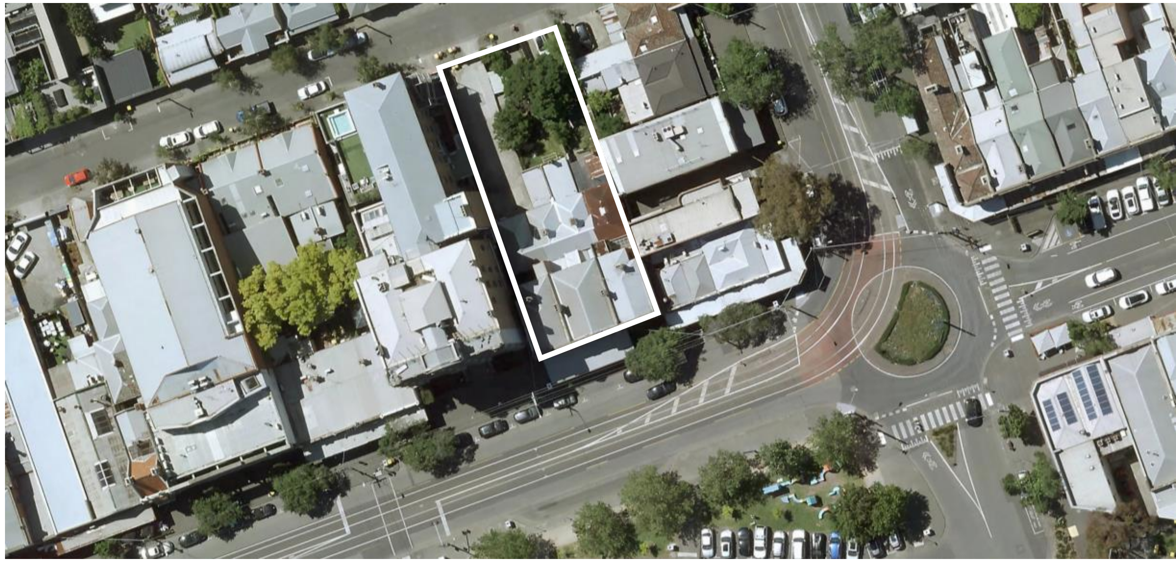
Bridport Street, Albert Park

146 – 150 Bridport Street, Albert Park VIC

The developer has strategically acquired and amalgamated three sites to develop a 6-level mixed-use development comprising six luxury apartments, all with basement carparking, to be constructed above office and retail areas. Each apartment will occupy a full level. The project is located in a high-profile shopping strip in the blue-ribbon suburb of Albert Park. Designed by well-regarded architecture firm Cera Stribley. Monark is a shareholder in the project.

Key Information:

Developer	Jacmax Projects
Anticipated Fund Investment	$5.5 million
Current Fund Investment	$2.0 million



Project Update

- The developer has engaged a high-profile heritage architect to consider the degree of flexibility available for final project design. Initial indications are encouraging with less retention required than initially anticipated.
- An initial concept design for the project is expected by late May.

QUARTERLY INVESTOR UPDATE

Cranbourne West Land Subdivision

950 Western Port Highway, Cranbourne West VIC

Developer, Resolution Property Group (RPG), is collaborating with the vendor, Natural Resources Conservation League, to deliver an exemplar of environmentally sustainable development. Specifically, a land subdivision comprising 181 lots on a 9.2 ha infill site with homes having a 7-star NatHERS rating.
RPG is a property development manager company experienced in acquiring and developing master planned communities, residential land subdivisions, infill townhouse projects and residential/golf communities throughout Victoria. Monark is a shareholder in the project.

Key Information:

Developer	Resolution Property Group
Anticipated Fund Investment	$12.9 million
Current Fund Investment	$1.8 million

Project Update

- The 2-lot Plan of Subdivision (PoS) for the 9.2 hectare required for the project has been received from the council.
- A planning permit for the project is imminent and expected to be received in June.
- A display suite is being established on site and a detailed marketing program is being prepared for the launch of the project in June.

QUARTERLY INVESTOR UPDATE

Hampton Hill, Hampton

464-476 Hampton Road, Hampton VIC

The high-profile site, located in the Hampton Hill village, was amalgamated by purchasing six shops. Development of 32 boutique apartments over five levels and ground floor retail over 60 basement car parks. Designed by renowned architect, Woods Bagot, the project has been conceptualised as an Environmentally Sustainable Design with a 7.5 star NatHERS Energy Rating. Monark is a shareholder in the project.

Key Information:

Developer	Lowe Living
Anticipated Fund Investment	$3.8 million
Current Fund Investment	$0.5 million

Project Update

- Project received planning approval in October 2021.
- Project was formally launched in November 2021 with a display suite constructed on site.
- Since launch, the project has concluded nine unconditional sales contracts (28% by number presold) and has received an additional 5 reservations that are likely to convert into unconditional sales.

QUARTERLY INVESTOR UPDATE

Seed Portfolio Progress

Burleigh 88, Burleigh Heads

88 The Esplanade, Burleigh Heads QLD

The project comprises 31 luxury apartments over 17 levels, providing uninterrupted ocean views.

- Project fully presold.
- Developer currently in negotiation with council in relation to setbacks required to obtain development approval.
- Development approval will determine the construction price and whether current presales are enforceable.
- Subject to satisfactory due diligence we expect to draw down on this facility in October 2022.

Boxshall Street, Brighton

28-30 Boxshall Street, Brighton VIC

The project comprises 18 luxury apartments and four retail shops. The land is a corner site in the blue-ribbon suburb of Brighton, offering views over the Town Hall and gardens.

- Display suite nearing completion.
- Development approval obtained.
- Developer currently negotiating with a preferred contractor in relation to project construction.
- Subject to the satisfactory conclusion of contract conditions, construction is expected to commence in September 2022.

QUARTERLY INVESTOR UPDATE

Seed Portfolio Progress

Point Nepean Road, Rye

2123-2135 Point Nepean Road, Rye VIC

The project comprises 18 luxury apartments and four retail shops with on-grade carparking, located opposite Rye beach.

- Monark has approved the loan facility and has entered into a binding Heads of Agreement with the developer. Legal documents are currently being finalised.
- Land settlement is expected to take place in October 2022.
- Development approval expected to be lodged by early June 2022.

Larnook, Armadale

523 Orrong Road, Armadale VIC

The project comprises 11 luxury apartments over four levels and basement carparking, located on a corner site in the blue-ribbon suburb of Armadale.

- Unconditional presale with deposit received for penthouse representing 20% of end value.
- Land will be settled in June 2022 with construction to commence shortly thereafter.

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