Fund Research

Monark Prime Credit Fund

BondAdviser

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Overview

The **Monark Prime Credit Fund** ('MPCF', or the 'Fund') is an open-ended unlisted unit trust providing wholesale investors with exposure to Australian commercial real estate (CRE) debt. The Fund invests solely in senior debt facilities secured by first-ranking registered mortgages over Australian property, with income distributed monthly. The Fund charges a 0.50% p.a. administration fee with no entry, exit, or performance fees, and offers limited quarterly liquidity. This fee covers the Fund's administration only (see Fund Governance for full fee details).

The Fund has a first right to invest in senior-secured private debt transactions originated by Monark, noting Monark operates only one first mortgage credit fund. The portfolio is unlevered, holds no subordinated positions or derivatives, and operates to a maximum weighted average Fund LVR of 65% (see Construction and Investment Process for how LVR is calculated), with no single Facility exceeding 25% of capital raised. As at 31 March 2026, the Fund held 25 facilities at an average 61% Fund LVR (inclusive of cash) with an average loan size of $10.8 million and average portfolio deployment of 94%.

MPCF is managed by Monark Secured Debt Management Pty Ltd (the 'Manager'), a related party of Monark Property Partners Pty Ltd ('Monark'), a real estate financier established in 2013 as a joint venture with Bori Liberman's family office, Jagen. Since inception, Monark has originated 186 senior debt, 63 mezzanine debt and 49 preferred loan facilities, committing over $2.0 billion of capital across 298 property investments with a gross realisable value of $6.7 billion. Over this period, they have maintained a 100% capital preservation track record on completed transactions. The Manager focuses on the Australian 'middle property market' which is defined as mid-sized developments in premium metropolitan locations across Victoria, New South Wales, and Queensland – where loans typically range between $5 million and $20 million.

Key Characteristics			
Fund Size[1]	$289 million	**BondAdviser Risk Score**	**High**
Unit Price	$1.00	**Product Assessment**	**Approved**
Net Asset Value[1]	$289mn	**Outlook / Asset Classification**	**Stable** / Level 3
Fixed / Floating	Floating	**Structure**	Unlisted Unit Trust
Distribution Frequency	Monthly	**Sub-Asset Class**	CRE Private Credit
Target Net Return[2]	RBA + 4.00%	**Manager**	Monark Secured Debt Management Pty Ltd
Custodian	N/A	**Trustee**	Monark Securities Pty Ltd
Management Fee (p.a.)[3]	0.5%	**Administrator**	N/A
Performance Fee[3]	N/A	**Auditor**	Moore Australia

[1]As at 31 March 2026. [2]Manager-nominated benchmark advised to BondAdviser; the Manager may revise the premium should its assessment of the premium-to-risk relationship change. At inception the Manager provided guidance of 7% p.a. in lieu of a track record, which the Fund has exceeded. [3]Additional fees, including an establishment fee (typically 1.0% of facility limit) and an interest margin (typically between 100-200bps), are also paid by borrowers to Monark.

Product Assessment

Approved

The strongest support for our assessment of the **Monark Prime Credit Fund** is its track record: a 100% capital preservation record on completed transactions across more than $2.0 billion committed since 2013, with no personal guarantee called, earned in the same market segment the Fund lends into today. The mandate itself is deliberately narrow. It Invests exclusively in first-ranking senior exposure, with no fund-level leverage, and a 65% weighted average LVR ceiling preserving a substantial portfolio equity buffer. Performance has historically been a passthrough of the underlying Facilities alone.

Concentration is the core risk of our assessment. As at 31 March 2026, the five largest loans represented more than 40% of NAV, the top five counterparties accounted for over 50% of the portfolio, and Victoria comprised 81.6% of total lending. On a conventional portfolio construction view this level of concentration is a core risk: the repayment of a development loan depends on presale settlement, construction cost and refinancing conditions, and these tend to move together across a single metropolitan market, so a deterioration in Melbourne development conditions would bear on the repayment sources of a large part of the book at the same time, and the impairment of one or two large Facilities would remove a material share of a year's return.

That said, the Manager’s concentration reflects a deliberate business model rather than a lack of diversification discipline. Monark targets a smaller number of high-conviction Facilities, with construction and exit risk assessed at the individual project level. This approach is supported by the Manager’s established developer network and allows for close monitoring of each project, rather than spreading capital across a larger number of smaller exposures where it has less familiarity and oversight. The Fund’s 100% preservation record provides evidence of the effectiveness of this approach, and we regard project-level selection as the primary mitigant to concentration risk.

Separately, LVR is measured inclusive of capitalised interest and against “as if complete” valuations for development security, meaning the effective equity buffer available at repayment may be narrower than the headline LVR suggests. While we consider the Manager’s approach to be an effective mitigant, the underlying concentration and development exposure remain material sources of risk. Accordingly, we assign MPCF a **High** Risk Score, with scope for an upgrade contingent on greater counterparty and geographic diversification.

Importantly, this Risk Score should not be interpreted as a reflection of the Manager’s ability to manage the strategy. In our view, the Manager is well equipped to manage the risks inherent in MPCF’s concentrated development lending strategy, as demonstrated by its track record and risk management approach. We also recognise that materially increasing diversification would be inconsistent with the strategy the Manager has deliberately pursued through the Fund, meaning the likelihood of a Risk Score upgrade is relatively limited. Our Product Assessment is assessed separately, however, and continued strong performance and evidence of effective risk management would provide scope for upward pressure on the Product Assessment over time.

Governance is the other principal consideration. The absence of an independent trustee, custodian or administrator leaves unit pricing, impairment judgements and the Trustee's redemption discretions without external oversight. This is partially mitigated by the independent majority on the Investment Committee (whose unanimous approval is required for every Facility) and reinforced by material co-investment from Monark shareholders and executives, who hold approximately 5-10% of the Fund at any given time on the same terms and pari passu with external investors. We also note that Monark's interest margin on each facility is subordinated to the Fund's full entitlement on repayment (Monark only receives its margin once investors have been repaid in full on that Facility).

Performance has been strong against the 7% p.a. guidance provided at inception – an average net return of 8.90% p.a. since September 2021 with no impairment of capital or interest. The Manager has nominated a benchmark of the RBA cash rate plus 4.00% p.a. (8.35% at the date of this report), which sits within the normal range for comparable senior CRE debt funds.

Overall, we assign MPCF a Product Assessment of **Approved** (Stable) under the BondAdviser Alternative Investment Fund Research Methodology. The Manager, governance structure, policies and procedures are sound and capable of managing the Fund to its objective. An upgrade would require the structural gaps to close: independent oversight of fund operations, improved diversification, and outperformance of the newly instated return target.

Investment Strategy & Performance

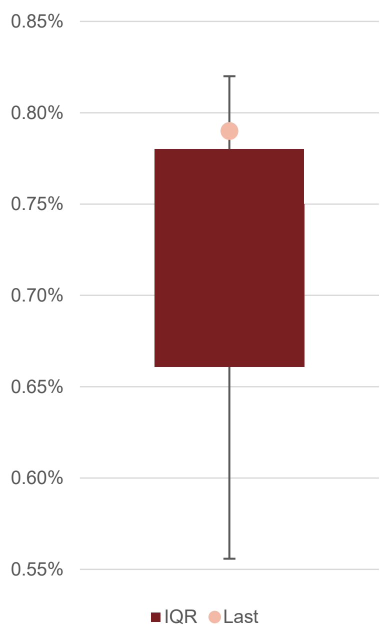
MPCF provides investors with exposure to the Australian CRE debt market – a market historically dominated by banks prior to Basel III regulations in 2013. The funding landscape has since changed due to higher regulatory capital requirements for banks, with alternative investment managers stepping in to provide capital. Since then, the CRE lending market has delivered attractive risk-adjusted returns for managers with the skill to manage exposures through the cycle.

The Manager targets residential developments – typically apartment projects of 10-50 units, 5-10km from the CBD in higher socio-economic areas – and infill land sites of up to ~300 lots in growth corridors. The loans are commercial in purpose (i.e., extended to developer borrowers) but residential in their underlying security. The underlying facilities are senior secured, short-term floating-rate loans, which substantially limit the portfolio's duration risk.

The primary objective of the Trust is to safeguard investor capital while generating a stable monthly income stream in excess of the returns available from basic deposit and savings products. The Manager does not operate to a predetermined fixed return target, which reduces the risk of reaching for yield to meet a specific return hurdle. Instead, Monark seeks to deploy capital where it identifies the most attractive risk-adjusted opportunities, allowing the portfolio to reflect the prevailing opportunity set rather than being constrained by a required level of return. While the absence of a formal return target has historically been a deliberate feature of the strategy, the Manager has provided greater guidance on its return expectations in the current market, indicating a target of RBA + 4.00% p.a. (subject to change as market conditions evolve).

Against this objective, the Fund has performed strongly, generating an average return of 8.90% p.a. since inception. The Trust has also experienced no impairment of capital or interest to date, providing a strong track record in support of its primary objective of capital preservation.

Figure 1. Monthly Returns* Box Plot



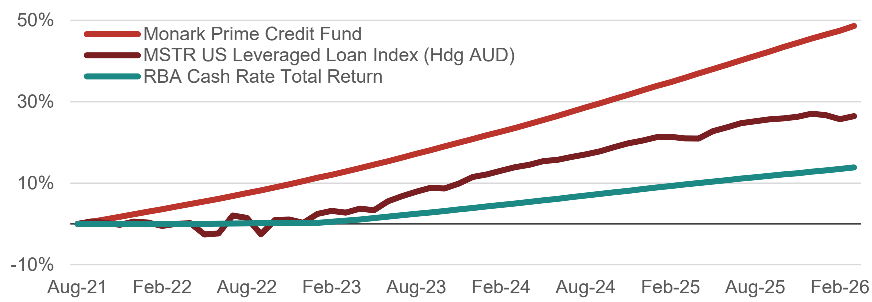
*Source: BondAdviser, Monark. *Net monthly returns based on NTA. Since inception.*

Figure 2. Monthly Net Returns (%)*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD[1]
2026	0.69	0.63	0.79										2.12
2025	0.81	0.71	0.79	0.80	0.79	0.76	0.78	0.78	0.75	0.78	0.73	0.72	9.60
2024	0.77	0.71	0.76	0.77	0.80	0.79	0.83	0.82	0.79	0.82	0.78	0.81	9.87
2023	0.74	0.66	0.73	0.73	0.75	0.73	0.78	0.80	0.76	0.78	0.75	0.77	9.36
2022	0.64	0.57	0.64	0.59	0.61	0.60	0.66	0.65	0.64	0.70	0.68	0.71	7.97
2021									0.54	0.59	0.59	0.62	2.36

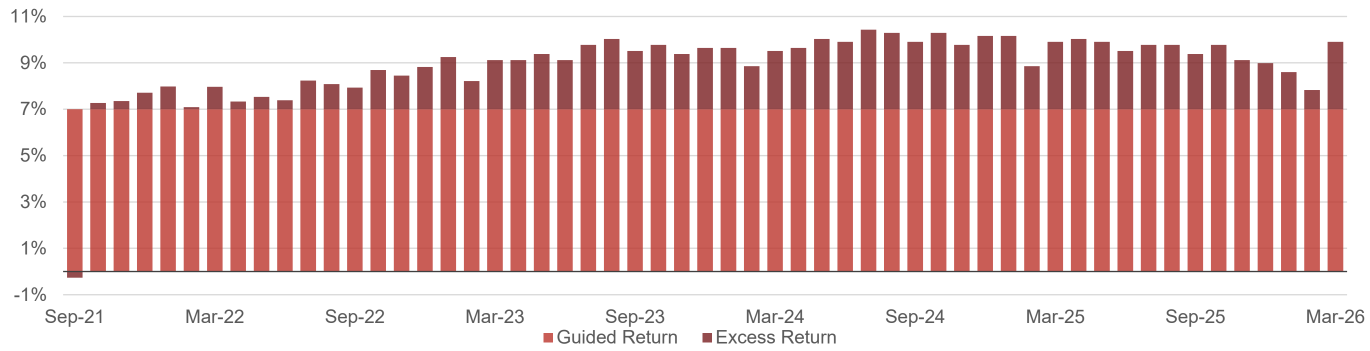
*Return is monthly net total return based on NAV plus dividends. *__Does not assume reinvestment of distributions__. Source: BondAdviser, Monark. As at 31-Mar-26.*

Figure 3. Relative Cumulative Performance



Calculated from cumulative net monthly returns of the Fund, based on NAV. Source: BondAdviser, Monark, Bloomberg. As at 31-Mar-26.

Figure 4. Annualised Monthly Returns Versus Guided Return



Source: BondAdviser, Monark. As at 31-Mar-26.

Positive Risk Factors

Manager Expertise. Monark was established in 2013 as a joint venture with Bori Liberman's family office, Jagen, and has since committed over $2.0 billion across 298 property investments with a gross realisable value of $6.7 billion, maintaining a 100% capital preservation record on completed transactions, with no personal guarantee having been called. This track record is concentrated in the Fund's target market – mid-sized residential development lending in premium metropolitan location. Credit decisions are overseen by an Investment Committee (See Fund Governance section for Investment Committee details).

Layered Security and Conservative LVR Framework. The Fund lends solely against first-ranking registered mortgages over Australian property and holds no subordinated, mezzanine or unsecured positions. Each mortgage is reinforced by a general security agreement (GSA) over the borrowing entity, typically with personal guarantees and indemnities from sponsors, and – on construction facilities – a multiparty deed providing step-in rights over the build. Borrower equity therefore absorbs first loss: the 65% weighted average LVR ceiling preserves an equity buffer of 35% of asset value (Portfolio LVR 65% / Fund LVR 61% incl. cash), as at 31 March 2026.

Unlevered, Single-Vehicle Structure. The portfolio is unlevered and holds no derivatives. Performance is consequently a function of the underlying Facilities alone, and the refinancing and margin risks that accompany fund-level debt are absent. Allocation risk is similarly contained: MPCF holds a first right to invest in Monark's senior-secured originations, and Monark operates only one first mortgage credit fund, removing competition for deal flow between related vehicles.

Active Construction Risk Management. Construction advances are released only against quantity surveyor verification of works completed, keeping drawn exposure aligned with the value physically built. Oversight continues through monthly maturity reviews, quarterly Investment Committee portfolio reviews, and regular project control group meetings attended by Monark's execution team and its in-house registered builder. Where a project underperforms, Monark holds a unilateral right to appoint a project manager at any point in a facility's life, and term extensions generally require the borrower to repay sufficient principal to restore the original LVR. These mechanisms directly address the elevated risk carried by the Fund's construction lending (~24% of the portfolio).

Independent Investment Committee and Investor Alignment. Two of the Senior Debt Committee's three members are independent, and every Facility requires unanimous

Committee approval prior to funding, with conflicted members required to abstain and conflicted transactions requiring prior unanimous approval. Alignment is reinforced economically: Monark shareholders and executives – including the Liberman family interests, which hold 50% of Monark – hold approximately 5-10% of the Fund at any given time, invested on the same terms and in the same unit class (pari passu) as external investors, and Monark's interest margin is subordinated to the Fund's full entitlement on repayment, meaning Monark is only paid its margin once investors have been repaid in full on that Facility. The Manager has also developed standalone Risk Management and Liquidity policies in response to ASIC Report 820, expected to be effective by 30 June 2026.

Negative Risk Factors

Lack of an Independent Trustee, Custodian or Administrator. The Trustee, the Manager and the Lending Entities are all related parties of Monark, and the Fund operates without an external trustee, custodian or administrator. The role of these parties is to protect investor interests, which in our view is best achieved through independent oversight – particularly of unit pricing, impairment decisions (which require judgement and are made by the Manager in conjunction with the Investment Committee and Pitcher Partners), and the Trustee's broad discretions, most notably its ability to suspend or refuse redemptions.

Indirect Exposure to Loan Security. The Fund is not the lender of record. It advances unsecured, limited-recourse Participation Loans to Monark-established Lending Entities, which hold the first-ranking mortgages, with the Fund's recourse restricted to its pro-rata entitlement to amounts actually recovered from each Borrower. While this structure ringfences problems within individual Facilities, investors rely on the Lending Entities performing under the Participation Loan Agreements rather than holding a direct interest in the underlying security. Common directorship across the Lending Entities, Trustee and Manager provides alignment but does not substitute for a direct security interest.

Construction Risk. Construction facilities represent ~24% of the portfolio at a time when builder insolvencies remain elevated against history and margins face renewed input-cost pressure. This risk is compounded by the LVR's 'as if complete' valuation basis: a reported ratio can appear conservative while the loan is drawn against a project not yet built, and a forced sale mid-construction may realise well below the completed value the ratio assumes. Mitigants include quantity surveyor-verified progressive drawdowns, multiparty deeds providing step-in rights, and an in-house registered builder deployable as project manager – a capability Monark has since exercised in practice (see Case Study: The Carlile, Armadale VIC, below).

Portfolio Concentration and Correlation. The Fund held 25 Facilities as at 31 March 2026, with the top five loans exceeding 40% of NAV and the top five counterparties over 50% (top ten ~80%). Meanwhile, Victoria represents 81.6% of the portfolio, meaning the repayment sources of most of the book are exposed to the same market conditions. The impairment of even a single large facility would therefore have a material effect on the Fund's NAV and income. Liquidity Committee review of borrower, builder and transaction concentrations provides monitoring, but the concentration is structural to the strategy. The Manager treats this as a business model decision, relying on project-level selection of construction and exit risk, rather than loan count, as its primary mitigant (see Portfolio Risk Management).

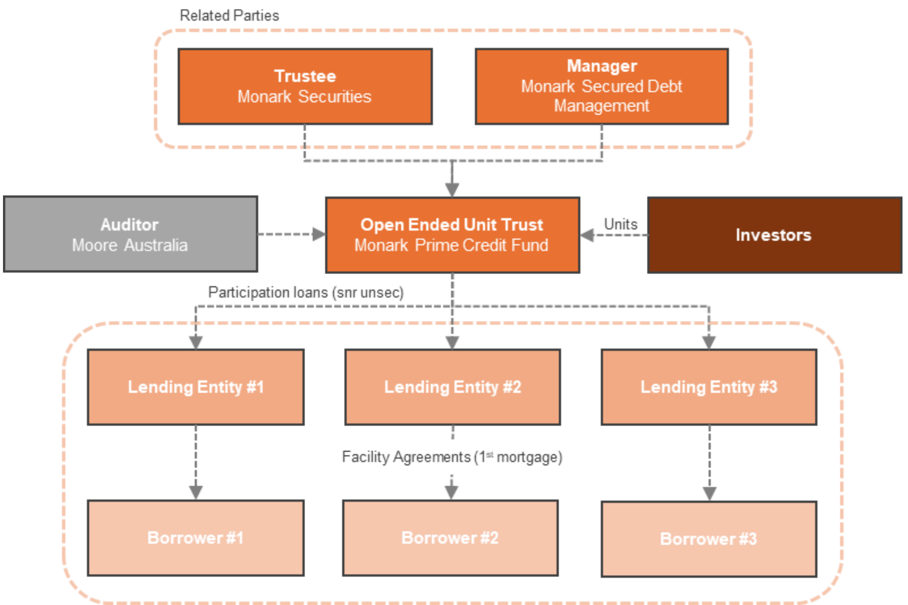
Illiquidity and Maturity Concentration. An investment in the Fund should be considered illiquid and the capacity to meet redemptions also depends heavily on timely loan repayment. Repaid capital is further exposed to reinvestment risk where it cannot be redeployed at comparable rates, and we note that extensions of maturing Facilities are not treated as defaults. Multiple liquidity sources – principal repayments, new subscriptions, loan sell-downs and access to a line of credit maintained by Monark – provide flexibility, somewhat offsetting this risk.

Construction and Investment Process

MPCF is an open-ended unlisted unit trust that provides CRE loans via special purpose vehicles (or Lending Entities) that are established by Monark. Funding is provided by MPCF to the Lending Entity under the terms of a Participation Loan Agreement – an unsecured loan which stipulates the amount that must be returned to the Fund when a Facility is repaid. The Lending Entity, which holds the relevant security package, then enters into a Facility Agreement with each third-party borrower. As such, investors do not have a direct claim over the underlying property – their exposure is to each Lending Entity.

This structure has been specifically designed to quarantine problems: if one loan runs into trouble, the issue is contained within that entity rather than spilling over to the rest of the portfolio.

Figure 5. Monark Prime Credit Fund Structure



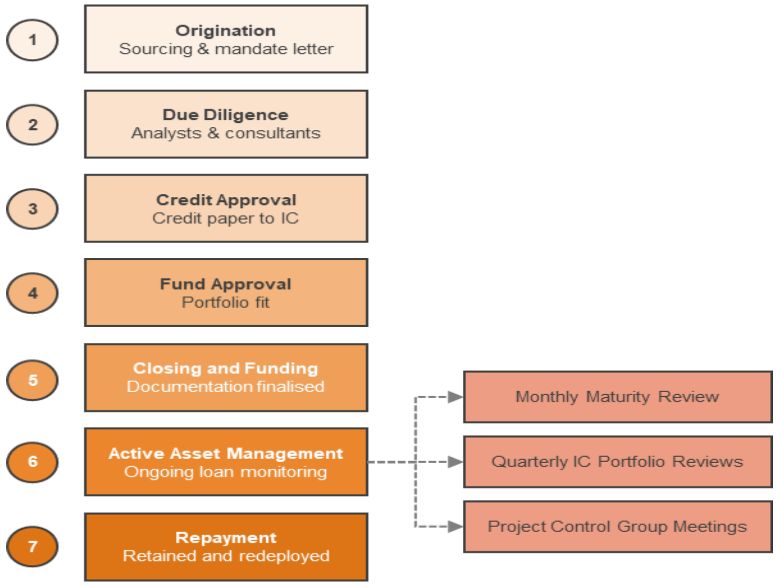
Source: BondAdviser, Monark.

The Fund itself does not borrow. Monark maintains a line of credit on its own balance sheet, funded by a small group of substantial investors, with capacity of approximately 10% of the Fund's value. Monark uses the facility to warehouse transactions that the Fund is unable to fund immediately. When liquidity becomes available, the Fund acquires the warehoused Facility from Monark at the amount deployed plus interest accrued to that date, so that the Fund's entry value is unchanged. The facility can also operate in reverse, with Monark acquiring a Facility, or part of one, from the Fund to provide liquidity for redemptions (although this has not been required to date). The commitment fee and interest on the facility are borne by Monark, not the Fund. The arrangement allows the Fund to remain fully deployed without holding a cash reserve for unexpected commitments or redemptions.

The Fund's return is therefore generated by the underlying Facilities rather than amplified by gearing, and investors are not exposed to the refinancing or margin risk that fund-level debt would introduce.

MPCF applies a seven-stage credit process for the Monark Prime Credit Fund, progressing from opportunity sourcing through to repayment and redeployment.

Figure 6. Monark Investment Process



Source: BondAdviser, Monark.

The process begins with Origination. Monark screens a large volume of opportunities and selects those offering a superior risk-return proposition for further analysis. Once a prospective transaction is assessed as meeting the Manager's risk-return criteria, Monark issues the borrower a formal mandate letter setting out the proposed terms of the Facility for their consideration and acceptance.

At the Due Diligence stage, in-house analysts, together with a panel of external consultants, conduct detailed due diligence on the prospective opportunity. The transaction then proceeds to Credit Approval. A detailed credit paper setting out the particulars of the opportunity and a formal risk assessment is prepared and submitted to the Investment Committee. The Committee convenes to consider the transaction, including any conflicts or related-party considerations. Credit terms are issued for the borrower's review and formal acceptance only where the Committee approves the transaction by unanimous vote (See Fund Governance section for Investment Committee details).

Following credit approval, the Facility is subject to Fund Approval. The Manager evaluates the Facility from a portfolio perspective, assessing its risk profile, its contribution to the Fund's objectives, its alignment with the Fund's existing portfolio, and its compliance with the Fund's mandate. The Fund holds a first right to invest in any Facility Monark originates, noting that Monark operates only one first mortgage credit fund.

At Closing and Funding, Monark's lawyers finalise the legal documentation. Once the Facility's conditions precedent have been satisfied, the Trustee invests in the Facility on behalf of the Fund.

The Active Asset Management stage runs for the life of each Facility. Monark closely monitors every Facility it originates, conducting regular site visits and meetings with both the sponsor and their professional advisors to confirm – or, where required, adjust – its original investment thesis and support a positive outcome. Credit risk is managed through three recurring processes: a monthly maturity review identifying which transactions are approaching the end of their contractual term and what action (if any) is required; quarterly portfolio reviews conducted by the Investment Committee; and regular project control group meetings, at which Monark's Execution Team and its in-house registered builder or Head of Construction Risk meet with the project's builder and other key consultants. The process concludes with Repayment. Typical exit from bridging (land) facilities is via refinance – either to a bank or another non-bank lender – or through a construction facility subsequently provided by Monark itself once the site is ready to be developed.

The Fund lends exclusively on a senior, first-ranking basis: every Facility is secured by a first registered mortgage over Australian real estate, and the portfolio contains no subordinated, mezzanine, or unsecured positions. This security is reinforced at the borrower level by a registered general security agreement (GSA) over the borrowing entity, personal guarantees and indemnities from the sponsors, and a multiparty deed between the borrower, the builder, and Monark, with a specific security interest over the borrower's shares or units taken in certain cases. The effect is that the Fund sits at the top of each capital structure, with the borrower's equity absorbing first loss beneath it, which is the primary mechanism by which investor capital is protected.

The extent of that equity buffer is governed by the loan to value ratio (LVR) – the Fund's central risk-control metric. The Fund will not ordinarily exceed a weighted average LVR of 65%, applied across the portfolio rather than as a hard cap on any individual loan. The Manager retains discretion to exceed the threshold where it judges this to be in investors' best interests. In instances where the Fund exceeds this, the Manager will seek to return the Fund to 65% as soon as reasonably practicable. LVR is measured as the loan amount inclusive of all interest expected to accrue over the term, divided by the security value. Land acquisitions and other bridging facilities are valued on an 'as is' basis, while development projects are calculated on an 'as if complete' basis. Because accrued and capitalised interest is captured at origination, the ratio reflects the fully drawn-and-accrued position rather than the day-one advance, so the compounding effect of interest capitalisation is embedded in the LVR.

Within these parameters, the Fund targets the Australian mid-sized residential developments, typically apartment projects of 10 to 50 units located five to ten kilometres from the CBD in higher socio-economic areas, and infill subdivisions of up to 300 lots in established growth corridors. Lending is concentrated in metropolitan Melbourne, Sydney, and Queensland, with the Manager expecting to be overweight the former two, reflecting a preference for markets in which it has more experience. There are no formal sub-limits by loan type – facilities span land, construction, residual stock, and term loans – and no pre-determined maximum loan size, though facilities typically range between $5 million and $20 million and sit below $50 million. Concentration is instead controlled by a single hard limit of no more than 25% of capital raised in any one Facility, supported by monthly review of borrower, builder, facility-type, and geographic concentration by the Liquidity Committee. MPCF also targets a maximum tenor that typically does not exceed 36 months (inclusive of principal and any capitalised interest).

Figure 7. Monark Portfolio Constraints

Parameter	Constraint	Nature
Weighted Average LVR	≤65% at the fund level	Soft Limit
Single-facility Exposure	≤25% of capital raised	Hard Limit
Loan Tenor	≤36 months	Soft Limit

Source: BondAdviser, Monark.

Portfolio Risk Management

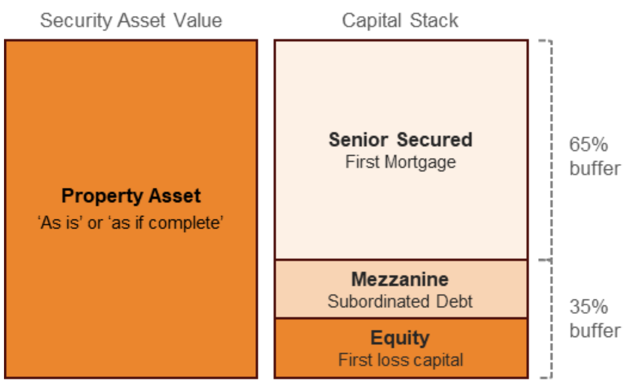
Our assessment of effective risk management for the MPCF considers credit risk and liquidity risk. We believe that the relatively concentrated nature of the portfolio requires an even greater level of prudence as risk management failures could have an extreme impact on overall performance. In our *Quantitative Analysis* we simulate scenarios to test the credit profile of the portfolio, complementing this qualitative assessment.

Credit Risk

Credit investing is asymmetric in nature. When you lend, you risk the capital value of the loan for a return that is limited to contractual interest payments. As such, understanding and protecting your downside is of foremost importance. This downside, commonly referred to as expected loss, is estimated as the probability of default (POD) multiplied by the loss given default (LGD) and the exposure at default (EAD). Our analysis will touch on each of these variables, explaining the key features that are employed to reduce losses.

Monark lends solely on a senior secured basis, with all loans benefitting from a first-ranking registered mortgage over Australian real estate. In the event of default, the Lending Entity holds the legal right to take possession of the underlying asset and sell it to recover the loan. As a secured lender, it ranks ahead of unsecured and mezzanine creditors in any recovery, which are repaid only after the secured debt is satisfied. Since declines in the security assets value are absorbed from the bottom of the stack upward, the security asset value can decline the value of the equity buffer before the senior loan's principal is impacted.

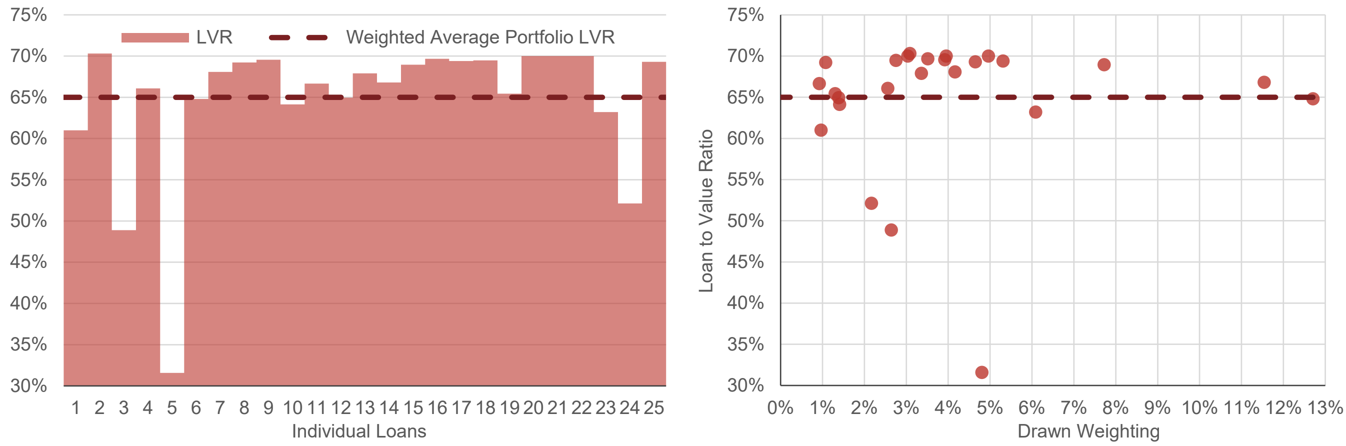
Figure 8. Illustrative Capital Stack and Loss Absorption



Source: BondAdviser, Monark.

Seniority establishes the order of repayment, but the extent of protection against loss is governed by the LVR – the loan amount, inclusive of capitalised interest, expressed as a proportion of the security asset's value. Monark caps the Fund's weighted average LVR at 65%, meaning the equity and any subordinated debt constitute a buffer of approximately 35% of asset value. Based on the current 25 projects, the calculated weighted-average LVR is effectively in line with the policy ceiling. LVRs across the portfolio range from 32% to 70%, with 16 of the 25 facilities individually exceeding the 65% weighted-average figure as at 31 March 2026 (of which 10 relate to land acquisitions), which indicates a meaningful dispersion of risk across the book rather than a uniformly conservative set of loans.

Figure 9. Portfolio LVR Profile



Source: BondAdviser, Monark. As at 31 March 2026.

An independent valuation of the security asset is obtained prior to the finalisation of the loan and the LVR is calculated against the 'as is' value of the land together with the 'as if complete' value of the development. This means that the buffer on a construction facility is measured in part against the project's forecast completed value. A reported LVR can therefore look conservative while the loan is drawn against a project not yet built. In a forced sale mid-construction, the realisable value of a partly finished asset may fall well short of the 'as if complete' figure the ratio assumes.

This risk is partly mitigated by Monark's drawdown controls. Each advance on a construction facility is released only against a quantity surveyor's report verifying works completed, so the outstanding loan balance tracks the value physically constructed rather than running ahead of it. This limits the scope for the loan to become materially over-advanced against a project that stalls in its early stages, and keeps the drawn exposure broadly aligned with progress on site.

Additionally, for construction projects, Monark attends monthly project control group meetings to monitor progress, and any extension to a Facility's term generally requires the Borrower to repay sufficient principal to maintain the original LVR, alongside a fresh independent valuation where required. Any amendment to a Facility Agreement or enforcement action must be approved by Monark's Investment Committee.

The Manager also typically seeks personal guarantees from the sponsor, providing further recourse if the security falls short of covering the loan. Whilst real estate loans, especially construction loans in recent years, have carried elevated levels of credit risk, the robust structural protections in place and level of due diligence in our view compensates for this additional credit risk. This reflects the Manager's track record of zero interest or capital losses since being established in September 2021. We note that Monark has never had to call on personal guarantees over this period, supporting the Group's solid track record.

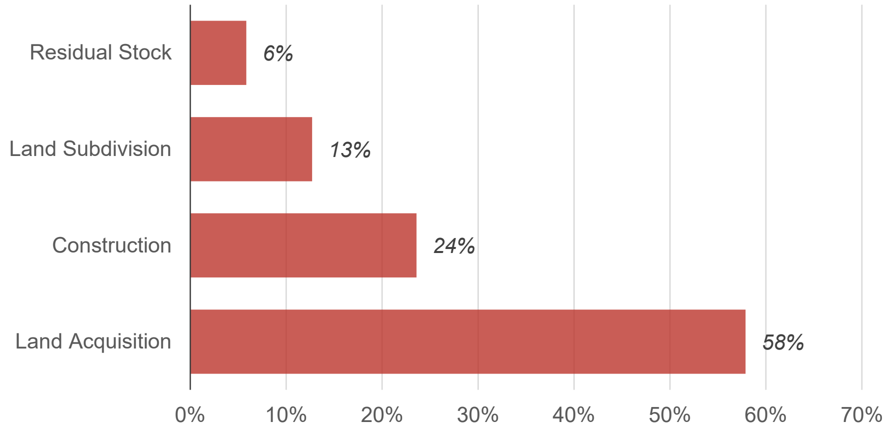
Figure 10. Monark Structural Protections

Structural Protection	Description
First registered mortgage over property	The Fund holds only senior secured exposures, each secured by a first-ranking registered mortgage over Australian real estate. It does not invest in mezzanine or other subordinated positions.
First registered general security agreement (GSA)	A GSA is taken over the borrower entity, providing additional recourse where the property security is insufficient to repay the debt on default.
Personal guarantees and indemnities from sponsors	Guarantees and indemnities from the sponsors allow the Lending Entity to pursue directors or principals where enforcement proceeds fall short of the amount owing.
Multiparty deed	On construction facilities, a multiparty deed between the borrower, the contractor and Monark provides step-in rights and visibility over the build and addresses contractor disputes and insolvency.
Independent asset valuations	Independent valuations are obtained from an approved panel before each loan is made, with land valued 'as is' and improvements 'as if complete'. Monark cannot override external valuations; assets are revalued at Monark's discretion where a material change in value is suspected, rather than on a fixed schedule.
Additional structuring levers	Where warranted, Monark applies increased presale thresholds before funding, lower residual LVR conditions, pre-negotiated action plans for extension or non-performance, and a unilateral right to appoint a project manager to the project at any point during the facility.

Source: BondAdviser, Monark.

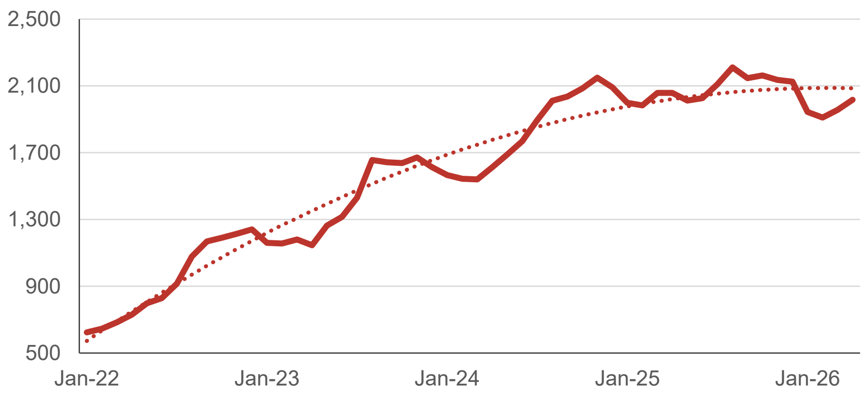
Despite these protective features, we view this strategy to be of elevated risk given the Fund's weighting to construction lending (~24%) and the post-COVID rise in builder insolvencies. Two drivers dominate. First, the withdrawal of pandemic-era insolvency relief and the ATO's return to active debt collection from late 2022 exposed accumulated tax liabilities that forbearance had masked. Second, fixed-price contracts signed pre-COVID left builders delivering work at post-pandemic input costs – construction costs rose roughly 40% over five years – crystallising losses on contracts that could not be repriced. Thin margins, a fragmented builder base and minimal barriers to entry amplified the effect. While insolvencies appear to have stabilised in recent months, they remain elevated versus history and builders are now facing pressure from higher oil-related input costs. The most recent data, for May and June, is currently provisional, making it difficult to accurately assess the impact of the US-Iran conflict. However, Monark has confirmed that, to date, none of the existing construction facilities within the MPCF portfolio have been impacted, nor has it seen any developer or builder failures attributable to the ongoing unrest in the Middle East.

Figure 11. Underlying Lending Exposures



Source: BondAdviser, Monark. As at 31 March 2026.

Figure 12. Construction – Rolling 6-Month First Appointments*

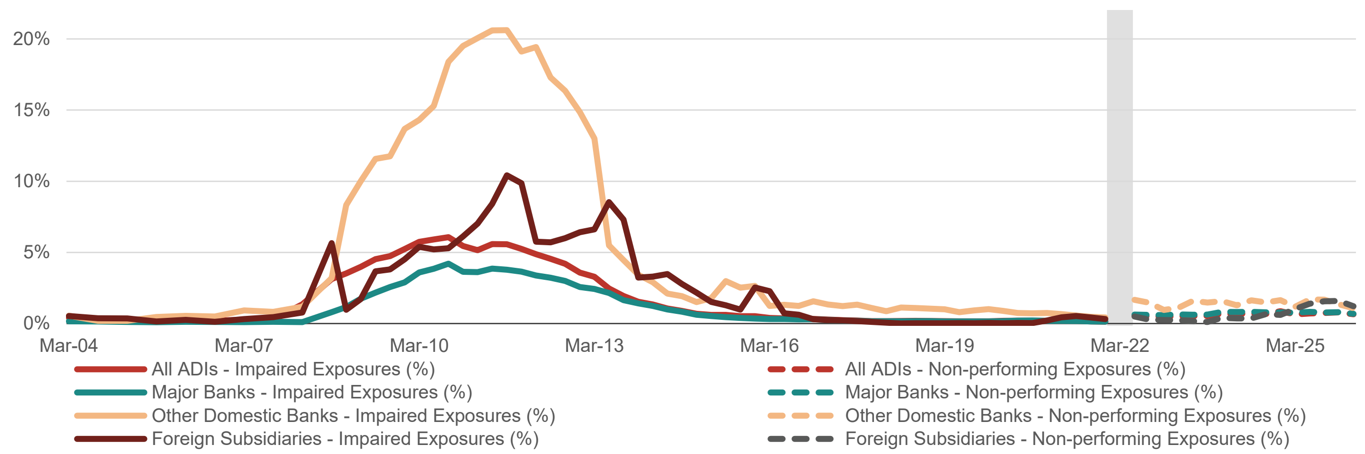


*Source: BondAdviser, ASIC. As at 30-Apr-2026. Table 1.2. *Rolling 6-month sum of monthly first appointments.*

Positively, Monark actively manages its exposure and risk appetite in response to market conditions. Both the Investment Committee and Funds Management Committee take prevailing market conditions into account when writing new loans, and Monark has turned away several prospective construction loans during 2026 where it judged there to be insufficient borrower cash balances or insufficient builder experience. The Manager also receives regular updates on cost increases and supply availability across its projects through the weekly project control group meetings attended by its Head of Construction. 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 have increased flexibility to exhaust all workout scenarios in contrast to banks. Monark is positioned to make use of this flexibility: it structures in a unilateral right to appoint a project manager at any point during a facility, supported by a Multiparty Deed with the borrower and contractor that enables step-in on construction projects, and it retains an in-house registered builder who is deployed as project manager where a development carries elevated risk or is not progressing to plan. That said, this capability rests substantially on the Fund's construction-risk expertise being available when needed, and Monark's track record now includes a worked example of this capability being exercised in practice (see Case Study: The Carlile, Armadale VIC, below).

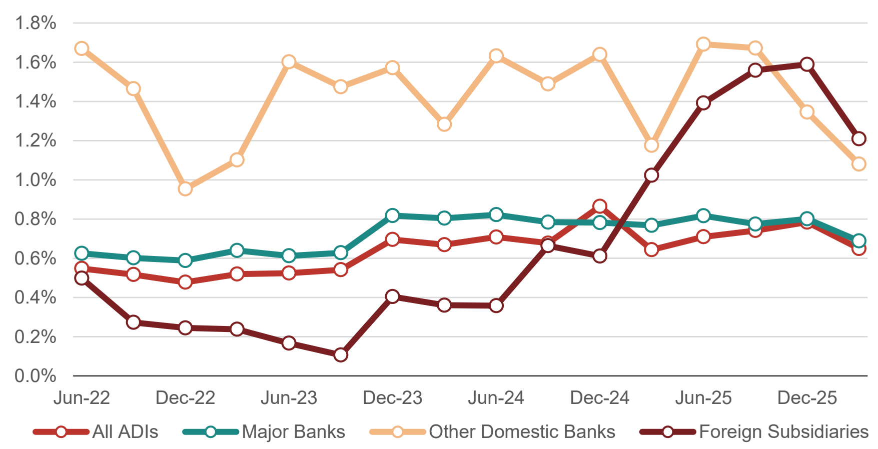
Case Study: The Carlile, Armadale VIC. MPCF provided a senior debt construction facility to build The Carlile, a boutique apartment development on High Street, Armadale, Victoria. Monark was attracted to the project's strong property fundamentals, its premium Armadale location, and the fact that 5 of the 9 apartments (plus the retail component) had already been pre-sold, with a reputable builder, Cobuild, appointed to deliver the project. During construction, ASIC commenced an investigation into one of the directors of the developer, who was a financial adviser, in relation to advice he had provided to clients on the establishment of their self-managed superannuation funds. Monark subsequently enforced its security and appointed KPMG as Receiver and Manager, at which point the project was approximately six months into an 18-month construction programme. Working alongside the Receiver and Manager, Monark managed the project through to completion on schedule, with the balance of the apartments subsequently sold. MPCF was repaid in full, including default interest.

Figure 13. Australian CRE Impairment & Non-performing Exposures by Type of Lender*



*Source: BondAdviser, APRA. As at 31 March 2026. *From the March 2022 quarter, APRA replaced "impaired exposures" with "non-performing exposures" as its asset quality measure, aligning with the internationally recognised non-performing loan definition. Non-performing exposures is a broader measure – capturing facilities 90+ days past due or otherwise unlikely to be repaid in full without recourse to collateral – regardless of the lender's own provisioning treatment. The two series are not directly comparable; the apparent step-change at March 2022 partly reflects the wider definition rather than a genuine change in underlying asset quality.*

Figure 14. Australian CRE Non-performing Exposures by Type of Lender

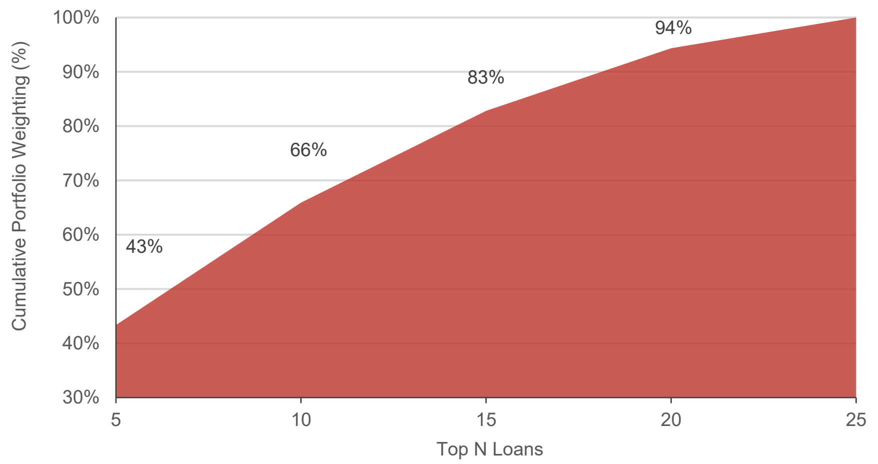


Source: BondAdviser, APRA. As at 31 March 2026.

At a portfolio level, diversification is key given the negative skew associated with a credit's return profile. That said, this is relatively constrained by the number of underlying loans: as at the 31 March 2026, the Fund held 25 underlying loans with the top 5 accounting for >40% of NAV. With exposure this concentrated, the impairment of even a single large facility would have a material effect on the Fund's NAV and income.

The counterparty exposure is similar. The cumulative concentration profile shows the top five counterparties account for over 50% of the portfolio, while the top ten accounts for almost 80%. This concentration is a structural feature of the strategy – Monark's origination model deliberately favours repeat lending to established borrowers (approximately 60% of loans originate from existing relationships), which arguably supports underwriting quality but necessarily creates a meaningful counterparty risk. It also means borrower-level exposure can exceed facility-level exposure where a single sponsor sits behind multiple loans, a distinction the 25% single-facility cap does not capture. This risk is managed by the Liquidity Committee, which meets monthly to review borrower, builder, and single-transaction concentrations, as well as the security supporting each position. Nonetheless, the practical consequence is that the Fund's performance is tied to the credit trajectory of a small number of counterparties.

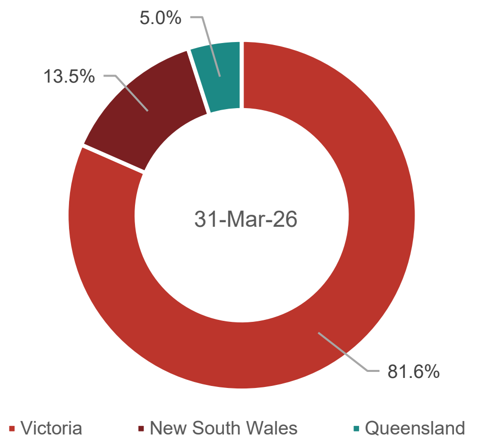
Figure 15. Portfolio Concentration – Cumulative Weighting of Top 25 Loans



Source: BondAdviser, Monark. As at 31 March 2026.

The Fund's limited loan diversification is somewhat compounded by the correlated nature of the portfolio, which is weighted towards residential development in metropolitan Melbourne and Sydney, meaning the same market or sector shock could impair several of the top exposures at once.

Figure 16. Portfolio Concentration – Geographic Exposure



Source: BondAdviser, Monark. As at 31 March 2026.

Liquidity Risk

There are two elements of liquidity risk that investors should be aware of when investing in MPCF: (1) the Fund's ability to fulfill redemption requests (fund liquidity), and (2) underlying loan liquidity.

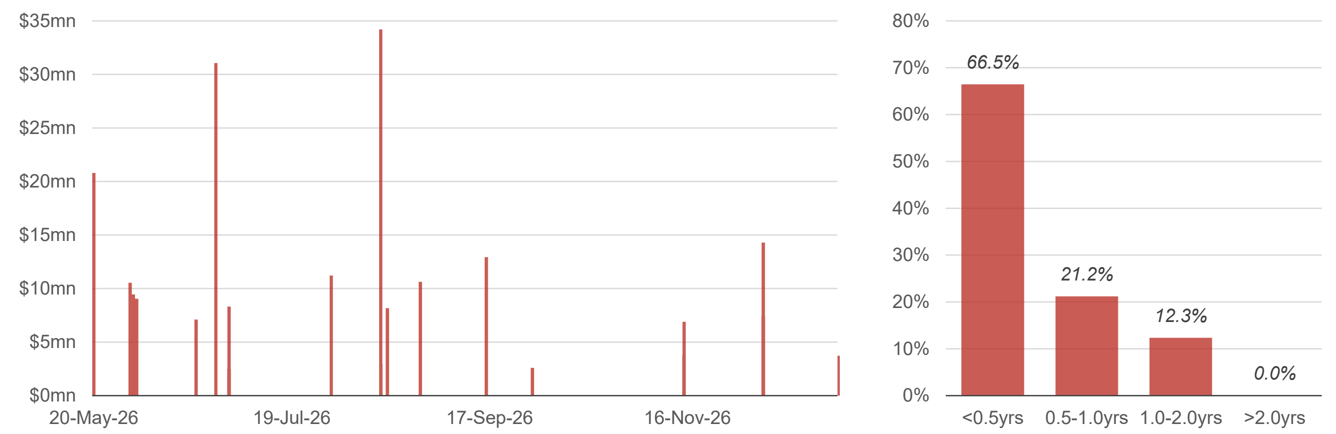
Fund Liquidity

Fund liquidity risk refers to the ability of the Fund to satisfy redemption requests while meeting its investment objectives. There is no formal secondary market for units as there is for exchange-listed funds, and an investment in the Fund should be considered illiquid.

Redemptions are made at the Trustee's discretion based on the needs of the Fund and investors wishing to redeem must submit a request at least 90 days ahead of a Redemption Date, which usually falls on the last business day of each quarter. The Trustee intends to make available around 10% of the Fund's capital for redemption over a given calendar year, met progressively as capital becomes available – through loan principal repayments, new subscriptions, the sell-down of loans, or the sale of Facilities to Monark's line of credit facility (which sits outside of the Fund). Where requests exceed available liquidity, units are redeemed pro rata among applicants, and any unsatisfied balance is carried forward to subsequent Redemption Dates (with priority over later requests) until met in full. The Trustee may also suspend redemptions at its discretion where it considers this in the best interests of the Fund as a whole.

As of 31 March 2026, the Fund held a 6.86% cash balance (~$19.8 million), which provides a reasonable liquidity base. The Fund does not have a formal target cash balance or range; liquidity is instead actively managed based on facility repayments and application funds received, though the Manager has indicated it informally aims to keep the Fund's cash balance below 5% – meaning the Fund is currently running slightly above its informal internal guide. This is bolstered by the short nature of the underlying loans: by end-of-year, $213 million of invested capital (or ~80% of the Fund, ex cash) is expected to reach maturity. While limited tradability limits portfolio liquidity, this consistent roll off provides a useful mechanism to fulfil redemption requests.

Figure 17. Internal Liquidity Profile – Expected Maturities



Source: BondAdviser, Monark. As at 31 March 2026.

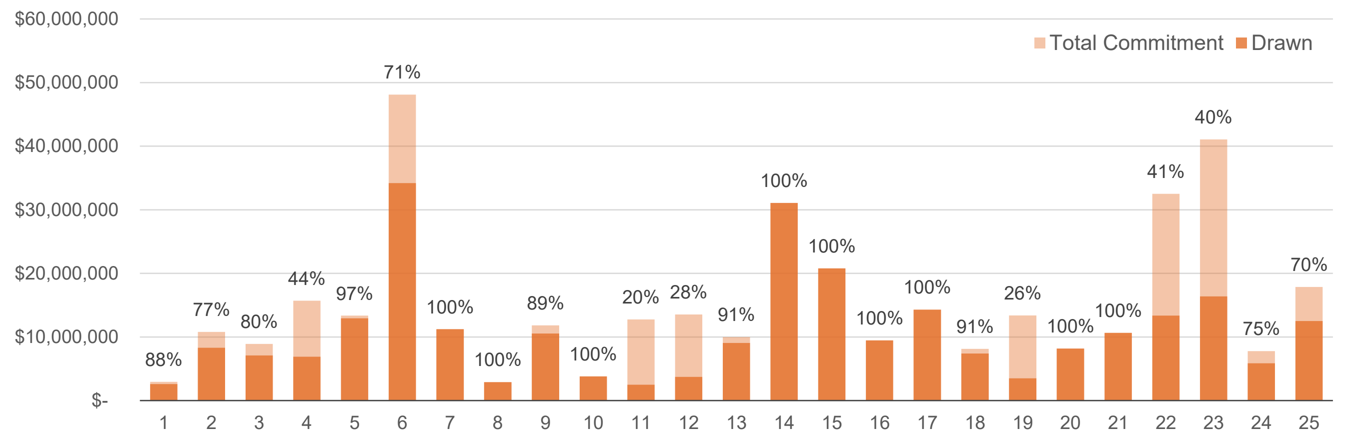
Asset Liquidity

While the illiquidity of the underlying loans necessitates active liquidity management, it also enables the Manager to earn an illiquidity premium relative to publicly traded credit. Liquidity is primarily managed through the natural run-off of the short-dated portfolio, with repaid principal retained within the Fund and either redeployed into new Facilities or used to meet redemption requests.

As shown in Figure 17, the maturity profile is heavily front-loaded, with approximately 66% of Facilities scheduled to mature within the next six months. Repaid principal is the Fund's main source of liquidity and is ordinarily recycled into new Facilities; redemptions have to date been modest and have been met from this run-off. The same profile means the Fund's cash generation is concentrated in a relatively narrow window and depends on settlement and refinancing conditions during it: a weakening in either would reduce liquidity at the point at which redemption funding relies on it most. Separately, capital returned in a softer lending environment may only be redeployed at lower yields, placing downward pressure on future returns.

We also note that maturity extensions are neither treated as defaults nor uncommon in this market. While this provides borrowers and the Manager with greater flexibility to work through projects, it also reduces the predictability of cash flows. Partly drawn construction Facilities introduce a further consideration: additional capital must be advanced before projects can be completed, and repayment typically cannot occur until the completed development is sold or refinanced. As a result, the conversion of these exposures into cash may be delayed.

Figure 18. Committed Versus Drawn Exposures



Source: BondAdviser, Monark. As at 31 March 2026.

The capitalising nature of some Facilities compounds these dynamics. The majority of Fund Facilities accrue interest over the life of the loan, while a small minority (1 of 30 loans as at 30 June 2026, representing approximately 2-3% of total portfolio principal) are specifically structured on a payment-in-kind (PIK) basis, with interest not paid in cash during the term and instead repaid alongside principal, typically from sale or refinance proceeds at maturity.

For the remainder of the portfolio, principal is typically repaid in a single event at maturity, consistent with the short-dated structure of the Facilities. The Fund’s cash generation is therefore largely linked to Facility repayments, with the timing of interest and principal realisation dependent on the contractual structure of each Facility.

For the small minority of Facilities on a PIK basis, the absence of periodic cash interest payments removes a conventional early-warning signal, as borrower distress that might otherwise become apparent through a missed interest payment may only become evident when repayment or refinancing is required. This is a contained risk given the limited proportion of the portfolio it affects, rather than a portfolio-wide characteristic.

Fund Governance

The Monark Prime Credit Fund is an unlisted, open-ended unit trust that is an unregistered managed investment scheme and investment is restricted to Wholesale Clients under the Corporations Act. The key documents governing the Fund are the Information Memorandum (IM) and the Trust Deed, with the Trust Deed prevailing in the event of inconsistency.

Loans are valued at face value unless impaired, with unit pricing based on the net asset value (NAV) of the Fund; independent valuations are obtained on all Security Assets prior to funding, though we highlight that impairment decisions require judgement and are made by the Manager in conjunction with the Investment Committee and the Fund's accounting and tax advisers (Pitcher Partners). The Fund is audited annually by Moore Australia, with the most recent audit effective 30 June 2025. The Fund's unit registry is externally managed by Registry Direct, which provides investors with online access to their holding details.

We highlight that the Fund is not the lender of record. The Fund advances unsecured limited-recourse loans to Monark Lending Entities – single-facility SPVs established by Monark – under Participation Loan Agreements, and each Lending Entity in turn lends to the Borrower and holds the first-ranking registered mortgage. The Fund's recourse to each Lending Entity is restricted to its pro-rata entitlement to amounts actually recovered from that Borrower. This structure ringfences issues arising in any single Facility, though it means investors rely on the Lending Entities performing under the Participation Loan Agreements rather than holding a direct interest in the underlying security. We take some comfort from the directors of the Lending Entities being the directors of the Trustee and Manager, whose duties and personal co-investment in the Fund align them with investors, but the absence of a direct security interest remains a structural consideration.

Monark Securities Pty Ltd is the Trustee of the Fund and holds the Australian Financial Services Licence (AFSL) under which the Fund operates. The Trustee, the Manager (Monark Secured Debt Management Pty Ltd, a corporate authorised representative of the Trustee), and the Lending Entities are all related parties of Monark, which controls the Trustee and Manager. A trustee has a fiduciary obligation to act in the best interests of Fund investors, and while we expect Monark to fulfil these duties, we view the absence of an external trustee, custodian, or administrator as a governance weakness, preferring a non-related party to provide objective oversight of fund operations, unit pricing, and the exercise of the Trustee's broad discretions (notably over redemptions, which may be suspended or refused at the Trustee's discretion). We also note that no custodial report is available for the Fund, consistent with there being no independent custodian in the structure.

The related-party character of the structure extends to the Fund's economics: Monark retains establishment fees (typically 1.0% of the facility limit); loan management and extension fees ($1,500-$2,000 per month and 0.50-0.75% of the facility limit, respectively); and an interest margin of typically 1.0-2.0% between the Borrower rate and the rate received by the Fund, which Monark only receives once the Fund has been repaid in full on that Facility. Notably, the margin is subordinated to the Fund's full entitlement on repayment, while default interest above the borrower rate is shared equally with the Fund (conflicts are governed by a formal Conflicts of Interest Policy: the Trustee may not invest where a conflict or potential conflict exists without prior unanimous Investment Committee approval, and conflicted members must abstain).

Governance is administered through a Board and committee framework. The Board meets quarterly and comprises two executive directors and two non-executive directors representing the Liberman family's interests.

Investment Committee Structure

Monark operates two separate Investment Committees: A Senior Debt Committee and a Subordinated Debt Committee

1. Senior Debt Committee

- Nick Quince – Independent Member
- John Byrne – Independent Member
- Michael Kark – Monark Management

2. Subordinated Debt Committee

- Matthew Chun – Independent Member
- Michael Kark – Monark Management
- David Tonks – Independent Member

The Investment Committee must unanimously approve all Facilities prior to funding, meets weekly when there are transactions to consider, and conducts quarterly portfolio reviews of all current Facilities alongside the Board. The independent majority on the Investment Committee is, in our view, the strongest element of the governance framework and partially offsets the absence of external oversight elsewhere in the structure. A Liquidity Committee meets weekly to manage Fund liquidity and monitor concentrations. We also note the Manager has developed separate Risk Management and Liquidity policies in response to ASIC Report 820, expected to be effective by 30 June 2026, which we view as a positive development.

Quantitative Analysis

Limited publicly available data and the inherent opacity of Australian commercial real estate lending make 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 the 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 worst-case scenario for investors. **We note that this approach makes no assumptions on Monark'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 1970-2023 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.

Figure 19. Average Migration Rates (1970-2023)

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).

Figure 20. 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.*

Figure 21. Scenario 1 - Bond & Loan* Migration Rates (2018)

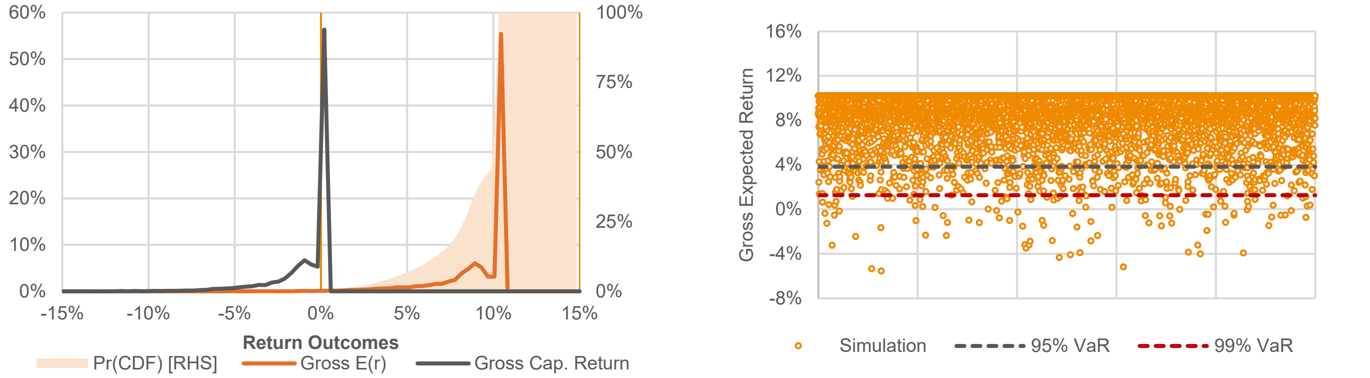
FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**96.1%**	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.3%	**94.1%**	3.8%	0.4%	0.4%	0.4%	0.3%	0.3%
A	0.3%	3.8%	**89.9%**	4.2%	0.6%	0.5%	0.4%	0.4%
BBB	0.0%	0.0%	3.6%	**92.4%**	2.2%	0.4%	0.8%	0.5%
BB	0.0%	0.0%	0.2%	7.7%	**80.1%**	6.3%	3.0%	2.6%
B	0.0%	0.0%	0.3%	1.5%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

A key assumption in our analysis is the allocation of credit ratings to each underlying loan since there aren't external or internal credit ratings provided by Monark. We assigned a proxy rating based on LVR of each loan. We have allocated BB ratings to 88% of the portfolio, which causes relatively greater dispersion in our return modelling relative to the investment grade assets which make up 12% of A rated assets. We note that given the opaqueness of the real estate market (no assignment of credit ratings and lack of rating migration and recovery data), we used input based on corporate loans and bonds for each credit rating. Whilst imperfect, this allows us to simulate the portfolio based on the assigned credit rating.

The portfolio performs well under our benign scenario modelling, with 99% and 95% VaR of 1.27% and 3.83% respectively, showing strong downside protection as a function of the level of security over assets.

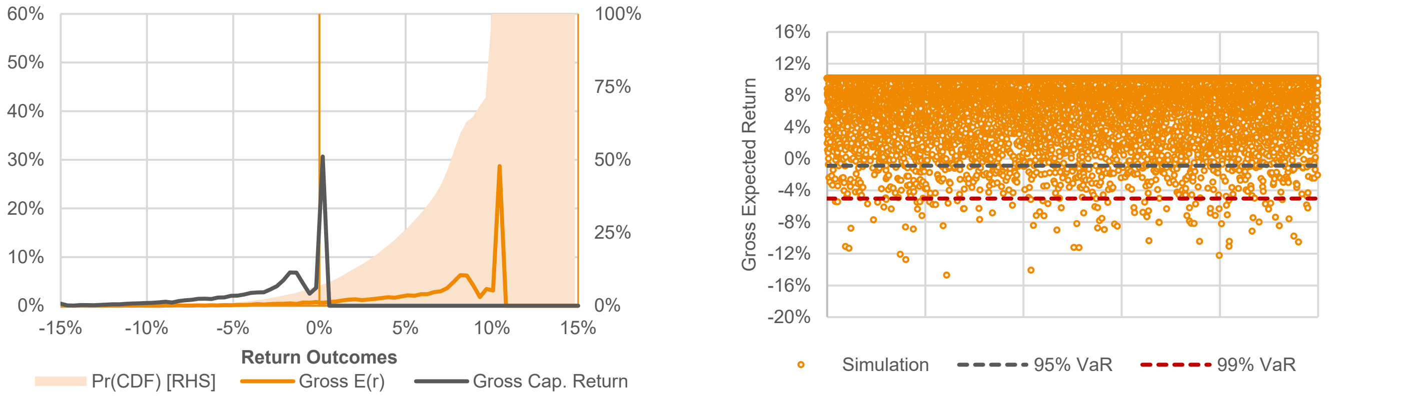
Scenario 1. Baseline Asset Assessment



*Source: BondAdviser Estimates. **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 credit rating migration rates and recovery rates from 2009, the worst year recorded for global default rates during the Global Financial Crisis (GFC). Under this scenario, the Fund still exhibits reasonably strong downside protection with a 99% and 95% VaR of -5.03% and -0.88% respectively, and a median modelled return of 8.01%. Importantly, losses are infrequent even in our extreme downside modelling due to the level of structural protection in place and relatively low LVRs across the underlying portfolio. That said, returns are noticeably more dispersed as seen when comparing the left-hand side figure for the 2009 scenario to our baseline scenario.

Scenario 2. Stressed Asset Assessment



*Source: BondAdviser Estimates. **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.*

Whilst this modelling is standardised across our fund research framework, 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 to rated corporates.
- It does not consider any additional protections implemented by Monark to mitigate credit migration or default risks. These additional protections are highlighted under *Credit Risk* in the Portfolio Management section.
- Correlations are not explicitly accounted for. In periods of distressed market valuations, we would expect probability and severity of default to be higher, especially given concentration to one property sub-asset class. This may result

in elevated correlation and negative return outcomes during significant market distress.

- Our modelling contains assumptions, several of which are subjective and may have otherwise material impacts on the modelling output. The underlying assets are unrated, and so credit ratings used in our modelling are our estimates based on LVR exposures.

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 Monark 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 to 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

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