Important disclosures are provided in the appendix of this report.

Fund Research

TermPlus Term Accounts by Pengana

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Overview

TermPlus (the 'Fund') is an Australian multi-class unit trust managed by Pengana Credit (the 'Manager'). It offers investors a series of term accounts that invest in a diversified pool of global private credit investments. This is achieved through a multi-manager, multi-strategy portfolio of look-through fund exposures (Underlying Funds). Mercer Consulting (Australia) Pty Ltd ('Mercer') is the Investment Consultant to the Investment Manager.

TermPlus term accounts are split into separate 1-year, 2-year and 5-year term classes. Each class has its own specific income objective, accrued daily and payable monthly. This is reviewed and reset monthly and stated net of all fees and costs.

- 1-year – RBA Cash Rate + 3.00% p.a. (currently 6.85% p.a.)
- 2-year – RBA Cash Rate + 3.65% p.a. (currently 7.50% p.a.)
- 5-year – RBA Cash Rate + 4.15% p.a. (currently 8.00% p.a.)

These classes will be complemented by the Support Account. This account will be invested in by Pengana Capital Group, supported by excess spread and can cover up to 5% of invested capital if there is a capital shortfall at the end of the account holder's term.

In terms of fund structure, TermPlus gains exposure to the Pengana Private Credit Feeder Fund through profit participating notes (PPNs), which then invests in the Master Fund, which in turn invests in the Underlying Funds.

TermPlus may hold exposure to leverage directly or indirectly, with exposure primarily to be gained indirectly via the execution of the strategies of Underlying Managers. Direct forms of leverage include the potential use of an FX hedging facility, and for short term cash needs of the Fund. This is expected to be established in the near future.

Key Characteristics			
Fund Size[1]	$40.3 million	**BondAdviser Risk Score**	**High**
Unit Price[1]	$1.00	**Product Assessment**	**Approved**
Minimum Investment	$2,000	**Outlook / Asset Classification**	**Stable** / Level 3
Fixed / Floating	Both[2]	**Structure**	Unlisted Open Ended Unit Trust
Distribution Frequency	Monthly	**Sub-Asset Class**	Private Credit
Target Return	RBA +3.00%, 3.65% and 4.15% p.a.	**Responsible Entity**	Pengana Capital Limited
Net Return Since Inception[3]	6.9%, 7.5%, 8.0%	**Manager**	Pengana Credit Pty Limited
Management Fee[4]	N/A	**Auditor**	Ernst & Young
Performance Fee[5]	N/A	**Custodian**	BNP Paribas

[1]As at 31 May 2025, including Support Account capital. [2]Predominantly Floating. [3]Unannualised returns given the track record length for the 1y, 2y, 5y, respectively, as at 31 May 2025. [4]No management fee is charged, but the Manager earns the excess spread on the portfolio beyond the Term Account return. [5]Performance fees are charged on the underlying funds, not at the Fund level.

Product Assessment

Approved | Stable

TermPlus offers a stable, monthly income stream for investors seeking higher yields and capital stability through a range of Term Account options designed to suit different investment timelines.

TermPlus is a multi-class trust managed by Pengana Credit, aiming to provide investors with a stable monthly income stream through exposure to global private credit investments. Structured as a series of Term Accounts, investor capital is pooled into a funds of funds portfolio. The underlying managers in turn invest primarily across bilateral US and European middle market loans, as well as across the riskier spectrum of credit instruments (distressed credit, equity-like investments). Allocations are toggled between Pengana Credit's Master Class units to achieve the target return and yield requirements of the Term Accounts. Since inception of the strategy in June 2024, TermPlus has met all monthly distribution payments. **We note that TermPlus Term Accounts are not term deposits** and are therefore not guaranteed up to $250,000 under the Financial Claims Scheme (FCS). Whilst the strategy aims to provide a stable monthly income stream, income rates are not guaranteed and may vary depending on the performance of the underlying portfolio.

Pengana Credit has a relatively short track record since inception in 2022, but the broader **Pengana Capital Group** (ASX: PCG) was founded in 2003 with teams across the globe focusing predominantly on global equity investments. Whilst the Manager itself has a short track record in private credit investing, we take comfort in the partnership with Mercer, one of the largest investment consultants globally, in identifying and conducting due diligence on private credit managers globally, with teams located across the world and a presence in the invested regions. As a key adviser to the Fund, Mercer helps Pengana access private credit opportunities that would otherwise be difficult to source directly. Additionally, we note that the underlying managers have extensive experience and track records and are well regarded across US and EU private credit markets.

The underlying exposure consists primarily of bilateral senior secured loans, but also takes exposure across mezzanine loans, structured credit, distressed debt and equity and equity-like opportunities. These opportunities are at the higher end of the risk spectrum of the credit space but there are diversification benefits to holding a large portfolio of investments (on an underlying look-through basis), reducing tail risk outcomes which would otherwise result in materially negative return outcomes in a small, concentrated credit portfolio. That said, given the Term Account return is fixed, investors do not receive any upside to the riskier spectrum of credits (primarily within the Total Return Master Class).

The underlying portfolio provides exposure to a diversified portfolio of US and European private credit investments, with underlying manager selection supported by Mercer, one of the largest investment consultants globally.

Positively, however, TermPlus benefits from capital protection provided by the Support Account, which is provided by Pengana Capital Group. The Support Account is required by the PDS to be maintained at a minimum of 5% of the aggregate value of the invested amount of all Term Accounts less any Savings Support payments made. We view this mechanism positively as it offers protection to the capital of Term Account investors and provides an alignment of interest between the Manager and investors. For taking on this risk, the Support Account, owned by the Manager, receives excess spread paid on the underlying portfolio. Positively, the Support Account currently exceeds the 5% minimum requirement of Term Account capital, sitting around 38% of investor balances (31 May 2025). We expect this to fall over time as the strategy matures, but such a large balance helps alleviate any liquidity concerns due to the strategy currently being relatively new, with only a one-year track record and in ramp-up phase.

It is important to acknowledge this product does not provide conventional first loss protection to investors despite the Support Account providing capital support up to 5% of invested capital. If TermPlus experiences a negative return, losses are shared proportionally to investor accounts and the Support Account. Any subsequent positive excess return (once monthly target income rates have been fulfilled) will also be shared proportionally to recoup the previous capital losses. In this context, the Support Account can only be applied at the end of an account's term where 1) the closing balance of the account is less than the total invested amount plus income paid or accrued over the term, and 2) there are sufficient funds in the Support Account. This compares to conventional first-loss mechanisms which accumulate any losses ahead of investors, providing protection to both income and capital. While this differs peer mechanisms, **we still view the Support Account to be a material positive for the risk profile of TermPlus and a significant mitigant to downside risk**, as reflected in our *Quantitative Analysis*. Additionally, income target returns are not impacted intra term due to any change in the underlying account balance. That is, if a loss is incurred on the Term Account balance, income returns continue to be paid on the invested balance.

Cash income generated on the underlying portfolio is currently lower than the Term Account target returns. However, this portfolio allocation has been designed in the context of the current dividend reinvestment plan (DRP) being 48%, reducing the monthly cash distribution requirement. Should DRP participation rates decline, we expect that the manager would reallocate capital towards income generating strategies to support monthly Term Account returns. This is further supported by the Support Account balance being well in excess of the 5% minimum requirement (currently ~38% as at 31 May 2025), and the Manager expecting to hold a 10% cash position at the underlying portfolio level over the long-term. We expect that as the strategy matures, the Fund will allocate more to income strategies, certain deferred distributions on underlying funds will begin to pay out, and total return strategies will begin to distribute capital gain proceeds. As a result, the Manager has processes in place to meet current return and liquidity requirements, alleviating potential concerns.

We expect, however, that investor sensitivity to this product will be higher than other private debt products, due to capped upside in returns and risk of the underlying assets. The fixed nature of TermPlus returns attracts an investor base that values stable and consistent income products and may choose not to roll their term account if investors do not receive the targeted term account rate. This may occur under extreme circumstances where significant losses are incurred across the underlying portfolio, wiping out the excess spread, with any further impacts thereby affecting the return to investors. This may result in the investor base opting to redeem TermPlus capital at the end of the fixed period due to lack of return certainty. This makes liquidity management crucial for the platform, particularly during the ramp-up phase. Whilst it is not our base case TermPlus does not meet target returns, investor sensitivity to the product arising from missed income is an execution risk worth noting to investors at this stage of the product.

The Fund is also expected to be exposed to leverage in the underlying funds. That said, the Manager does not intend to manage the Fund such that the leverage attributable to underlying funds exceeds 1.5x NAV. Based on the target allocations of TermPlus, the expected medium-term leverage is expected to be 0.4x on a weighted average basis with leverage primarily existing within the open-ended senior secured direct lending funds. This subset of funds is expected to on average produce the majority of income returns for the Trust. We note that leverage within private debt funds, despite not being market standard in Australia, is commonplace in the US.

For these reasons, execution risk persists while TermPlus successively scales and matures, due to complexities surrounding liquidity management and the illiquidity of the underlying assets. However, as detailed in greater depth in the *Liquidity Risk* section, **we are comfortable with the mitigants currently in place, especially so during the ramp up phase**, to ensure that distributions and any lack of Term Account rollover is met in a timely manner. The successful execution of the projected platform ramp-up will be a key factor to our future Risk Score with strong track record putting long-term upward pressure on our current risk score of **High / BB.** That said, we highlight that TermPlus is managed within the broader Pengana Capital Group, which has a track record spanning over 20 years with proven governance and compliance measures in place, despite this strategy still being in its infancy.

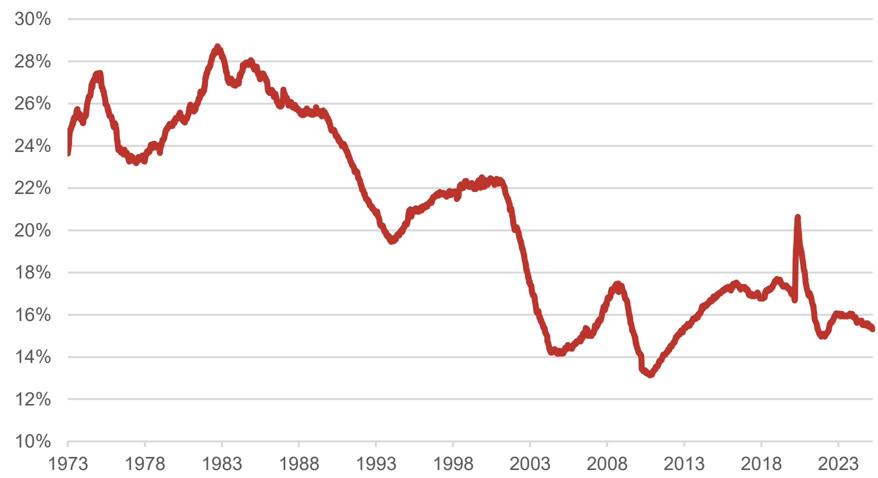
In terms of Product Assessment, the product meets the criteria of **Approved** based upon the *BondAdviser Alternative Research Methodology*. This reflects our comfortability with the product and processes in place to mitigate the elevated level of execution and liquidity risk at this juncture.

Investment Strategy & Performance

The investment strategy of TermPlus utilises Pengana Credit's private credit platform, investing in a global and diversified portfolio of private credit investments. **The section below discusses the investment strategy underlying TermPlus,** with investors being paid a return equal to the RBA cash rate in addition to a fixed spread. Reviewed and reset periodically for new incoming investors, this is determined by the term account length, market conditions and returns generated by the underlying strategy. Whilst the underlying profile is on the riskier spectrum of credit, we note that TermPlus benefits from Support Account protection mechanism up to 5% of invested capital, providing capital support and an alignment of interest between investors and the Manager. Any excess spread earned on the underlying portfolio beyond the Term Account Return is paid to the Support Account with the Manager obligated to maintain the specified 5% level of aggregate invested capital.

The underlying investment strategy of TermPlus takes advantage of the pullback in credit from the global banking system after the global financial crisis (GFC) due to stricter capital requirements imposed by regulators on banks. This has provided strong risk-adjusted return opportunities for lenders to the middle-market companies due to the resulting funding gap in this space, with the void being filled by a growing number of non-bank lenders, private credit funds and other alternative financiers.

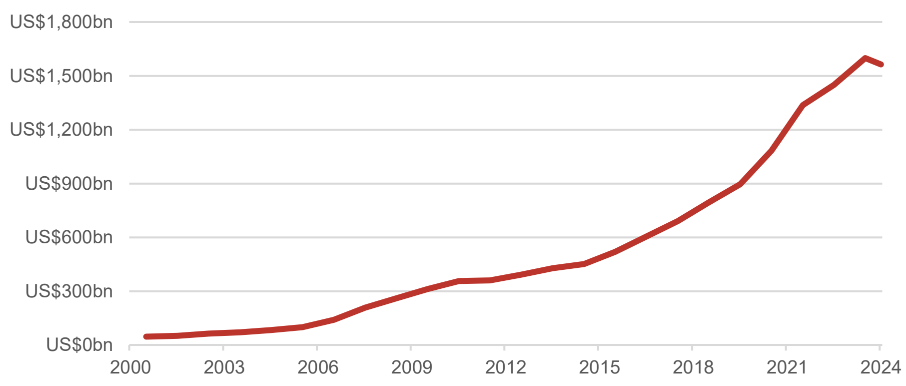
Figure 1. Commercial & Industrial Loans Held by Banks (% of Bank Assets)



Source: BondAdviser, Federal Reserve. As at 26 March 2025.

The pullback in bank lending since the GFC, and to an extent bank consolidation over recent decades have helped drive the growth of the private credit market in the US. This has allowed non-bank lenders to step in and fill the gap, financing deals that banks deemed too costly to underwrite due to stricter capital requirements. According to Preqin, global private credit has grown rapidly, reaching $1.6 trillion in assets under management, at around a 12.2% compounded annual growth rate since the end of 2008.

Figure 2. Global Private Credit AUM

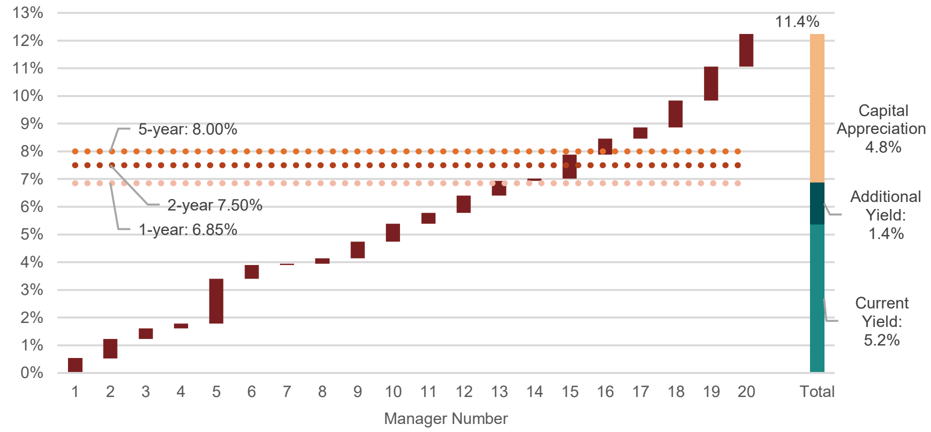


Source: BondAdviser, Preqin. As at 30 June 2024.

TermPlus implements its underlying strategy by investing globally in around 20 private credit managers, which provides exposure to over 3,500 individual investments. These assets are primarily senior secured bilateral loans to mid-market borrowers across the US and Europe, however the underlying fund also holds smaller exposures to mezzanine loans, structured credit, and specialty finance, as well as riskier credit opportunities (distressed credit, special situations dislocation investing etc) and some minor equity exposure.

Over the longer-term, we expect the target return profile of the underlying portfolio to comfortably meet the income objectives of TermPlus. From an attribution perspective based on the target portfolio, this includes 9 underlying funds which contribute a current yield of 5.2%, the remaining 11 underlying funds are due to contribute yield of across 2026-27 of 1.4%, and projected capital appreciation of 5.4% based on total net target returns. We note that this return profile reflects the *target portfolio allocation* over the longer-term, with mechanisms in place (see the *Liquidity Risk* section) to ensure Term Account distributions are paid over the life of the strategy, particularly during the current ramp-up phase.

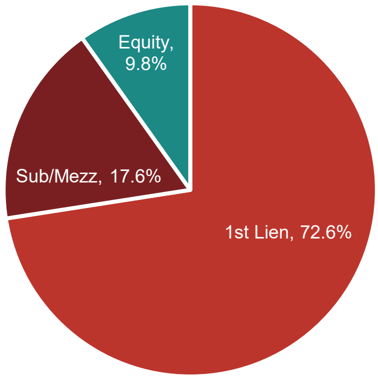
Figure 3. TermPlus Return Attribution* – Target Portfolio Allocation



*Source: BondAdviser, Pengana. *Net of Underlying Manager Fees. Includes assumed cash balance of 10%.*

We expect the underlying portfolio will primarily hold first lien exposures which alongside the highly diversified nature of the asset pool provides strong capital protection under downside outcomes. Seniority is a key consideration in credit investing, as it provides stronger capital protection in the event of default. The underlying portfolio also holds some exposure to mezzanine loans, which are subordinate to the claims of senior creditors, and some minor equity and equity-like exposures. The latter can be in the corporate capital structure (traditional equity) or in the equity tranche of CLOs, which take the first loss in the event there is zero excess spread paid to the vehicle. These equity holdings are moderate (10% including cash) and can provide some upside and capital gains but equally note that potential downside can prevail if managed unsuccessfully.

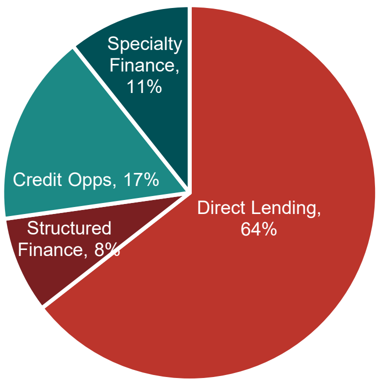
Figure 4. TermPlus Portfolio Split – Target Portfolio Allocation



Source: BondAdviser, Pengana.

As seen below, the underlying fund primarily holds exposure to direct lending investments, which are mostly first lien in the capital structure. This is followed by credit opportunities at 17%, specialty finance at 11% and structured finance at 8%. Structured finance investments, such as private asset backed securities and collateralised loan obligations, can present strong risk-adjusted return opportunities with lower correlation to public credit markets. We note that there is some exposure to the equity tranche of CLOs which are riskier in nature relative to secured bilateral loans given the first loss nature and variability of cash flows. That said, cash yields on these exposures can be in excess of 15% under normal functioning conditions providing greater carry to the portfolio, and we take comfort that these positions make up a minority of the portfolio.

Figure 5. TermPlus Strategy Allocation – Target Portfolio Allocation



Source: BondAdviser, Pengana.

For further information on the strategies the underlying fund invests in, the below table breaks down each investment type and provides an overview of the strategy, return breakdown and typical cashflow type.

Figure 6. Strategy Types – Private Credit

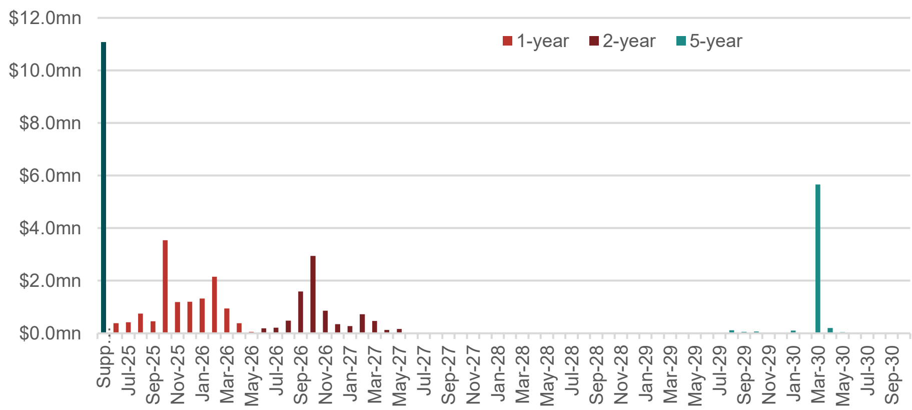
Strategy Type	Description	Return Composition	Return Profile*	Cashflow Type
Direct Lending	Direct lending to companies, generally senior secured and contains covenants	Income	9-12%	Floating rate
Structured Credit	Lending backed by a pool of assets	Income and some capital appreciation	9-13%	Floating rate
Specialty Finance	Lending to niche markets underserved by banks, requiring niche lending and specialised knowledge	Income and some capital appreciation	10-14%	Floating rate
Real Asset Lending	Lending secured by tangible assts, such as real estate, infrastructure, etc.	Income	8-12%	Floating or fixed rate
Credit Opportunities	Flexible, non-constrained opportunistic credit investing designed to benefit from dislocation in markets	Income and capital appreciation	16%+	Floating rate, fixed rate or equity exposure

*Source: BondAdviser, Pengana. *Return profile depends on market conditions, spread and risk-free rate levels.*

TermPlus Implementation

Liquidity management is a key pillar of the TermPlus investment strategy to ensure all interest and capital is returned to individual investors in a timely manner. While the maturity profile is somewhat lumpy at present (with ~45% of capital redeemable over the next 12 months), we expect this to become smoother as the platform matures. Positively, this has been balanced by a larger than required Support Account currently covering approximately ~38% of investor capital (31 May 2025) versus the minimum required level of 5%. This gives TermPlus the financial flexibility to manage any liquidity constraints over the near term as the product scales in the coming years and as capital returns are paid out across the underlying fund.

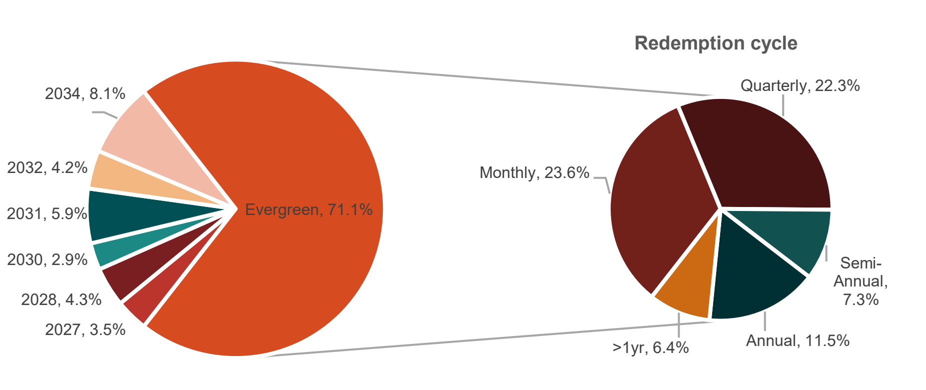
Figure 7. TermPlus Current Account Maturity Profile



Source: BondAdviser, Pengana.

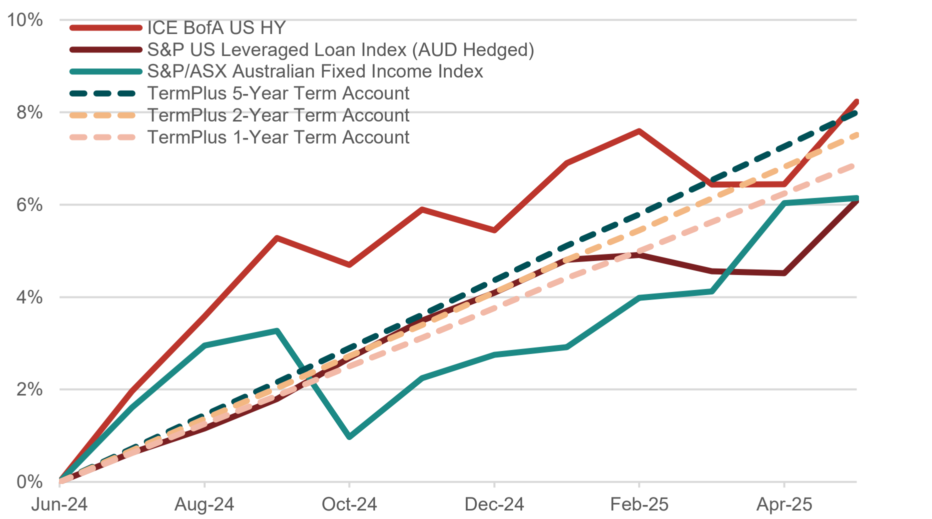
In the medium term, we expect investor liquidity (in the absence of account rollover) will be primarily funded through the cash balances held at the vehicle, and through redemption mechanisms of each underlying open-ended fund. We note that evergreen vehicles with monthly and/or quarterly redemption mechanisms account for ~24% and 22% of the target portfolio, respectively. While these funds are subject to lockup periods of 12-18 months, this broadly matches the duration of investor capital with a 60:40 split between 1- and 2-year TermPlus classes. Further, investors are required to notify the Manager of any account redemption at least 90 days in advance, providing a line of sight into future redemptions and therefore liquidity requirements.

Figure 8. TermPlus Underlying Target Portfolio % by Fund Maturity



Source: BondAdviser, Pengana.

Figure 9. Relative Cumulative Performance



Source: BondAdviser, Pengana.

Positive Risk Factors

Global Expertise. Mercer is a global market leader in investment consulting and plays a leading role as an investment consultant in the due diligence and portfolio management process of the Fund. Pengana leverages Mercer's global research capabilities and scale to source highly rated managers and provide portfolio construction guidance.

Support Account: Investors of TermPlus benefit from a Support Account provided by the Manager. This refers to a minimum 5% aggregate capital loss buffer provided by Pengana Capital Group. If, at the end of term, the closing balance of an account plus any income paid or accrued is less than the total invested amount, the Support Account can cover up to 5% to the extent there are sufficient funds.

Counterparty Diversification. TermPlus benefits from strong counterparty diversification with over 3,500 individual assets within the underlying funds. This is especially important in credit investing given the negative skew of returns inherent within the asset class

Manager Selection. Based on Pengana and Mercer's due diligence, underlying managers are known to have strong workout experience, which is key to capital preservation across the cycle. The Underlying Manager diversification of TermPlus also limits risk concentrations to specific strategies and improves collective investment specialisation across the look-through portfolio.

Negative Risk Factors

Manager Risk. A significant deterioration in the quality of the Manager (or Underlying Managers) could adversely impact the Fund. Whilst Pengana Capital Group has a track record spanning two decades, it has a relatively short track record managing private credit, with Pengana Credit being established in 2022. This is balanced by a management team with strong experience and further supported by Mercer, one of the world's leading investment consultants. These risks could include (but are not limited to), poor fund performance, material breaches in governance, risk management failures and/or loss of key personnel.

Ramp-up Risk. Execution risk persists while TermPlus successively scales and matures, due to complexities surrounding liquidity management and the illiquidity of the underlying assets. However, as detailed in greater depth in the *Liquidity Risk* section, we are comfortable with the mitigants currently in place.

Leverage. The underlying funds are expected to use leverage in the execution of their investment strategies, with leverage expected to be at a maximum of 1.50x NAV of the Trust and a total of 1.75x maximum at the aggregate of TermPlus and Underlying Funds levels. TermPlus may also employ leverage directly to support FX hedging and short-term cash requirements, not to fund investments. Investors should be aware that the use of leverage magnifies returns for investors to both the upside and downside.

Lack of Independent Responsibility Entity. The RE of TermPlus is Pengana Capital Limited, a subsidiary of the broader group, and has no independent directors on the board. Whilst we prefer an independent RE, we note that the RE has an independent compliance committee which oversees the RE's compliance with obligations.

FX Risk. TermPlus is exposed to foreign currency risk, which is mitigated by using rolling currency forwards. The Manager also uses one investment grade counterparty in its forward contracts, exposing the underlying portfolio to concentrated counterparty risk. That said, we view this as a tail risk, and we expect any potential FX volatility to be managed prudently for the foreseeable future.

Construction and Investment Process

Whilst Pengana Credit has been engaged by Pengana Capital to implement the TermPlus investment strategy, Mercer plays a leading role as an investment consultant in the due diligence and portfolio management process for the underlying strategy. Mercer is a global market leader in investment consulting with US$17.5+ trillion in assets under advice as at 30 June 2024, and US$613 billion in assets under management as at 31 March 2025. Pengana leverages Mercer's global research capabilities and scale to source highly rated managers and provide portfolio construction guidance. Along with a c.100-person global investment team, Mercer employs a dedicated Private Credit Team with 20+ years' experience and access to over 1,300 strategies across ~550 managers.

The investment process implemented by Mercer begins with rigorous research on underlying managers, guided by portfolio construction limits. Research conducted by Mercer incorporates analysis of past performance, qualitative manager research, portfolio structure analysis and operational due diligence, considering risks associated with the investment mandate and the underlying manager. Pengana Credit is responsible primarily for legal due diligence on the fund structure of each underlying manager throughout the process. Given that Mercer's due diligence underpins the investment selection process, it participates in both the Investment Consulting Group (ICG) and Investment Committee (IC) along with senior members of Pengana Credit and Pengana Capital Group Limited (ASX: PCG). The ICG's role is to manage the ongoing strategy of the Master Fund and Feeder Fund, while the IC approves all capital deployment and asset allocation decisions.

All underlying funds are required to receive approval from Mercer's investment and operational due diligence teams. The selection process begins with an initial screening to assess the potential inclusion of an underlying manager in one of the underlying strategies. This is performed on an ongoing basis by either Pengana or Mercer and is necessary to refine the investable universe. The screening process follows a traffic light system which considers a range of measurable characteristics such as leverage, diversification, structure and marked-to-market volatility.

Screened prospects are presented monthly to the Investment Consulting Group (ICG) which either approves or rejects the Manager. If approved, the Manager is further scrutinised by Mercer's investment due diligence process. This involves a quantitative and qualitative assessment guided by four key factors: 1) business management, 2) strategy, 3) alignment of interests, and 4) track record.

Figure 10. Key Due Diligence Factors

1. Business Management	2. Strategy	3. Alignment of Interests	4. Track Record
• Quality of the investment team and their ability to work together. • What is the turnover of partners and the justification for turnover? • Are there potential management transitional issues? • What is the investment sourcing framework and potential pipeline? • Cashflow management.	• How effective will the strategy be in the current environment? • Is the strategy unique? • Is it likely that management can execute on the strategy? • Has management implemented changes to ensure previous mistakes aren't repeated?	• Are the manager's interests aligned with the fund and investors? • Considers previous funds offered, including whether the terms are getting better or worse from the investor's perspective.	• Assessment of the historical performance with a focus on consistency including loss ratios.

Source: BondAdviser, Pengana.

Based on this analysis, Mercer's Ratings Review Committee assigns a rating, while Mercer Sentinel, an in-house team, evaluates the non-financial and operational risks associated with the Manager. Mercer Sentinel is a specialised division within Mercer, focusing on advising clients on operational and implementation risks associated with the execution of investment.

Figure 11. Mercer Fund Rating Assessment

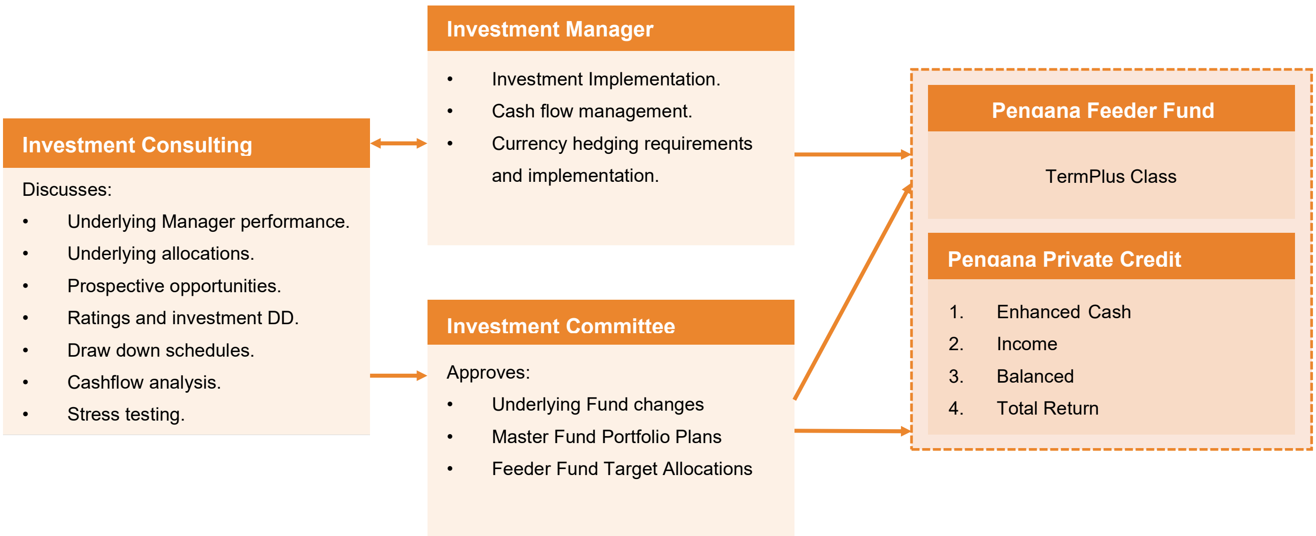
Rating	Description
A	Above-average prospects of outperforming
B+	Above-average prospects of outperformance but with some reservations
B	Average prospects of outperformance
C	Below average prospects of outperformance
N	Not Rated
R	Early-stage research/research no longer maintained

Source: BondAdviser, Pengana.

The ICG then meets again to confirm the inclusion of the Manager in the portfolio plan for consideration by the Mercer Private Debt Investment Committee (PDIC). The PDIC ensures that all potential recommendations are aligned across client portfolios and adhere to best practices. With the PDIC's endorsement, the prospective Manager is referred to the Investment Committee (IC) for final approval (requires unanimous vote). We view the level of oversight and decentralisation of investment decisions positively in the context of mitigating key person risk.

The ICG meets monthly and is responsible for making recommendations to the IC regarding the underlying manager selections; pipeline investments; operational, legal, and tax due diligence; liquidity planning; and stress testing. The IC meets when required (or at least quarterly) and is ultimately responsible for reviewing and approving recommendations from the ICG.

Figure 12. Investment Process



Source: BondAdviser, Pengana.

In terms of portfolio construction, capital within the Fund is allocated based on target parameters. The underlying strategies are weighted in line with the target portfolio to meet TermPlus income objectives while minimising liquidity and capital risk. Over time, we expect the NAV to accumulate and additional distributions to be paid alongside yield where successful equity and equity-like positions are exited.

The Fund's construction is focused on providing diversified exposure to global private credit investments, liquid credit investments, and cash. The Trust, through investment into the Master Fund, invests across the four underlying strategies defined by separate Master Classes. Each Class segregates approved underlying managers based on the risk and return attributes of their respective strategies:

1) **Enhanced Cash Class** – expected to exhibit low default rates with minimal exposure to duration via investments in short-term floating rate senior corporate credit.

2) **Income Class** – focused on achieving stable returns with strong downside protection. The sub-strategies invest in senior positions within the capital structure, often with security, and are widely diversified across c. 100 loans.

3) **Balanced Class** – captures a wider private credit opportunity set compared to the Income Class. Sub-strategies seek to exploit credit imbalances and sourcing barriers in specific sectors to provide low correlation to credit markets and potential capital appreciation. Typical underlying Managers provide specialist access to a single sub-strategy (i.e., structured credit or specialty finance).

4) **Total Return Class** – provides exposure to sub-strategy Managers that seek to capitalise on market volatility, liquidity mismatches or periods of distress. The underlying portfolios are exposed to distressed debt, opportunistic credit, and special situation strategies. This is the highest risk class of the four and is expected to derive returns in line with equities.

While minimal changes to the target allocations are expected, this will ultimately depend on the economic and lending environment. That said, there are restrictions imposed by the investment guidelines as below:

- Enhanced Cash Strategy: 0 - 35%
- Income Strategy: 0 - 80%
- Balanced Strategy: 0 - 80%
- Total Return Strategy: 0 - 90%

The guidelines only apply when assessing the inclusion of a new investment. That is, the Master Fund can trade outside of these ranges if the imbalance is caused by market movements, distributions, and/or mandatory redemptions. There are no specific provisions requiring the Fund to conform within a specific period. Instead, Pengana Credit shall use reasonable best endeavours to bring the Trust back into material conformity within a reasonable period from the time that they become aware of such unconformity.

The underlying portfolio has separate investment guidelines for seniority, strategy and geography aggregated across the Master Classes. From the Fund perspective, the Manager toggles between Master Classes within the investment guidelines set out below. Other guidelines adhered to are: a maximum 50% of commitments to one manager across the Master Fund, and a maximum commitment of 30% to one underlying fund.

Figure 13. Seniority – Investment Guidelines

Seniority	Maximum Exposure
First Lien	100%
Subordinated	33%
Equity & Equity-Linked	19%

Source: BondAdviser, Pengana.

Figure 14. Investment Strategy – Investment Guidelines

Strategy	Maximum Exposure
Direct Lending	100%
Specialty Finance	56%
Structured Credit	54%
Credit Opportunities	19%
Other	28%

Source: BondAdviser, Pengana.

Figure 15. Geography – Investment Guidelines

Geography	Maximum Exposure
Australia	55%
North America	70%
Western Europe	70%
Asia, Latin America & ROW	22%

Source: BondAdviser, Pengana.

Portfolio Risk Management

Our assessment of effective risk management for TermPlus considers both credit risk and liquidity risk managed at the underlying fund level. We view effective risk management to be key considering the asymmetric nature of credit investing. Our *Quantitative Analysis* is designed to simulate the portfolio quantitatively and complements our ex-post and qualitative assessment below.

Credit Risk

Beyond individual credit risk management which takes place at the underlying manager level, downside credit risk is somewhat mitigated by the structural protections embedded in the TermPlus platform. This is underpinned by the Support Account, of which Pengana Capital Group invests alongside term account investors at a minimum balance equal to 5% of the aggregate value of invested capital across all Term Accounts. The Support Account can be applied at the **end of an account's term** where 1) the closing balance of the account is less than the total invested amount plus income paid or accrued over the term, and 2) there are sufficient funds in the Support Account.

It is important to acknowledge, however, that the **Support Account does not form a conventional first-loss buffer for account holders**. If TermPlus experiences a negative return, losses are shared proportionally to investor accounts and the Support Account. Any subsequent positive excess return (once monthly target income rates have been fulfilled) will also be shared proportionally to recoup the previous capital losses. This means there is a risk that the Support Account could have an insufficient balance to fund any potential capital shortfall (up to 5%) at an account's maturity. Figure 16 below demonstrates this mechanism for the 2-year Term Account where capital losses are recouped from the Support Account up to 5% of the total invested capital (including any reinvested income) where a Term Account return is 7% p.a. As illustrated, we note this protection only extends to making the account holder whole from a capital perspective up to 5% of invested capital, **rather than guaranteeing any income returns over the term period**. This compares to conventional first-loss mechanisms with accumulate any losses ahead of investors, providing protection to both income and capital.

Figure 16. Savings Support Example Scenarios for 2-year Term Account

$	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Opening Balance	**10,000**	**10,000**	**10,000**	**10,000**
Total income Reinvested During Term	-	-	-	1,498
Invested Amount	10,000	10,000	10,000	11,498
Realised Losses	-	-1,500	-1,900	-2,185
Closing Balance	10,000	8,500	8,100	9,313
Total Income Paid During Term	1,400	1,400	1,400	0
Final Value	**11,400**	**9,900**	**9,500**	**9,313**
Final Value Deficit	-	-100	-500	-687
Maximum Savings Support Entitlement (5%)	500	500	500	575
Savings Support Paid	-	100	500	575
Final Value Balance	11,400	10,000	10,000	9,888
Holding Period Return	**14.00%**	**0.00%**	**0.00%**	**-1.12%**

Source: BondAdviser, Pengana.

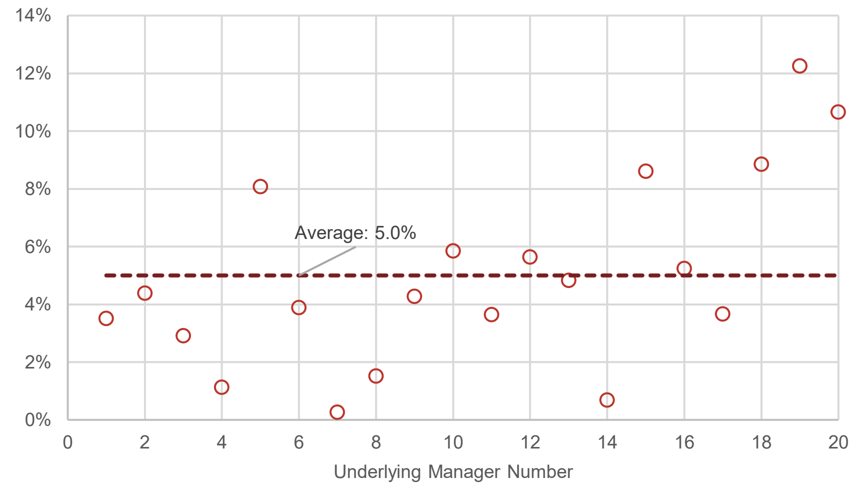
We note the Support Account shares in losses on a pro-rata basis with Term Account investors and any subsequent recoveries are also proportionally allocated to Term

Accounts and the Support Account. However, the Closing Balance of the Term Accounts must equal their Invested Amounts before Pengana receives any residual income. Additionally, income target returns are not impacted intra term due to any change in the underlying account balance. That is, if a loss is incurred on the Term Account balance, income returns continue to be paid on the invested balance.

On an underlying asset basis, credit risk for this Fund is on the higher end of the credit spectrum relative to broader publicly traded Australian credit. Importantly, the underlying loans held within the Fund are not rated by rating agencies, which makes thorough assessment and due diligence of credit risk even more imperative. Whilst the majority of the Fund is invested in bilaterally negotiated private credit loans which are senior in the capital structure, the Fund may hold exposures to subordinated loans, distressed investments and equity and equity-like investments, which exhibit greater credit risk relative to the broader fixed income market. We take comfort in the level of expertise of the underlying managers in managing credit risk, given the deep level of credit and workout experience across the cycle. This is evident in loss rates across a subset of the underlying managers that have operated extensively across broader middle market direct lending space (see Figure 21).

Key to mitigating tail risks in credit is the level of diversification on an underlying asset basis. Given the negative skew return profile of credit investments with small upside and potentially large downside, asset and portfolio diversity are key to mitigating negative tail risk outcomes. The Master Trust offers wide diversification in this context across 20+ underlying Managers and over 3,500 underlying assets. This provides not only asset-level diversification, but also diversification from manager-specific idiosyncratic risk (i.e. poor manager performance, reputational risks, fraud, etc.). We also note that the underlying managers have strong controls in place (e.g., board seats, performance ratchets, repayment accelerators) and that realised losses would require substantial impairment across the entire portfolio at the underlying level (and notwithstanding the protections),

Figure 17. Underlying Fund Weightings – Target Portfolio Allocations



Source: BondAdviser, Pengana.

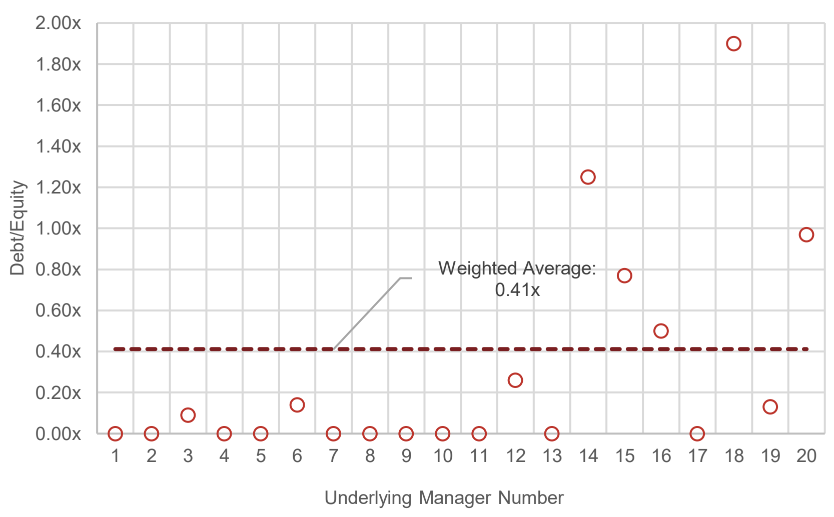
Given the fund-of-funds nature of the underlying fund, neither Pengana nor Mercer take an active role in look-through credit positions and restructuring events. That said, we view Pengana's and Mercer's senior investment teams as having relevant experience to reasonably assess a Manager's ability to navigate workout situations. During the due diligence process, prospective Managers are assessed on their credit assessment and workout capabilities and the Manager would not invest with an underlying manager that does not have the requisite skills to navigate workouts when investing in bilateral loans.

From a structural perspective, the Feeder Fund may incur secured debt that ranks ahead of the PPNs for hedging and liquidity purposes. In an enforcement event these lenders may exercise their right to the security of the Feeder Fund's assets and may liquidate or dispose of these assets as they see fit. As such, there is no guarantee that there will be sufficient funds to pay any amounts due to the owners of the PPNs. This does not form our base-case assumption but is a risk investors should be aware of.

Additional leverage may be introduced via an FX hedging facility to reduce short-term liquidity requirements or at the Trust level for the purpose of meeting short-term liquidity needs (e.g., to meet redemption obligations). Importantly, the Manager has outlined that leverage will not be introduced at the Trust level for long-term investments but instead for working capital purposes.

The Trust may also be exposed to leverage via the strategies of the underlying Managers. We note to investors that leverage within a fund and at the fund level magnifies credit risk, to both the upside and downside. There are no specific guidelines governing the use of leverage in the sub-strategies, however, this risk is managed in the initial due diligence and review process. The manager has clearly articulated its intention to maintain leverage below 1.50x the NAV (vs ~0.41x at target allocation) for its underlying portfolio. Inclusive of leverage at a Trust level, leverage is not intended to exceed 1.75x NAV. As seen below, the highest leveraged fund is 1.9x NAV, or ~66% of gross asset value, and makes up 11% of the Fund based on the target allocation. Under a downside scenario this may produce a materially adverse outcome on the Fund given the level of leverage (the claims of which rank senior to the Fund's equity investment in the underlying fund) and weight of this position in the Trust. Direct lending funds typically operate around 1x leverage but may be levered up to 2x with strong protective features.

Figure 18. Underlying Fund Leverage (Debt/Equity) – Target Portfolio Allocation



Source: BondAdviser, Pengana.

Liquidity Risk

Liquidity risks are elevated for this product relative to other funds due to the asset-liability management inherent in the TermPlus platform. Liquidity risk in the context of

TermPlus refers to two risks: the liquidity risks faced by the Trust considering the underlying assets, and the liquidity risks faced by TermPlus investors.

In terms of liquidity risks at the Trust level, **there is execution risk faced at this stage of the product** with only a year track record, the illiquidity of the underlying assets and scaling of the TermPlus platform. These risks arise due to some underlying funds not currently paying distributions to the Trust, including distressed credit funds. As such, matching Term Account maturities with underlying fund liquidity will be key. In this context, **we are comfortable with the risk processes and mitigants currently in place** to ensure that distributions are paid in a timely manner. This includes interest and maturity payments required. This includes:

1) The $11 million Support Account balance currently is well in excess of 5% of invested capital at this stage of the strategy, representing 40% of Term Account Invested Capital. We expect this balance to fall over time as Term Account distributions are paid out, the product ramps up in size, and the portfolio approaches its target underlying fund allocations. Such a large balance in excess of the 5% minimum requirement provides a significant liquidity buffer that allows TermPlus to meet any elevated liquidity requirements during the ramp up stage of the platform.

2) The current level of distributions being reinvested through the Distribution Reinvestment Plan (DRP) totals ~48% of Term Accounts by dollar value. This puts less pressure on TermPlus meeting distributions while the Fund is in ramp-up phase, considering the level of income paid at the target level is insufficient to meet current income requirements (see Figure 3 waterfall for a fully-ramped portfolio). In addition, management is predominantly investing new investor capital into the income-generating master classes to meet income requirements, but these allocations will trend lower over time. That said, **this elevated DRP rate is not constant, will fluctuate over time** and may fall considerably if reputational risks materialise.

3) The level of rollover of TermPlus accounts. Management has stated that since the 31 March 2025 election date, almost all Term Account investors rolled over their monies into new Term Accounts. Such a rollover rate is positive, but we expect this figure to trend down over time closer to industry standards (anywhere between 70-85%). Similar to (2), any reputational damage that may arise would materially impact rollover rates, and this would likely adversely impact our Product Assessment of TermPlus.

4) Investor funds are locked up and cannot be withdrawn. This mechanism helps prevent a large and sudden liquidity drain on the Fund. In other words, outside of for exceptional circumstances at the discretion of the Manager, investors are unable to redeem their holdings until the end of their fixed term. This is a common feature of similar products and is a significant liquidity restraint that investors should be aware of before investing in a Term Account through TermPlus. Further, investors need to notify the Manager at least 90-days ahead of maturity if they wish to withdraw funds, providing a visible line of sight to the Manager to support asset-liability management. If no election is made, funds are rolled over into a new Term.

5) Where there are liquidity requirements that cannot be covered by the cash balance in the Support Account, Pengana has the ability to redeem investment in open ended funds, sell units held by TermPlus in the Master Classes to other vehicles across the Pengana platform to generate liquidity, and any secondary sales of closed ended funds. We expect these last-resort levers to be pulled in

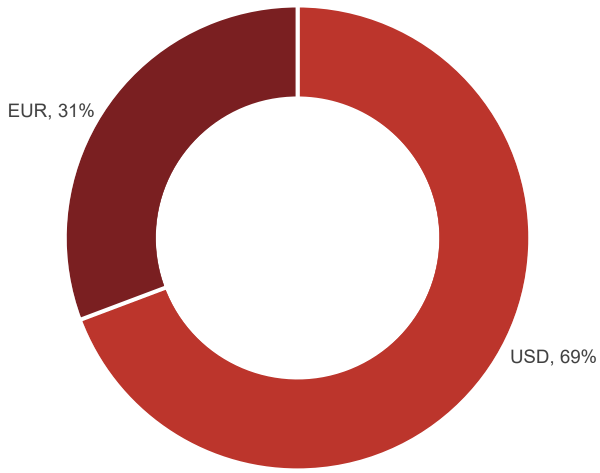
this event as otherwise the reputational risks suffered would likely have material implications for the product and the broader Pengana group.

Currency Risk

Given units are AUD denominated, while the Fund invests in USD and EUR-denominated assets, there is exposure to currency risk which is intended to be hedged primarily through the use of over the counter (OTC) forward foreign exchange contracts. The Manager uses one counterparty for its OTC foreign exchange forwards. Whilst counterparty risk is supported by the one counterparty being investment grade, we would prefer multiple counterparties.

The Manager has access to an FX hedging facility by a regulated bank, helping to manage short-term liquidity. This facility is especially important under periods of market volatility where extra collateral may be required to be provided by the Fund across OTC contracts.

Figure 19. TermPlus Currency Exposure – Target Portfolio Allocation



Source: BondAdviser, Pengana. As at 28 February 2025. Currency exposure is hedged into AUD.

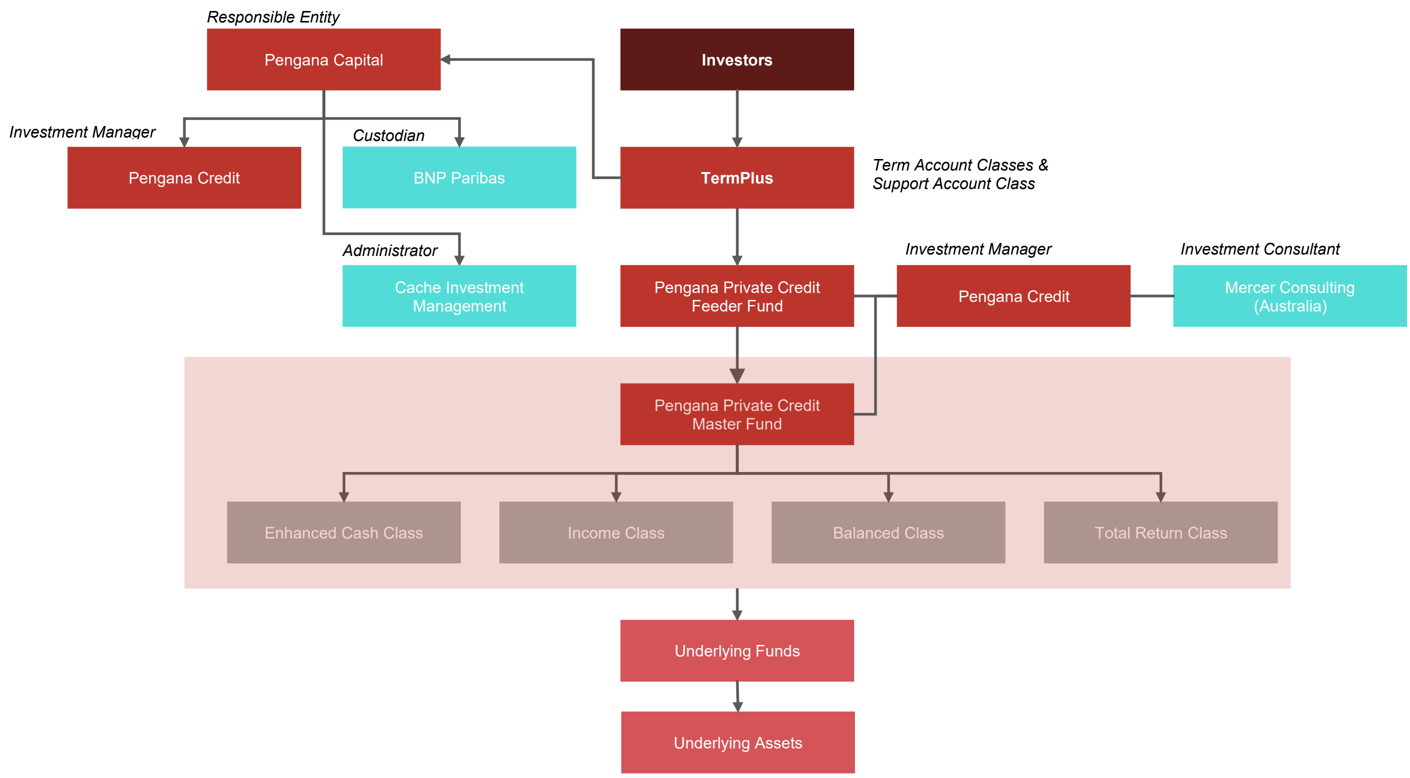
Fund Governance

The key documents governing TermPlus are the product disclosure statement (PDS) and the Fund's constitution. Pengana Capital Limited is the Responsible Entity (RE) of the Fund and is ultimately responsible for the management and operation of the Trust. We prefer that the RE of the Fund remains independent of the Manager to mitigate any potential conflicts of interest, however somewhat mitigating this is the independent compliance committee overseeing the RE's compliance with obligations as detailed in the Corporations Act, the Constitution, and the compliance plan.

The RE has appointed Pengana Credit Limited as the Investment Manager of TermPlus, responsible for making investment decisions. Further, the RE has appointed Cache Investment Management Ltd as the Administrator and BNP Paribas as the Custodian. The Administrator is responsible for TermPlus' valuations, conducted at least monthly. That said, this valuation is reliant on the PPNs which are based on the shares held in the Master Classes, cash, and FX forward contracts. Shares held in the Master Classes utilise the most recent NAV provided by underlying funds (typically received on a quarterly basis). The RE has appointed Ernst & Young (EY) as the auditor of the Fund.

The RE uses a Key Performance Indicator (KPI) system that requires service providers to complete an attestation ensuring compliance with deliverables and applicable law. Non-related service providers (i.e., Mercer and BNP Paribas) are subject to regular reviews including onsite due diligence with key staff.

Figure 20. Fund Structure



Source: BondAdviser, Pengana. As at 28 February 2025.

Investors should be aware that the valuation of underlying assets are subjective and involve discretionary determinations. This is a function of the underlying assets being predominantly classed Level 3, which are opaque in nature with no (or very limited) pricing available as well as observable valuation inputs. Third party pricing may also not be available for a significant portion (or almost all) of the underlying assets and information used to value such assets may be subject to pricing model subjectivity. Additionally, the underlying funds are generally periodically audited by Big 4 Audit firms.

Compliance of the Trust's Investment Policy and Allocation Policy is overseen by the Pengana Credit Risk and Allocation Committee. The committee is comprised of the Chief Financial Officer, Chief Operating Officer, and Head of Risk and Performance of Pengana Capital Group Limited. The committee meets monthly and reports directly to the RE on a quarterly basis (or more frequently if required).

Quantitative Analysis

In modelling the portfolio under our standard quantitative analysis simulations, we have made a number of assumptions based on the Underlying Funds held within the Fund, given the lack of data availability on a look through basis. We note that our assumptions have been relatively punitive to ensure conservative estimates of portfolio returns across both scenarios, including a 23% CCC allocation and 64% allocation to B credits.

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 asset 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 the workout capabilities of the Underlying Managers** and instead applies standardised recovery rates across all managers within our Fund Research universe.

Whilst our modelling is based on the historical data from 2009 and 2018, 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)

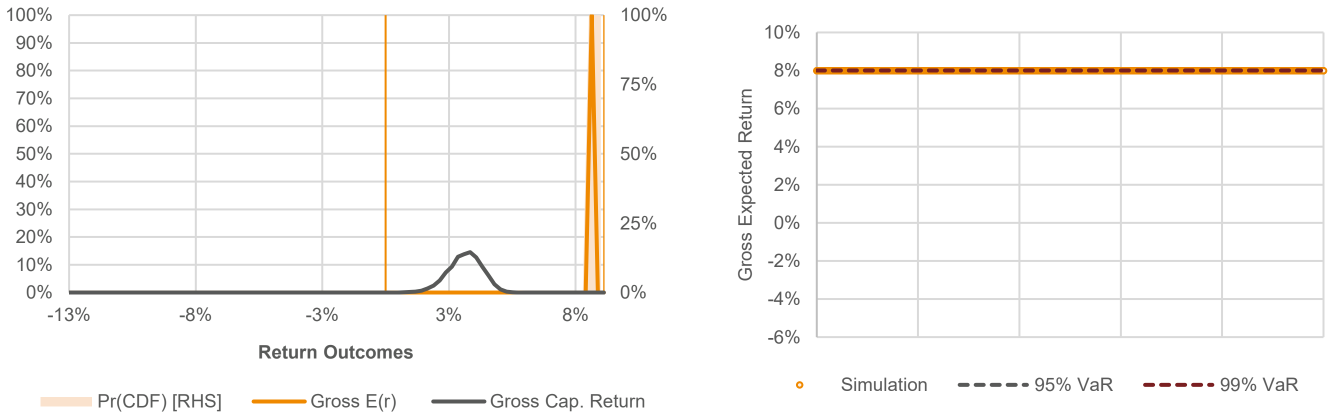
FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**96.1%**	3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.3%	**94.1%**	3.8%	0.4%	0.4%	0.4%	0.3%	0.3%
A	0.3%	3.8%	**89.9%**	4.2%	0.6%	0.5%	0.4%	0.4%
BBB	0.0%	0.0%	3.6%	**92.4%**	2.2%	0.4%	0.8%	0.5%
BB	0.0%	0.0%	0.2%	7.7%	**80.1%**	6.3%	3.0%	2.6%
B	0.0%	0.0%	0.3%	1.5%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

We note that we have modelled the portfolio based on the return profile of the 5-year Term Account. This assesses the underlying portfolio return based on the long-term master class allocations, relative to the return on the 5-year Term Account, accounting for the 5% Support Account protection mechanism. We note that whilst the Support Account is not explicitly a 'first loss' account as losses are initially shared pro-rata between the term and support accounts, any capital losses incurred across the Term Account are required to be made whole before any excess spread can be paid to the to the Manager via the Support Account. We have therefore incorporated the Support Account as a 'first loss' account for the purposes of this analysis absorbing any shortfall of capital paid to the impacted Term Account at maturity.

Under benign conditions, the Term Account returns the Target Rate (excluding any movements in the risk-free rate) **under all 10,000 simulations.** The underlying portfolio generates a return with significant excess spread relative to the Term Account return, and in no simulation is the Support Account impacted over a 12 month period of modelled returns.

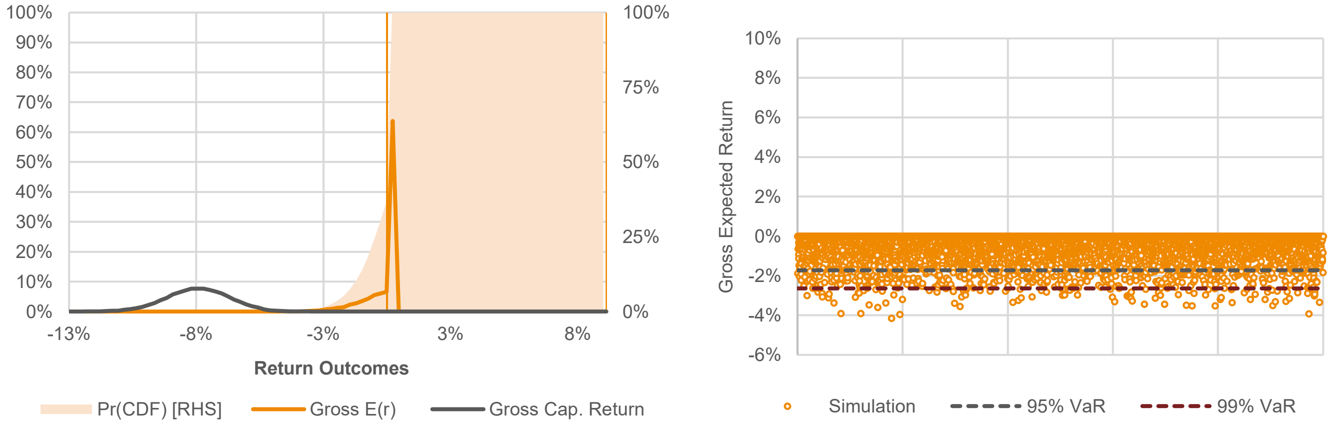
Scenario 1. Baseline Asset Assessment



Source: BondAdviser Estimates. 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. 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 a distressed environment the modelled performance is negatively impacted with no simulation returning the targeted return after accounting for the 5% Support Account protection. This is a function of the high risk profile of the underlying portfolio, investing in middle market corporate loans, and holding some exposure to distressed credit and equity-like exposure. These sub-asset classes empirically performed poorly during the GFC with comparable underlying credits experiencing more frequent defaults, downgrades, and weak recovery levels based on our assigned shadow credit ratings.

That said, the Support Account does provide capital protection as seen in the above charts, reflecting returns of 0% where the underlying portfolio generated returns in the simulation between 0 and -5%. During this scenario, the median simulated 1-year return was 0.5%, with a 99% and 95% VaR of -2.64% and -1.72%, respectively.

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

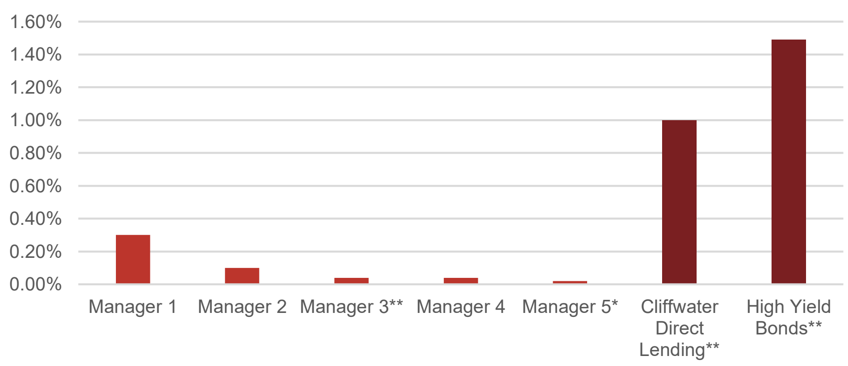
FROM\TO	AAA	AA	A	BBB	BB	B	CCC	Default
AAA	**64.9%**	35.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
AA	0.5%	**71.6%**	23.3%	1.9%	0.9%	0.7%	0.7%	0.5%
A	0.6%	0.9%	**80.9%**	13.6%	1.2%	1.3%	0.7%	0.8%
BBB	0.0%	0.1%	1.3%	**87.8%**	6.5%	1.5%	1.3%	1.6%
BB	0.0%	0.0%	0.2%	4.8%	**72.5%**	14.3%	3.1%	5.1%
B	0.0%	0.0%	0.2%	1.0%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

Whilst this modelling is standardised across the *BondAdviser Alternative Investment Fund* methodology, we note that there are deficiencies to our approach, including, but not limited to, the following:

- The rating migrations are dependent on the credit rating of the individual underlying assets, which we have assigned on a shadow basis based on spreads/yields and asset classifications (e.g. distressed credit) given the underlying loans are unrated.
- It does not consider the additional protections implemented by the underlying managers to mitigate credit migration or default risks. Borrowers are actively researched, followed, and subjected to many levels of examination and oversight, and underlying managers have extensive workout experience. We expect that assets would be managed prior to such an event occurring, resulting in actual returns differing to our scenario modelling. As seen in the below figure, annualised loss rates across the track record of a subset of underlying managers of the Fund have been lower than both the broader BDC middle market direct lending space, and the broader US high yield bond market, reflecting managerial skill and the level of security across direct lending investments.

Figure 21. Annualised Long-Term Loss Rates – Subset of Underlying Managers



*Source: BondAdviser, Pengana, Bloomberg. Unless otherwise stated, reflects since manager inception loss rates. High Yield Bonds reflects loss rate of the US Bloomberg High Yield index. Chart only reflects a subset of the underlying managers. *Since 2004. **Since 2005.*

- 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, as well as: the 5% Support Account buffer, and any execution risks at this stage of the strategy balanced by the elevated level of capital within the Support Account to support the liquidity profile of the strategy.

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

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